



3 Critical Questions for Agrium Investors

Description

After **PotashCorp's** (TSX:POT, NYSE:POT) [dismal quarterly numbers](#) and full-year outlook, it's now time for **Agrium** (TSX:AGU, NYSE:AGU) investors to feel the heat. Agrium is set to report its third-quarter numbers Tuesday, and analysts are keeping their expectations low. That's not surprising, given the recent developments in the potash industry and weak nutrient prices.

But that doesn't mean investors should panic and dump Agrium shares if the company fails to deliver Tuesday. Instead, here are three critical questions that investors should seek answers for in Agrium's upcoming report.

1. Is Agrium hiding something?

[After Agrium reduced](#) third-quarter guidance for its wholesale division (fertilizer business) last month, analysts slashed their earnings estimates to only \$0.57 per share from \$0.93 per share projected earlier. Agrium expects its Q3 nitrogen sales volumes to drop 20%, and potash and phosphate volumes to fall 30% each, year over year. That's substantial, and [far worse than](#) what PotashCorp recently reported. PotashCorp's Q3 potash volumes slipped 24%, but its phosphates volumes remained flat while nitrogen sales volumes jumped 27% year over year.

So is Agrium's forecast too conservative, or is the company at a huge competitive disadvantage vis-a-vis PotashCorp that the market is probably not aware of? These are critical questions, and investors should look for answers in Agrium's upcoming earnings report. Furthermore, PotashCorp reported 27% lower natural gas costs during the third quarter, which boosted its gross margin. A similar report from Agrium will be good news for the company going forward since natural gas is the key input for nitrogen fertilizer.

2. Is its retail division on solid footing?

On a positive note, Agrium's retail division, which deals in crop protection products, crop nutrients, and seeds, will likely outperform during the third quarter. Nearly 80% of Agrium's second-quarter sales came from the retail division, and revenue from the business even hit a record high. The product mix renders the retail side of Agrium's business less volatile and more profitable than the wholesale division. That's perhaps why analysts expect Agrium's top line to fall only 4% year over year during the

third quarter despite the low profit estimates.

Agrium will hit a new record if sales from its retail division cross \$2 billion during the third quarter. Chances look good, judging by seed and crop protection company **Monsanto's** (NYSE: MON) last-quarter numbers. Monsanto reported a solid 14% and 52% jump in sales and gross profit, respectively, for its crop protection and herbicide products. Better yet, Monsanto projects the business to remain as strong in 2014. Agrium investors should look for similar signals in the company's upcoming earnings report, because a strong retail division can substantially help offset weakness in its wholesale division.

3. Does Agrium have its plans in place?

While Agrium's third-quarter numbers may turn out to be weak, the company hit a major milestone during the quarter when it took over the Canadian assets of grain and seed handling company **Viterra**. Having acquired more than 200 stores under the deal, it should give Agrium a huge headway into the Canadian retail market. In Agrium's upcoming earnings call, investors should look for updates about how Agrium plans to synergize Viterra's business into its own, exploit the opportunity, and profit from the move.

Foolish takeaway

With PotashCorp reducing its full-year earnings guidance in the wake of persistent weakness in the nutrient market, Agrium investors may remain skeptical. But the company is well diversified, has plenty of opportunities ahead, and recently increased its dividend (at current prices, the stock yields 3.5%). Investors should thus pay attention to Agrium's long-run growth plans and strategies in its earnings report, rather than focusing on its quarterly performance.

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Fool contributor Neha Chamaria does not own shares in any of the companies mentioned at this time. The Motley Fool owns shares of PotashCorp.

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