



3 Big Surprises From Potash Corporation of Saskatchewan Inc.'s Q1 Earnings Report

Description

Surprise, surprise! **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) just announced its first-quarter numbers, and they've come in way better than expected. Because the stock is likely to react positively to the news, here are the three most important things you must know to help you decide what to do with your Potash Corp. shares.

Big earnings beat

Potash Corp. earned US\$0.18 per share in Q1, crushing consensus EPS estimates of \$0.11 by a gaping margin. The biggest highlight is that its earnings doubled year over year, despite an 8% drop in revenues, thanks to 22% jump in potash sales volumes to 2.2 million tonnes and management's steadfast approach to cost control.

Potash Corp.'s cash from operations jumped 19% year over year, and it was free cash flow positive in Q1, which is encouraging as it's critical for the company to boost cash flows to maintain its dividend.

Significant drop in costs and Rocanville on track

Potash markets haven't really improved much, as Potash Corp.'s Q1 prices were lower year over year, and its higher sales volumes were mainly part of its contract commitments under Canpotex — the marketing group that handles potash exports outside the U.S. and Canada.

Credit for the big jump in the company's earnings, therefore, goes entirely to management's efforts to control costs. Potash Corp. is ramping up its lowest-cost mine Rocanville as planned, and higher production from the mine helped the company lower its potash cost of goods sold to only US\$90 per tonne in Q1 versus US\$128 per tonne in the same period last year. It's important to note here that Q1 2016 was an exceptionally high-cost quarter because of production curtailments.

Management expects Rocanville to reduce full-year potash costs by US\$10 per tonne as planned earlier.

Solid 22% upgrade in EPS outlook

Encouraged by its ongoing potash contract commitments, Potash Corp. bumped up the lower end of its potash sales volumes and gross profit guidance to 8.9-9.4 million tonnes and US\$600-800 million, respectively. At the mid-point, that's an improvement of roughly 4% in gross profit guidance.

That might be small, but for a company that has been struggling for so many years to maintain margins amid challenging market conditions, even a slight improvement is big news.

At the mid-point, Potash Corp.'s guidance calls for a staggering 60% jump in potash gross profits versus FY 2016, which is huge. Its combined gross profit for nitrogen and phosphate, however, is expected to be substantially lower than last year at an estimated US\$150-400 million.

Overall, higher potash volumes, lower costs, higher expected income from equity investments, and lower effective taxes have encouraged management to upgrade its full-year EPS guidance to US\$0.45-0.65, representing a solid 22% upgrade at the mid-point. The stock is already trading at sky-high P/E of 43 times, but higher earnings should be able to support its stock price better going forward.

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