



Potash Corporation of Saskatchewan Inc.: Is the Downturn Finally Over?

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) just reported better-than-expected Q1 2017 numbers.

Let's take a look at the current situation to see if the fertilizer giant deserves to be in your portfolio today.

Earnings improvement

Potash Corp. reported Q1 2017 earnings of US\$149 million, or US\$0.18 per share, compared to US\$75 million, or \$0.09 per share, in the first quarter last year.

Gross margins came in at \$268 million compared to \$234 million last year as a result of cost improvements in all three of the company's product lines: potash, nitrogen, and phosphate.

Sales volumes rose in the potash group, which helped offset weaker year-over-year pricing and volume in the phosphate and nitrogen segments.

Cash from operating activities improved to US\$233 million compared to US\$188 million in Q1 2015.

Potash was the big story in the quarter.

Sales volumes jumped from 1.8 million tonnes last year to 2.2 million tonnes, supported by a 10% increase in North American shipments and a 31% rise in offshore shipments.

Average cost of goods sold dropped to US\$90 per tonne from US\$128 per tonne in the same quarter last year due to higher contributions from low-cost mines, such as the company's Rocanville facility.

Global spot prices bottomed out last year, and while the company says improvements continued through the first quarter, its average Q1 2017 realized potash price came in at just US\$166 per tonne compared to US\$178 per tonne in the same period last year.

Better outlook

As a result of improved market conditions, Potash Corp. raised its 2017 earnings guidance from US\$0.35-0.55 per share to US\$0.45-0.65 per share.

That's welcome news for investors who have suffered from guidance downgrades in recent years.

Global potash shipments are expected to be 61-64 million tonnes in 2017 — above the 60 million recorded last year.

Nitrogen and phosphate markets are expected to remain challenged in 2017.

Agrium merger

Potash Corp. is in the process of merging with **Agrium Inc.** (TSX:AGU)(NYSE:AGU) in a deal that will create a global fertilizer giant.

The addition of Agrium's strong retail business should result in a more balanced revenue stream for the company, and investors could see the market award Potash Corp. with a higher multiple as a result.

The deal is expected to close in the coming months.

Should you buy?

Commodity markets go through cycles, and the best time to buy producers tends to be during the darkest days.

Based on the latest numbers, it looks like potash has bottomed out. Phosphate and nitrogen might be getting close.

If you have a buy-and-hold investment style, it might be worthwhile to add a bit of Potash Corp. to your portfolio while the stock is still trading close to the multi-year lows.

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aswalker

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