



Agrium Inc. Earnings: Bucking the Trend to Prove its Mettle Yet Again

Description

At a time when fertilizer companies are reeling under the pressures of macro headwinds, **Agrium Inc.** (TSX:AGU)(NYSE:AGU) did the unexpected this morning: it delivered a solid 9% jump in its third-quarter profits, even as peer **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) saw its Q3 net income drop 11% year over year. However, Agrium lowered the upper end of its earnings guidance for the full year.

So, should investors be excited about Agrium's solid numbers or worried about its reduced outlook?

Where Agrium won and Potash lost

The weakness in fertilizer markets showed up on Agrium's Q3 top line; its sales dropped 14% year over year. While sales volumes were higher for all three of the nutrients that Agrium deals in—potash, phosphate, and nitrogen—low prices offset the strength in volumes. Potash witnessed a similar trend in its last quarter when its sales slipped 7% because of low nutrient prices.

However, the story between the two companies is strikingly different beyond their top lines. Despite a sharp drop in revenue, Agrium's gross profit improved 5% in Q3 compared with Potash's 14% drop in gross profit. Agrium maintained a tight grip on its manufacturing costs, while enjoying cost advantages from low prices of one of its key inputs, natural gas.

Falling natural gas prices didn't help Potash much as it has greater exposure to potash markets, which are battling severe headwinds.

Proof of management efficiency

Agrium's solid Q3 profit growth is particularly commendable, given that gross profit from its retail business (seeds and crop protection) slumped a whopping 48% year over year as weak crop markets hit demand. While lower input costs helped, as mentioned above, investors should note that the company's cost-cutting efforts also played a considerable role in boosting margins.

Agrium reduced its general and administrative expenses by an impressive 13% during the quarter.

Why did Agrium lower its outlook?

An outlook downgrade may ring warning bells, but Agrium investors needn't worry much. The company revised its guidance only marginally, projecting to earn between US\$7.10 and \$7.40 per share compared with the earlier estimate of between US\$7 and \$7.50 per share.

Here are the most important thing to know: even at the lower end of its guidance, Agrium will be ending 2015 with a solid 29% growth in earnings per share. Consider that Potash's full-year earnings estimate suggests a 9% *drop* at the higher end of its guidance range.

Clearly, Agrium has proved its mettle yet again, and its impressive Q3 numbers and confident outlook, even in challenging business conditions, should give investors another great reason to consider the stock for the long run.

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