



Could Potash Corp./Saskatchewan Inc.'s Q2 Earnings Support a Continued Rally?

Description

Potash Corp./Saskatchewan Inc. (TSX:POT)(NYSE:POT), the world's largest manufacturer of fertilizer, announced mixed second-quarter earnings results before the market opened on July 30, and its stock has responded by rising over 3%. Let's take a closer look at the results to determine if this could be the start of a sustained rally higher and if we should consider initiating long-term positions right now.

Breaking down the second-quarter results

Here's a summary of Potash's second-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Earnings Per Share	\$0.50	\$0.52	\$0.56
Revenue	\$1.73 billion	\$1.67 billion	\$1.89 billion

Source: *Financial Times*

Potash's earnings per share decreased 10.7% and its revenue decreased 8.5% compared with the second quarter of fiscal 2014. The company's double-digit percentage decline in earnings per share can be attributed to its net income decreasing 11.7% to \$417 million, but this was slightly offset by its weighted average number of diluted shares outstanding decreasing 1.1% to 837.75 million. Its sharp decline in revenue can be attributed to sales decreasing 14.8% to \$559 million in its nitrogen segment and 13.3% to \$424 million in its phosphate segment.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Production of potash increased 2.8% to 2.39 million tonnes
2. Sales volume of potash decreased 0.5% to 2.51 million tonnes

3. Revenue from the sale of potash increased 0.1% to \$748 million
4. Average realized price of potash increased 3.8% to \$273 per tonne
5. Production of nitrogen decreased 9.3% to 753,000 tonnes
6. Sales volume of nitrogen decreased 1.9% to 1.63 million tonnes
7. Average realized price of nitrogen decreased 15% to \$334 per tonne
8. Production of phosphate decreased 17.4% to 379,000 tonnes
9. Sales volume of phosphate decreased 20% to 679,000 tonnes
10. Average realized price of phosphate increased 8.6% to \$553 per tonne
11. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 8.8% to \$792 million
12. Cash provided by operating activities increased 6.1% to \$836 million

Potash also narrowed its full-year outlook on fiscal 2015, and is now calling for earnings per share in the range of \$1.75-1.95 compared with its previous outlook of \$1.75-2.05.

Is the rally warranted and can it be sustained?

It was a fairly weak quarter for Potash, so I do not think the post-earnings pop in its stock is warranted. However, I do still think the stock represents an attractive long-term investment opportunity today because it trades at inexpensive forward valuations and because it has a high dividend yield with a track record of increasing its payment.

First, Potash's stock trades at just 19.6 times its median earnings per share outlook of \$1.85 for fiscal 2015 and only 16.8 times analysts' estimated earnings per share of \$2.15 for fiscal 2016, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 19.7 and the latter of which is inexpensive compared with the industry average multiple of 18.9.

Second, Potash pays a quarterly dividend of \$0.38 per share, or \$1.52 per share annually, which gives its stock a 5.3% yield at today's levels. It is also important to note that the company has increased its annual dividend payment for four consecutive years, and its 8.6% increase in January puts it on pace for 2015 to mark the fifth consecutive year with an increase.

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

CATEGORY

1. Dividend Stocks
2. Investing

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