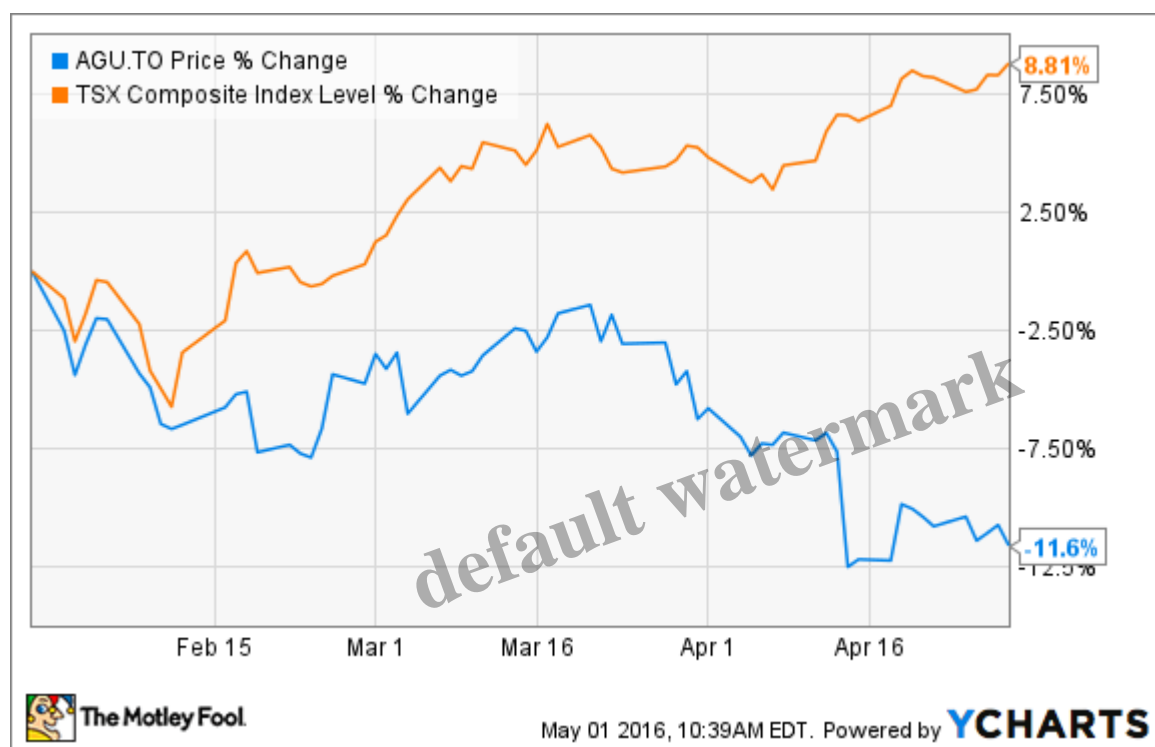


Agrium Inc. Investors Beware: Dismal Earnings and a Lower Guidance Ahead?

Description

Agrium Inc. (TSX:AGU)(NYSE:AGU) investors have had a miserable last quarter with the stock mirror-imaging the broader markets' movement, albeit on the wrong side of the line.



AGU data by [YCharts](#)

If **Potash Corporation of Saskatchewan Inc.'s** (TSX:POT)(NYSE:POT) latest numbers and outlook are anything to go by, Agrium could be headed even lower this week as it releases its first-quarter numbers on May 4. Potash Corp. delivered a disastrous quarter as its earnings fell off the cliff, compelling it to downgrade its full-year guidance.

Given the backdrop, it's prudent for Agrium investors to know what to expect from the earnings report before deciding their next move on the stock.

Profits expected to crash

The expectations from Agrium are as bad as they could get. Analysts expect it to incur a loss of US\$0.06 in Q1 compared to a profit of US\$0.12 in the year-ago period. Interestingly, analysts see the big loss coming at the back of a small 4% drop in revenue. For perspective, Potash Corp.'s Q1 sales declined 27% year over year.

That's not surprising though, given that Agrium is a diversified agricultural company, unlike Potash

Corp. which is a pure fertilizer play. Agrium derives a major portion of revenue from its retail segment, which sells products like seeds and crop protection, the demand for which isn't as volatile as that of fertilizers.

However, fertilizers generate bigger margins for Agrium, which explains why analysts expect its profits to tumble.

Why Agrium could downgrade its outlook

While there's no denying that Agrium's first-quarter results will disappoint, there are high chances of the company lowering its 2016 guidance, too. That's because when Agrium last guided its 2016 earnings to range from US\$5.50 to US\$7 per share, it assumed a "recovery" in the prices of its key nutrient, nitrogen. Unfortunately, nitrogen dipped in recent months, with Potash Corp. realizing 30% lower prices during its first quarter. Worse yet, prices of potash and phosphate have also declined.

The only saving grace could be lower costs, backed by Agrium's restructuring initiatives and low prices of key input, natural gas. That said, I don't believe any amount of cost savings will be enough to offset the weakness in the fertilizer markets right now.

Investors need to keep an eye on Agrium's cash flows, which could fall with its earnings. Given that Agrium already paid out *more* than the free cash flow it generated in dividends last year, any further decline in cash flow is a red flag. If you see any weakness there in Agrium's upcoming earnings report, know that the stock is getting riskier.

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