A Bad Moon Rising for Rail Companies and Potash Producers?

Description

The first-quarter results season will start soon and will undoubtedly deliver its fair share of positive and negative surprises. The Credence Clearwater Revival hit “Bad Moon Rising” may have some relevance for companies that deliver poor results – especially where the share price performed strongly in the recent past and/or where companies are richly priced with no room for profit disappointments.

To my mind, there are number of companies that investors need to watch carefully around results time.

Potash Corporation (TSX: POT)(NYSE: POT) is expected to announce results on 24 April. The company had a difficult fourth quarter of 2013 and indicated earlier in the year that the earnings per share in the first quarter of 2014 could be $0.30 to $0.35 per share, some 48% lower than the first quarter of 2013.

However, **Agrium** (TSX: AGU)(NYSE: AGU), another major food nutrient producer and retailer, announced recently that it only expects to do slightly better than break even in the first quarter, considerably lower than the latest consensus analyst expectations. The company indicated that the late arrival of spring is impacting the timing of product sales and that wholesale results were also impacted by reduced rail availability.

The share price of Potash recovered strongly after the scare provided by the breakup of the Uralkali and Belaruskali marketing agreement mid-2013. This recovery continued through the poor year-end results, obviously buoyed by positive comments from company management about improvements in the nutrients markets. A read across from the Agrium announcement may indicate that Potash profits may also be under pressure despite the fact that no formal announcement has as yet been made.

Canadian Pacific Railway Ltd (TSX: CP)(NYSE: CP) and **Canadian National Railways** (TSX: CNR)(NYSE: CNI) will both report first-quarter results on 22 April. The impact of very severe winter weather on carload volumes and on operating costs (labour, fuel) will probably be seen on the profits of both companies.

Consensus expectation is that Canadian Pacific will see a 29% increase in earnings per share on the back of modest revenue growth but considerable margin improvement. Canadian National is expected to report a 6% year-on-year increase in earnings per share.

Canadian National is trading on a 2014 price-to-earnings ratio of 17.4 times and an enterprise value-to-EBITDA multiple of 10.8 times. Similar ratios for Canadian Pacific are 19 times and 11 times. Both are expensive compared to their own histories and to peers south of the border, which carries the risk of price declines should profits disappoint investors.

Foolish bottom line

A number of high quality companies may deliver disappointing results for the first-quarter of 2014. Given their good recent share price performance and/or expensive valuations, this may put downward pressure on the share prices providing good buying opportunities.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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