



Potash Corp./Saskatchewan Inc. or Agrium Inc.: Which Is the Better Buy Today?

Description

Potash Corp./Saskatchewan Inc. (TSX:POT)(NYSE:POT) and **Agrium Inc.** (TSX:AGU)(NYSE:AGU) are two of the world's leading providers of agricultural products, chemicals, and related services, and both of their stocks represent great long-term investment opportunities today.

However, the laws of diversification state that we cannot own both, so let's take a closer look at each company's earnings results in the first half of fiscal 2015, their stocks' valuations, and their dividends to determine which is the better buy today. (All figures are in U.S. dollars)

1. Potash Corp./Saskatchewan

Potash's stock has fallen over 16.5% year-to-date, including a decline of about 1.5% since it released its earnings results on the morning of July 30 for its three and six-month periods ending on June 30, 2015.

Here's a summary of six of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Net income decreased 3.1% to \$787 million
2. Diluted earnings per share decreased 1.1% to \$0.94
3. Revenue decreased 4.9% to \$3.4 billion
4. Gross profit increased 5% to \$1.38 billion
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased 5.6% to \$1.52 billion
6. Cash provided by operating activities increased 2.3% to \$1.36 billion

At today's levels, Potash's stock trades at 18.8 times fiscal 2015's estimated earnings per share of \$1.82 and 17 times fiscal 2016's estimated earnings per share of \$2.01, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 19.7 and the industry average multiple of 19.5.

Also, Potash pays a quarterly dividend of \$0.38 per share, or \$1.52 per share annually, which gives its

stock a yield of approximately 5.65% at current 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.

2. Agrium Inc.

Agrium's stock has risen over 24% year-to-date, including an increase of over 1.5% since it released its earnings results after the market closed on August 5 for its three and six-month periods ending on June 30, 2015.

Here's a summary of six of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Net income from continuing operations increased 8.2% to \$689 million
2. Adjusted earnings per share increased 12.8% to \$5.01
3. Revenue decreased 7% to \$9.86 billion
4. Gross profit increased 6.4% to \$2.29 billion
5. Adjusted EBITDA increased 8.9% to \$1.34 billion
6. Cash provided by operating activities decreased 0.3% to \$796 million

At current levels, Agrium's stock trades at 18.9 times fiscal 2015's estimated earnings per share of \$7.24 and 16.2 times fiscal 2016's estimated earnings per share of \$8.42, both of which are expensive compared with its five-year average price-to-earnings multiple of 14, but inexpensive compared with the industry average multiple of 19.5.

In addition, Agrium pays a quarterly dividend of \$0.875 per share, or \$3.50 per share annually, which gives its stock a yield of approximately 3.4% at today's levels. Investors should also note that the company has increased its annual dividend payment for three consecutive years, and its 12.2% increase in May puts it on pace for 2015 to mark the fourth consecutive year with an increase.

Which is the better buy today?

After directly comparing Potash Corp./Saskatchewan and Agrium, I think Potash represents the better long-term investment opportunity today. Agrium reported stronger earnings results in the first half of the year, but Potash's stock trades at more attractive forward valuations and it has a much higher dividend yield, giving it the edge in this match-up. Foolish investors should strongly consider beginning to scale in to positions today.

CATEGORY

1. Investing

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