



Will Poor Earnings Hit Potash Corp./Saskatchewan Inc. Hard This Week?

Description

Investors in **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT) should brace themselves for a turbulent week as the fertilizer giant gears up to report its first-quarter numbers on April 30.

With the stock losing 12% in the past three months, investors are hoping for some respite in the upcoming report. But recent news from the industry has been discouraging, and Potash Corp. itself faced an [unprecedented setback](#) last month, both of which could weigh on its numbers and stock price. Here's what to expect from the earnings report.

Why expectations run high

In January Potash Corp. projected its Q1 earnings to range between US\$0.45-0.55 a share. Analysts are betting on the mid-point, expecting the company to report \$0.50 per share. That's substantial improvement over \$0.40 per share that Potash Corp. earned in Q1 2014. At the same time, analysts project Potash Corp.'s Q1 revenue to jump nearly 11% year over year.

Potash Corp.'s revenue depends on demand and pricing for nutrients. With the U.S. spring planting underway, Potash Corp. should report good sales volumes for the first quarter. Meanwhile, prices of all three nutrients that the company deals in—potash, nitrogen, and phosphate—have recovered in the past year, which should mean better Q1 price realizations. Furthermore, Potash Corp.'s ongoing cost-reduction efforts should boost its EPS.

But Potash Corp.'s Q1 performance isn't what investors should be worried about. Whether the company reiterates its full-year outlook is the real concern.

Is a guidance downgrade on its way?

In January Potash Corp. projected 2015 earnings to be in the range of U\$1.90-2.20 per share versus an EPS of \$1.82 reported for 2014. But the Government of Saskatchewan's sudden changes to the potash royalty scheme last month could wipe out \$75-100 million from Potash Corp.'s 2015 pre-tax earnings. That could compel the company to lower its full-year profit guidance this week.

The only factor that could prevent an outlook downgrade is better-than-expected nutrient volumes and prices through the year. But that seems unlikely given the industry trends. Another important global potash player, Belarusian Potash Company recently signed a contract with China at a price of only about \$10 per tonne higher than last year. Reports suggest that Potash Corp. was expecting \$25 per tonne hike.

Remember, China is a key potash consumer and is closely followed by other important markets like India when it comes to price negotiations with potash producers. So, one low-price deal with China could trigger global potash pricing pressure and hurt Potash Corp.'s margins.

What should you do if stock falls post-earnings?

Needless to say, any guidance downgrade could send Potash Corp. shares lower this Thursday. But instead of making hasty decisions, I'd urge investors to pay greater attention to the company's long-term growth plans and prospects as well as its cash flows and shareholder returns in its upcoming earnings call.

Ultimately, key decisions about whether a stock is worth your money should be based on fundamentals and not on quarterly performances that can fluctuate and skew the big picture.

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1. Investing
2. Metals and Mining Stocks

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