



Potash Corporation of Saskatchewan Inc.'s Q2 Earnings: Here's What to Expect

Description

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is set to report its second-quarter numbers early on the morning of July 27, and investors in the fertilizer giant have reasons to be hopeful.

Given that Potash Corp. stock is still down almost 14% in the past six months and has been flattish in the past quarter despite delivering a [surprisingly strong set of Q1](#) numbers late April, it's clear that the market is growing impatient and wants to see signs of a recovery in the company's business. Thankfully, Potash Corp.'s earnings report tomorrow may bring in some good news.

Earnings beat possible

Potash Corp.'s strong earnings beat last quarter has boosted analysts' expectations. Average consensus estimates are now pegging for flat Q2 earnings per share of US\$0.18 and a growth of 33% year over year in the best-case scenario.

Unless the company has booked some impairments on plant shutdowns, there's a fair chance that Potash Corp. will meet or beat estimates as potash shipments were strong in the last quarter and potash prices are stabilizing.

Furthermore, Potash Corp. has been aggressively cutting costs lately, which should further help boost its bottom line. For example, the company slashed its potash cost of goods sold to US\$90 per tonne in Q1 from US\$128 per tonne in the comparable period last year.

Outlook could improve

One of the biggest surprises from the Q1 earnings release was that Potash Corp. is bumping up its profit guidance, which translates into a potential 60% surge in its FY 2017 potash gross profits. More importantly, Potash Corp. upgraded its full-year earnings guidance by almost 22% at the midpoint to US\$0.45-0.65 per share.

Again, I'm not ruling out a possibility of another outlook upgrade tomorrow given the improving

conditions in the potash market.

Just last week, Potash Corp. announced that Canpotex — the marketing group comprising of Potash Corp., **Mosaic**, and **Agrium Inc** (TSX:AGU)(NYSE:AGU) which handles potash exports — had struck potash deals with China at a price US\$11 per metric higher than 2016.

This is a significant development as China's contracted prices usually set the floor for other key potash-importing nations like India. In other words, China signing on deals at better prices can be considered a confirmation of a potash price recovery. Potash Corp.'s fortunes hang largely on potash prices.

Updates about merger with Agrium

One key point investors need to watch for tomorrow in Potash Corp.'s earnings release is whether or not its impending merger with Agrium is on track, and what synergies the companies are expecting to see in the near term.

Last month, Potash Corp. announced that the deal will likely close this running quarter and that the newly formed company will be named Nutrien. Investors shouldn't miss any updates that Potash Corp. may have to offer tomorrow regarding the potential impact of the merger on its earnings.

Overall, look for signs of a recovery in end market conditions in Potash Corp.'s earnings report as that'll largely decide where the stock is headed.

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Date

2025/07/28

Date Created

2017/07/26

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