# 5 Stocks to Watch This Week

## Description

The **Toronto Stock Exchange 300 Composite Index** (^GSPTSE) has gained 6.5% so far this year indicating, on balance, that there may be better news ahead for company profits. Consensus expectation is that profits at the overall level will increase by 6.1% for the first quarter of 2014 compared to a year ago.



The star performers should be the energy companies, whose profits are expected to increase by 22%, driven by higher natural gas prices and tighter crude spreads. On the other end of the spectrum will be the mining companies, whose profits are expected to decline by 37% as a result of generally lower product prices compared to a year ago.

The reporting season will start this week, and while the expected results are already reflected in the current stock prices, many surprises could still be in store — especially regarding the business outlook provided by the company managements.

**Rogers Communications** (TSX: RCI.B)(NYSE: RCI) will report quarterly results on Monday. The market consensus expectation is a profit of $0.70 per share compared to $0.80 a year ago for a 13% decline. While revenue is expected to be slightly higher, lower margins and increased losses in the media and corporate divisions are expected to pull net profits down. The key focus will be on the highly profitable wireless division where the addition of new subscribers and revenue per subscriber will be closely watched.

Rogers' share price has been performing poorly so far this year (-8%) after the company spent $3.3 billion on the acquisition of 700 MHz spectrum; the exploitation of the spectrum and the wider business strategy under new CEO Guy Laurence are key questions for market analysts. The stock is trading at a valuation discount to its Canadian peers and poor results are already factored in.

**Canadian Pacific Railway** (TSX: CP)(NYSE: CP) and **Canadian National Railways** (TSX: CNR)( NYSE: CNI) will both report first quarter results on Tuesday. The negative impact of a very severe winter on carload volumes and operating costs (labour, fuel) will be visible 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/earnings ratio of 17.3 times and an enterprise value/EBITDA multiple of 10.8 times. Similar ratios for Canadian Pacific are 18.2 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.

**Tech Resources** (TSE: TCK.B)(NYSE: TCK) is expected to report a 50% decline in profits per share for the first quarter on Tuesday. This will be the result of sharply lower commodity prices including coal, copper and zinc, the company's main products. The share price has declined by 35% from the 2013 peak and poor news is in the price.

On Thursday, we expect to see disappointing results from **Potash Corporation** (TSX:POT)(NYSE:POT). 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 they only expect to do slightly better than break even in the first quarter, considerably lower than the latest consensus analyst expectations.

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 buoyed by positive comments from company management about improvements in the nutrients markets. A read across from the Agrium announcement indicates that Potash profits may also have been under pressure in the first quarter.

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deonvernooy