



What Investors Can Expect From Potash Corporation of Saskatchewan Inc.

Description

In the coming week, **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) will report earnings. As this is one of the final times the company will report earnings as a standalone entity, investors will be listening for guidance on the upcoming merger with **Agrium Inc.** (TSX:AGU)(NYSE:AGU).

In the past several months, shares of Potash Corporation of Saskatchewan have found a bottom between \$20 and \$22 per share and have since begun to rise. The interesting part of this equation is the entire resource sector has experienced a move in the right direction.

Looking for leading indicators, we see that the shares of American company **Caterpillar Inc.** ([NYSE:CAT](#)) have substantially increased in value in the past few months. The shares of their competitor **Deere & Company** ([NYSE:DE](#)) have also risen significantly to a 52-week high at \$106 per share.

Since the market is very good at pricing in future profit expectations, it is important to note that Caterpillar Inc. and Deere & Company are providers of machinery used in mining and farming. Caterpillar Inc. provides equipment to mining companies, while Deere & Company provides equipment to the farming industry.

For shareholders of either company, there seems to be high expectations for the coming week. Potash Corporation of Saskatchewan will report earnings with expectations of \$0.11 per share. Caterpillar Inc. will also report earnings with expectations of \$0.65-per-share profit. Given their histories, both companies should be able to meet or beat expectations, sending a good signal for things to come.

The reason the machinery manufacturer is talked about as a leading indicator is because an increase in revenue signals an increase in demand from the resource companies. Basically, if companies buy the equipment needed to produce a resource or commodity, then there is probably demand in the pipeline. The earnings of Caterpillar Inc., which come out the same day as those of Potash Corporation of Saskatchewan, will have a major impact on the sentiment for the entire sector.

Looking to the past, the potash company has spent a significant amount of money on machinery, and

this is called capital expenditures. In 2015, capital expenditures were in excess of \$1.2 billion, while depreciation (which is the result of capital expenditures) totaled \$685 million. Through the first three quarters of 2016, capital expenditures totaled \$648 million, while depreciation was \$518 million.

Clearly, the company is optimistic about the future.

As two potash behemoths are going to be merging together in the coming year, it is completely understandable that expenses are being reduced before the merger. Think of it this way: if a couple that's engaged to wed and live apart each have a toaster and one toaster breaks, the person with the broken toaster might not buy new one since their partner might have a working toaster and they'll be living together very soon.

In the case of our two potash companies, investors will have significantly more information before the week is out. What was a clear breakout in the share price may just continue.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CAT (Caterpillar)
2. NYSE:DE (Deere)

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Category

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