



Should You Buy Potash Corp./Saskatchewan Today?

Description

Potash Corp./Saskatchewan (TSX:POT)(NYSE:POT), the world's largest manufacturer of fertilizer, announced first-quarter earnings results before the market opened on April 30 and its stock responded by falling about 1% in the trading session that followed. Let's break down the quarterly results to determine if we should consider using this weakness to establish long-term positions, or if we should look elsewhere for an investment instead.

The weaker-than-expected results

Here's a summary of Potash's first-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	\$0.44	\$0.49	\$0.40
Revenue	\$1.67 billion	\$1.69 billion	\$1.68 billion

Source: *Financial Times*

Potash's diluted earnings per share increased 10% and its revenue decreased 0.9% compared with the first quarter of fiscal 2014. The company's very strong earnings per share growth can be attributed to its net income increasing 8.8% to \$370 million, which was helped by its total costs of goods sold decreasing 8.3% and its freight, transportation, and distribution expenses decreasing 22.9%, as well as its weighted average shares outstanding decreasing 2.6% to 837.1 million.

Its slight decline in revenue can be attributed to sales decreasing 17% to \$482 million in its nitrogen segment, which more than offset sales increasing 10% to \$738 million in its potash segment and 4% to \$445 million in its phosphate segment.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Production of potash increased 9.1% to 2.61 million tonnes
2. Production of nitrogen decreased 4.9% to 792,000 tonnes
3. Production of phosphate decreased 0.8% to 366,000 tonnes
4. Gross profit increased 18.1% to \$667 million
5. Gross margin expanded 650 basis points to 40.1%
6. Operating income increased 5.3% to \$559 million
7. Operating margin expanded 200 basis points to 33.6%
8. Income before income taxes increased 5.4% to \$510 million
9. Cash provided by operating activities decreased 3.3% to \$521 million
10. Ended the quarter with \$217 million in cash and cash equivalents, an increase of 0.9% from the beginning of the quarter

Should you be a buyer of Potash today?

I think the post-earnings weakness in Potash's stock represents nothing more than a long-term buying opportunity because it trades at attractive valuations and pays a high dividend.

First, Potash's stock now trades at just 21.9 times its median earnings per share outlook of \$1.80 for fiscal 2015 and only 18.2 times analysts' estimated earnings per share of \$2.17 for fiscal 2016, both of which are inexpensive compared with its long-term growth rate.

Second, Potash pays a quarterly dividend of \$0.38 per share, or \$1.52 per share annually, giving its stock a 3.9% yield at current levels. The company has also increased its dividend six times in the last four years, making it one of the top dividend-growth plays in the industry today.

With all of the information provided above in mind, I think Potash Corp./Saskatchewan represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to long-term positions.

CATEGORY

1. Dividend Stocks
2. Investing

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