



Why Agrium's Stock Could Make Big Moves Tomorrow

Description

The market may have zoomed over the past three months to hit a new high, but investors in **Agrium** (TSX: AGU)(NYSE: AGU) haven't been as lucky — the stock lost 5% over the period. Investors are now eagerly awaiting Agrium's quarterly earnings report, scheduled for release in August, to understand where the company is headed. However, they may get an answer as early as tomorrow when industry leader **PotashCorp** (TSX: POT)(NYSE: POT) releases its second-quarter numbers. Here's why.

Troubling times ahead?

Both PotashCorp and Agrium deal in all three key nutrients: potash, phosphate, and nitrogen. Agrium gets nearly a quarter of its total sales from fertilizers, with nitrogen being the largest contributor — it made up 61% of Agrium's fertilizer gross profits last year. Investors may also recall that the weak nitrogen market was one of the major factors that drove Agrium's first-quarter earnings down. Naturally, PotashCorp's nitrogen division's numbers and its outlook for the second half of the year will be critical information for Agrium investors.

Going by PotashCorp's Q2 market analysis report, nitrogen companies [could have a tough time ahead](#). Agrium investors should particularly pay attention to PotashCorp's projections about China. An influx of cheaper urea exports from the nation dealt a big blow to domestic nitrogen producers' sales last year. If PotashCorp foresees another strong year for Chinese urea exports, it could spell trouble for Agrium.

Also pay attention to PotashCorp's nitrogen selling prices. Agrium realized 16% lower year-over-year prices for ammonia in its first quarter. Likewise, urea prices have lost steam over the past couple of months after starting the year on a strong note. Agrium's profitability could take a hit if PotashCorp doesn't report an improvement in its Q2 nitrogen prices.

This may have serious long-term implications

Potash is the second most important fertilizer product for Agrium, having contributed a quarter of Agrium's fertilizer gross profit in 2013. Since it is also PotashCorp's primary product, Agrium investors can expect good insight into the potash markets tomorrow.

While recent industry developments indicate a recovering potash market, lower crop prices could hurt demand in the near term. More importantly, Agrium investors cannot afford to ignore PotashCorp's long-term views about the industry, especially since Agrium has plans to expand its potash capacity by 50% by 2017.

With mining stalwarts like **BHP Billiton** and **Rio Tinto** also launching massive potash projects, the market is wary of a looming supply glut in the next few years, which could prove a death knell for potash companies' bottom lines. So make sure you don't miss anything that PotashCorp says tomorrow in its earnings call.

Stay alert

While Agrium derives nearly three quarters of its sales from its retail business — comprising crop protection, nutrients, and seeds — a greater portion of its profits comes from its fertilizer business. Thus, tracking fertilizer markets is crucial for Agrium investors, and there's no better way to do that than to follow PotashCorp for those updates.

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