



Nutrien (TSX:NTR): All You Need to Know About its Q2 2022 Earnings

Description

Canadian crop nutrient company **Nutrien** ([TSX:NTR](#))([NYSE:NTR](#)) displayed a mixed performance during its second quarter (Q2) 2022 earnings. Although its net income significantly increased during the quarter, the management lowered its earnings guidance for the year. NTR stock has been up nearly 15% this year but has dropped 30% since April.

Nutrien: Q2 2022 earnings

Nutrien is a \$58 billion fertilizer company that has a dominating market share in potash and nitrogen products. Crop nutrient prices have witnessed substantial volatility since the start of a war in Europe. Perhaps, higher realized prices compared to last year have notably benefited Nutrien so far in 2022.

The company reported a net income of \$3.6 billion for the quarter that ended on June 30, 2022. This was a massive increase of 225% against Q1 2021.

Nutrien management clarified that the supply issues surrounding the global agriculture and fertilizer market will likely remain beyond 2022. So, investors might see a strong financial show to continue, driven by a solid pricing environment and Nutrien's robust operating performance.

However, contrary to investors' belief, Nutrien has lowered its earnings guidance. It now expects to report adjusted earnings of \$16.8 per share for 2022, which is down from \$17.45 per share based on earlier guidance.

What's next for Nutrien?

Thanks to the war in Ukraine, prices for key crops like soybean, corn, and wheat are notably up against their 10-year average. Ukraine is also expected to see a 40% decline in corn and wheat production this year and the next year over year. So, the demand-supply imbalance will likely push crop prices even higher. This will likely motivate farmers to increase their production.

Moreover, supply constraints primarily led by tensions at Ukrainian ports will likely drive prices of key crops higher. Nevertheless, Nutrien management expects superior demand for crop nutrient products due to favourable economics for farmers and growing conditions.

Nutrien saw handsome margin expansion during the second quarter largely due to higher selling prices. Its gross margin came in at 41% during the second quarter, which is well above its long-term average.

While crop nutritional products face supply issues, Nutrien is among the very few companies that can fill this void. It has the ability to increase production substantially to cater to the higher demand. For example, it produced 15 million metric tons of potash in 2021 and plans to increase to 18 million metric tons by 2025.

The Foolish takeaway

Nutrien will likely keep growing strong for the next few quarters. It might see solid earnings growth and margin expansion in the short to medium term. Plus, [NTR stock](#) seems on a strong footing based on the valuation front and trades 10 times its earnings.

It will likely see valuation re-rating if the macro picture remains supportive and fertilizer prices remain high. However, investors should note that commodity businesses pose a significant cyclicity risk. Fertilizer prices have a considerable dominance on such companies and could see huge drawdowns when the means of prices revert.

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