



## Potash Corp./Saskatchewan Inc.'s Earnings Preview: 3 Key Metrics to Watch

### Description

The excitement building up around **Potash Corp./Saskatchewan Inc.**'s (TSX:POT)(NYSE:POT) upcoming earnings call this Thursday is less about numbers and more about what the company will have to say about its intended K+S acquisition. Its offer to acquire the German potash producer was rejected, but PotashCorp is keen to pursue it further.

Nevertheless, whether the deal will go through is anyone's guess, and for now, it's nothing but speculation. To get the true picture about what the future holds for PotashCorp and its stock, investors should pay greater attention to the following three metrics in the earnings report.

### Production costs and gross margin

With potash prices under pressure for over a year, PotashCorp has resorted to aggressive cost-cutting to maintain margins. That helped the company reduce per tonne cost by an impressive 15% in the first quarter. As a result, potash gross profit surged nearly 43% year over year in Q1.

Needless to say, the key to PotashCorp's growth in the present challenging business environment lies in its ability to control costs further. In its upcoming earnings call, investors need to keep an eye on two things:

- Whether PotashCorp sticks to its full-year potash gross profit guidance of US\$1.5 billion-\$1.8 billion.
- Whether the company is on track to achieve its target US\$20-\$30 per tonne reduction in potash cost by 2016.

### Sales volumes

Analysts expect PotashCorp to report flat revenue in Q2, but it may look worse if sales volumes for nitrogen and phosphate haven't picked up. Nearly 60% of PotashCorp's total sales last year came from the two nutrients combined. Unfortunately, prices of both nutrients have weakened in recent months, so only higher volumes can push up sales.

Simply put, investors need to keep a close eye on the sales volumes growth for nitrogen and phosphate in PotashCorp's upcoming earnings report. A downward trend could compel the company to downgrade its full-year revenue guidance further, which could hurt its stock price.

### Cash flow projections

With major projects near completion, PotashCorp's capital spending will likely taper in coming years. That should mean more cash flow available for distribution among shareholders. At the same time, a successful bid for K+S could cost PotashCorp more than US\$8 billion.

In its upcoming earnings report, investors need to watch three things:

- How much cash flow PotashCorp expects to generate this year.
- Whether it plans to increase dividends further, especially if the takeover materializes.
- If it has a fresh share buyback program in pipeline in case it has to drop plans to acquire K+S.

It's a given that updates about K+S will be the highlight of PotashCorp's earnings report, but make sure you look beyond the headlines to stay abreast of the company's operational performance. Stay tuned for more coverage on earnings this week.

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