3 Stocks to Watch This Week

Description

The Q4 2013 results season kicks off this week. As usual, there will be a mix of both positive and negative surprises but, given a rapidly declining Canadian dollar, volatile equity markets and a slowing economy, we could see investors react more strongly than usual to weaker than expected results or negative outlook statements.

Analysts expect profits from companies in Canada's benchmark **S&P/TSX Composite Index** (TSX:^OSPTX) to decline by 3% in the fourth quarter from a year earlier, according to **Thomson Reuters**. The main declines are expected in the materials group, which includes miners, and is expected to record a profit drop of 31% based on declining commodity prices in 2013. The financial sector is expected to have a mixed earnings season with the insurance companies doing somewhat better than the banks.

Here are three companies to watch:

Canadian Pacific Railway Ltd (TSX:CP) should see a strong increase in quarterly earnings per share to $1.94 from $1.28 a year earlier. This is a recovery story, with improvements in most major metrics since industry veteran Hunter Harrison became CEO in June 2012. The improvements included a considerable increase in the operating profit margin and a doubling of the net profit margin.

The share price also reflected these improvements and has now more than doubled since Mr Hunter took over. As admirable as this performance was, the shares are priced for the good news to continue and any indication otherwise may be met with disappointment. However, this is a company with a strong franchise and a much improved operating performance that we would like to own for the long run – price weakness should be used to accumulate this stock.

Potash Corp (TSX:POT) will report results on Thursday. The company had a difficult year with price declines in all its main products, including potash, nitrogen and phosphate, as well as market uncertainty created by the break up of the Uralkali/Belaruskali marketing cartel.

In early December, the company announced a major internal restructuring with the retrenchment of 18% of the workforce and the mothballing of a number of production plants. A $70 million charge for severance costs will be included in the fourth-quarter results and a write-down of the carrying value of the affected assets may be required. Quarterly earnings per share of $0.31 are expected, which will constitute a 40% year-over-year decline.

In my view, this bad news is already mostly factored into the share price, which has declined by 12% since the start of 2013 and by 42% over the past three years. However, this is a high quality, low cost producer of a considerable portion of the global supply of important food production nutrients, with a strong balance sheet and excellent cash-flow generating capabilities, reasonable valuations and an attractive dividend yield. I would use any price weakness to buy the stock below $32 with a long-term perspective.

An interesting result may come from **AGF Management Ltd** (TSX:AGF.B), where earnings per share of $0.12 are expected for the quarter (-25% year over year). The company struggled in 2013 with declining assets under management and the results announcement may provide guidance on whether a possible turnaround in business profits is in the making. This turnaround is absolutely required to support the sustained payment of the very high dividend level — the yield on the stock is over 8% on the current price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:AGF.B (AGF Management Limited)
3. TSX:CP (Canadian Pacific Railway)

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Author
deonvernooy