



3 Reasons Agrium Inc. Could Move Big This Week

Description

Agrium Inc. (TSX:AGU)(NYSE:AGU) investors should tighten their seat belts for a volatile week ahead as the company will release its second-quarter numbers Wednesday after market close. With peer **Potash Corp./Saskatchewan Inc.**'s numbers falling short of expectations last week, the market is wary of what news Agrium might bring along. Here are three important updates in the upcoming earnings report that investors need to watch.

Key fertilizer market under pressure?

Potash Corp. realized 15% lower prices for nitrogen in Q2 as imbalance in supply and demand in the industry hit prices. As a result, Potash Corp.'s nitrogen gross profit slipped 27% year over year.

Why should this worry Agrium investors? There are two reasons:

- While Agrium gets greater revenue from its retail business of seeds, crop nutrients, and crop protection products, its wholesale or fertilizers business is more profitable. Among fertilizers, Agrium primarily deals in nitrogen.
- Uncertainty in the nitrogen market was one of the reasons why Agrium narrowed its full-year earnings guidance in Q1 to US\$7-8.25 per share.

Given the backdrop, Potash Corp.'s weak nitrogen segment results gave out warning signals, and I wouldn't be surprised if Agrium downgrades its outlook yet again when it reports this week.

Will growth in its retail business sustain?

Going by the market updates that Potash Corp. offered in its earnings release last week, Agrium's retail sales could also take a hit in Q2 because of a shortened spring planting season and weak demand from Brazil.

Remember, Agrium already narrowed its retail earnings before interest, taxes, depreciation, and amortization (EBITDA) guidance range in Q1. While the company projected stronger sales in Q2 and beyond, it remains to be seen whether or not retail sales can continue to grow. Also, Agrium

pointed out increased “competitive pressures” as a factor hurting its seed sales in Q1, so that’s one area investors need to keep an eye on.

Can Agrium continue to expand its cash flows?

Agrium’s stock has found favour with investors because of the company’s increased focus on shareholder returns. It increased its quarterly dividend by 12% in Q1. But weakness in the fertilizer markets is detrimental to Agrium’s cash flows going forward. While the company’s capital expenditures will taper in the years to come as it completes its major expansion programs, its operating cash flow needs to grow at the same time.

In its upcoming report, investors need to watch if Agrium sticks to its outlined capital expenditure budget of US\$1.2-1.3 billion this year, and watch how it plans to turn free cash flow positive in a challenging business environment. That could hold the key to Agrium’s dividend growth in the future.

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