

## Is Agrium Inc. Headed for a Crash Next Week?

### Description

Having gained an incredible 23% year-to-date, **Agrium** (TSX:AGU)(NYSE:AGU) stock has become a hot favorite among fertilizer investors. But whether there's any upside left in the stock will be known next week when the company delivers its fourth-quarter and full-year numbers Monday after market close. Here's what you should watch for in Agrium's upcoming earnings report.

### Brace for disappointment...

**Potash Corp./Saskatchewan's** (TSX:POT)(NYSE:POT) recently released numbers may have raised expectations of Agrium investors. PotashCorp reported surprisingly strong Q4 potash sales volumes and realized higher prices for all three nutrients — potash, nitrogen, and phosphate. Unfortunately, Agrium's fourth-quarter numbers may leave much to be desired.

Agrium projects its Q4 earnings to range between US\$0.45 -\$0.75 a share. That suggests flat year-over-year performance even at the higher end of the guidance. In other words, brace for a weak earnings report next week.

The retail side of Agrium's business, which constitutes seeds, crop nutrients, and crop protection products and contributes a bulk of the company's revenue, should perform well, but the wholesale or fertilizer side could act as dampener. Agrium's potash volumes could be low because of a turnaround at its Vanscoy potash plant. Considering that it was a prolonged shutdown, I'm expecting the company to report losses for its potash business for the fourth quarter.

Nevertheless, investors needn't worry much. You may recall that PotashCorp's nitrogen gross profit hit a record high in the fourth quarter, backed by 24% higher year-over-year prices. That's great news for Agrium, since nitrogen is its key fertilizer as well as its most profitable product. Moreover, lower natural gas prices should boost Agrium's margins, since natural gas is a key input for nitrogen fertilizer.

### ...but don't lose heart

Even if Agrium's numbers disappoint, investors should look at the bigger picture. With the company wrapping up its one million-tonne potash expansion program (which was also behind the Vanscoy turnaround) last quarter, don't miss what Agrium has to say about the potash market prospects. Considering that PotashCorp projects lower global potash shipments for 2015, how will Agrium capitalize on its increased production capacity is something investors should keep an eye on.

At the same time, watch for Agrium's cash flow and capital allocation projections. Last month, Agrium boosted its dividend payout ratio to 50% of free cash flow while announcing a share repurchase program. Can investors expect more returns from the company this year? Improving shareholder value is a priority for Agrium right now, especially with activist investors pushing it to separate its wholesale and retail businesses. Make sure you don't miss any related updates in Agrium's upcoming earnings call.

### **What if the stock crashes?**

A weak set of numbers could pressure Agrium stock next week, but investors should look beyond quarter-specific events and pay greater attention to the company's long-term goals, prospects, and plans. Agrium is a well-managed company that's striving hard to improve shareholder returns, and that's what you should focus on.

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