Nutrien Ltd. (NTR)

Updated November 11th, 2019 by Lyn Alden

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	9.9%	**Volatility Percentile:**	67.8%
Fair Value Price:	$41	**5 Year Growth Estimate:**	10.0%	**Momentum Percentile:**	22.5%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Growth Percentile:**	92.9%
Dividend Yield:	3.7%	**5 Year Price Target**	$66	**Valuation Percentile:**	36.5%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	72.5%

Overview & Current Events

Nutrien Ltd. (NTR) is a Canadian company that was formed through the merger of Agrium and PotashCorp in a transaction that closed on January 1, 2018. The company produces and markets crop nutrients to agricultural, industrial, and feed customers around the world. The company has over 1,700 retail locations in North America, South America, and Australia and is one of the world's largest manufacturers and suppliers of potash, nitrogen, and phosphate. The company provides over 20% of global potash, 3% of nitrogen, and 3% of phosphate. Nutrien has a market capitalization of approximately $28 billion, over 20,000 employees, and produced approximately $19.6 billion in revenue in 2018.

On November 4th, 2019, Nutrien reported results for the quarter ended September 30th. The company earned $0.24 in earnings per share for the quarter. Although the retail side of the business is performing very well, weak demand for their commodity products are a major headwind for the second half of 2019. Management lowered guidance to $2.30 - $2.55 in earnings for the full year 2019, but stated that they expect 2020 to be a rebound year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	---	---	---	---	---	---	---	---	---	$2.34	***$2.40***	***$3.87***
DPS	---	---	---	---	---	---	---	---	---	$1.63	***$1.80***	***$2.52***
Shares[1]	---	---	---	---	---	---	---	---	---	609	***593***	***490***

Nutrien does not have a long history as a combined company, and neither PotashCorp nor Agrium represent directly comparable predecessors. PotashCorp was primarily involved in the potash production side of the business while Agrium mostly represented the agricultural retail side. As a combined company, Nutrien now has a large stake in both sides, and with a 52/48 split, the merger was one of equals.

Analysts expect a nearly 30% EPS rebound in 2020 due to renewed commodity demand and pricing. Share repurchases are expected to contribute several percentage points per year on top of baseline growth. Nutrien repurchased approximately 7% of its market capitalization in 2018 and currently has a renewed 1-year share repurchase plan for 5% of the company's market capitalization in place for the rest of 2019; however, it didn't buy any shares in the most recent quarter due to weak results. We expect 10% growth per year over the next 5 years from a rebound in cyclical fertilizer pricing and consistent share repurchases. Dividend growth is expected to be 7%, as the company normalizes its payout ratio. Significant increases or decreases in the prices of fertilizer would affect the growth rate substantially and are largely outside of the company's control.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	---	---	---	---	---	---	---	---	22.1	***20.0***	***17.0***
Avg. Yld.	---	---	---	---	---	---	---	---	---	2.3%	***3.7%***	***3.8%***

[1] Share count is in millions.

Disclosure: This analyst is long NTR.

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Nutrien has less than two years of history as a unified public company. Commodity producers like Nutrien are cyclical, meaning that when commodity prices are depressed and earnings are consequently low, the industry tends to trade for a higher P/E ratio as the market anticipates some degree of pricing recovery. Likewise, when commodity prices are high and earnings are consequently high, the industry tends to trade for a lower P/E ratio as investors anticipate the risk of declining commodity prices and earnings. One of Nutrien's primary industry peers with a longer history as a unified company, The Mosaic Company, has had an average P/E ratio of 19.9 over the past ten years with a high of 31 and a low of 13. With anticipated mild recovery in agriculture commodity prices, which have been in a multi-year bear market, we expect Nutrien's P/E ratio to potentially decline to 17 as a baseline.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	---	---	---	70%	***75%***	***65%***

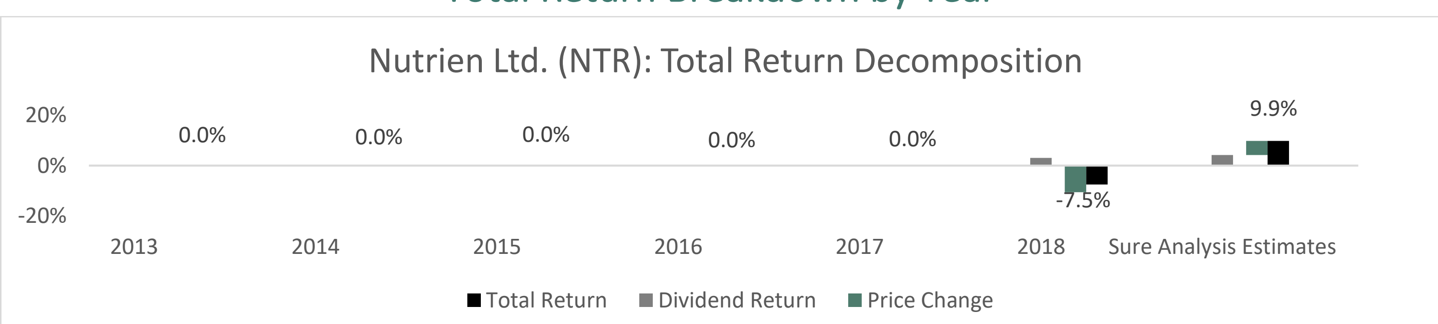
Nutrien has an economic moat from its potash and nitrogen production operations resulting in relatively high returns on invested capital in most years compared to the broader materials sector. The company has geographically significant production assets in Canada that sit on the bottom half of the global production cost curve, meaning that even in a low-price environment the company can outlast its competitors and survive to see periods of higher commodity prices. On the other hand, the company's phosphate production operations are on the upper half of the global cost curve. Its agriculture retail business, being the largest in North America, may have mild cost advantages, but several of its competitors are similar in scale. Therefore, these aspects of the business lack an economic moat.

Agricultural commodities, especially fertilizer, are not very economically sensitive because people need to eat through recessions and expansions alike. However, the agricultural and fertilizer industries do have their own cycles, and the supply/demand relationship in agricultural commodity production due to weather and other factors can dramatically affect prices. For example, potash spiked to over $800/ton in 2009 but is currently under $300/ton. Due to the breakup of a major eastern European potash cartel in 2013, and thanks to a previous period of high potash prices that spurred production growth, potash prices have been in a bear market for several years. Nutrien strongly benefits from higher prices in potash, nitrogen, and phosphate, and is hurt by lower prices. Nutrien's balance sheet is moderate, with a debt/equity ratio of below 50% and a credit rating of BBB.

Final Thoughts & Recommendation

With an expected 9.9% annual return over the next five years, we consider Nutrien to be a hold. However, Nutrien has a high variance of performance based on crop nutrition commodity prices and could deliver returns that are significantly higher or lower than this expected baseline. The company also potentially serves as a diversifier in a portfolio as a non-correlated asset. While most stocks are economically sensitive, Nutrien and other agricultural companies operate on separate cycles that are distinct from the economic cycle.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3977	6539	8715	7927	7305	7115	6279	4456	4547	19636
Gross Profit	1015	2690	4286	3410	2790	2647	2269	830	694	5392
Gross Margin	25.5%	41.1%	49.2%	43.0%	38.2%	37.2%	36.1%	18.6%	15.3%	27.5%
SG&A Exp.	184	220	211	219	231	245	239	212	214	2876
D&A Exp.	312	449	489	578	666	701	685	695	692	1592
Operating Profit	837	2350	3904	2974	2314	2142	1694	491	314	2226
Operating Margin	21.1%	35.9%	44.8%	37.5%	31.7%	30.1%	27.0%	11.0%	6.9%	11.3%
Net Profit	981	1775	3081	2079	1785	1536	1270	323	327	3573
Net Margin	24.7%	27.1%	35.4%	26.2%	24.4%	21.6%	20.2%	7.2%	7.2%	18.2%
Free Cash Flow	-894	981	1234	1021	1588	1454	1054	365	574	647
Income Tax	79	701	1066	826	687	628	446	44	-183	-93

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12922	15547	16257	18206	17958	17724	17469	17255	16998	45502
Cash & Equivalents	385	412	430	562	628	215	91	32	116	2314
Accounts Receivable	851		892	716	500	708	468	427	390	2746
Inventories	624	570	731	762	728	646	749	768	788	4917
Goodwill & Int. Ass.	117	115	115	126	137	142	192	180	166	13641
Total Liabilities	6482	8862	8410	8294	8330	8932	9087	9056	8695	21077
Accounts Payable	507	167	578	623	450	457	426	340	255	3053
Long-Term Debt	4048	5578	4537	4081	3937	4246	4227	4591	4441	9223
Shareholder's Equity	6440	6685	7847	9912	9628	8792	8382	8199	8303	24425
D/E Ratio	0.63	0.83	0.58	0.41	0.41	0.48	0.50	0.56	0.53	0.38

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	8.5%	12.5%	19.4%	12.1%	9.9%	8.6%	7.2%	1.9%	1.9%	11.4%
Return on Equity	17.8%	27.0%	42.4%	23.4%	18.3%	16.7%	14.8%	3.9%	4.0%	21.8%
ROIC	10.8%	15.6%	25.0%	15.8%	13.0%	11.5%	9.9%	2.5%	2.6%	15.4%
Shares Out.	364.73	364.44	350.65	350.36	349.59	337.82	334.94	335.78	336.13	608.54
Revenue/Share	10.90	17.94	24.85	22.63	20.90	21.06	18.75	13.27	13.53	31.42
FCF/Share	-2.45	2.69	3.52	2.91	4.54	4.30	3.15	1.09	1.71	1.04

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.