



Will Agrium Spring a Surprise This Thursday?

Description

With most fertilizer companies having reported their fourth-quarter numbers, **Agrium** (TSX:AGU)(NYSE:AGU) investors may already have an idea about what to expect when the company reports its fourth-quarter and full-year numbers later this week.

Both **PotashCorp's** (TSX:POT)(NYSE:POT) and **Mosaic's** ([NYSE: MOS](#)) numbers were a bummer, and analysts have set the bar low for Agrium. But given that Agrium [doesn't rely on](#) fertilizers alone for revenue, will it spring a surprise and provide an optimistic outlook that could propel its shares higher this week? Let's see.

What to expect

Analysts expect Agrium's fourth-quarter revenue to drop 6% year over year, but foresee a massive 55% decline in its earnings per share. If that sounds bad, the numbers could look worse since Agrium itself hinted at more than 60% fall in its EPS when it provided an outlook update last month. In other words, investors should brace for disappointment this week.

But it's interesting to note that Agrium's shares tacked on nearly 12% during the quarter through December despite the dour expectations. Clearly, the market is looking beyond one weak quarter, and I think that's exactly what investors should do when Agrium reports its numbers. So keep an eye on the following four factors in the company's upcoming earnings report.

1. Retail performance

While there's no question that Agrium will take a huge hit on fertilizer sales and profits in Q4, its retail business, which primarily sells crop protection products and seeds, should emerge a winner. With the U.S. spring planting season coming up, Agrium's seed sales should pick up. The company even projects a record fourth quarter for its retail business.

Since the business contributes nearly three-quarters to Agrium's total sales, it could boost the company's top line in the future despite weakness on the fertilizers side. Accordingly, Agrium may deliver better growth on its top line than pure-fertilizer players PotashCorp and Mosaic.

2. Natural gas price and hedge

Since natural gas is a key input for nitrogen fertilizer, the recent uptick in prices could dent Agrium's Q4 margins. While no one can predict where natural gas will head from here, Agrium and other nitrogen companies generally book a portion of their input requirement in advance to lock in prices and avoid volatility to some extent. In Agrium's upcoming earnings call, look for how much it plans to hedge, as that strategy could come handy if natural gas prices continue to rise.

3. Synergies from Viterra

Having acquired Canada-based grain and seed handling company Viterra last year, Agrium is now the country's largest agriculture retailer. With crop yields in Canada hitting record highs this year, Agrium can avail the huge opportunity of moving all that grain around. In its upcoming call, look for updates about Agrium's progress with integrating Viterra into its business, and the potential benefits. Agrium earlier projected the acquisition to generate up to \$90 million in operating earnings in 2014. Hitting or crossing that level could further boost the company's already strong retail business.

4. Cash flow and capital allocation

Agrium will likely scale down its capital expenditure this year, given the uncertainties in the fertilizer markets. That could free up more cash for shareholders. Agrium already increased its annual dividend by 50% during its third quarter, and the stock currently yields a decent 3.4%. Good cash flow projections for 2014 could mean greater dividends for shareholders.

Foolish takeaway

With both PotashCorp and Mosaic projecting better fertilizer markets this year, Agrium's profits could improve by the time the year ends. If Agrium sounds optimistic as well, its shares could inch higher. So focus on Agrium's long-term growth plans instead of one quarter, as that could really hold the key to where the company and its shares are headed.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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