# Nutrien Ltd. (NTR)

*Updated February 24th, 2020 by Felix Martinez*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $43 | **5 Year CAGR Estimate:** | 8.9% | **Market Cap:** | $24.8 B |
| **Fair Value Price:** | $45 | **5 Year Growth Estimate:** | 4.0% | **Ex-Dividend Date:** | 03/30/20 |
| **% Fair Value:** | 95% | **5 Year Valuation Multiple Estimate:** | 1.1% | **Dividend Payment Date:** | 04/16/20 |
| **Dividend Yield:** | 4.2% | **5 Year Price Target** | $55 | **Years Of Dividend Growth:** | 1 |
| **Dividend Risk Score:** | F | **Retirement Suitability Score:** | F | **Last Dividend Increase:** | 4.7% |

## 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% nitrogen, and 3% of phosphate. Nutrien has a market capitalization of approximately $24.8 billion, over 20,000 employees, and produced approximately $20 billion in revenue in 2019.

On February 18, 2019, Nutrien reported results for the quarter ended December 31th. The company earned $0.09 in Earnings per Share (EPS) for the quarter, which is (83.3)% lower than 4Q18. The company generated $2.2 billion in free cash flow for Fiscal Year (FY)2019, up 9% over FY2018. Nitrogen EBITDA in the fourth quarter of 2019 was 19 percent lower than the same period last year due primarily to lower ammonia sales volumes, and a lower nitrogen net realized selling price. Overall, Nitrogen EBITDA is up 2% for the full year. Management is issuing 2020 adjusted net earnings guidance of $1.90 to $2.60 per share and adjusted EBITDA guidance of $3.8 to $4.3 billion. We will use the midpoint of the net earnings guidance of $2.25 as our valuation calculation.

## Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | --- | --- | --- | --- | --- | --- | --- | --- | $5.72 | $2.17 | ***$2.25*** | ***$2.74*** |
| **DPS** | --- | --- | --- | --- | --- | --- | --- | --- | $1.63 | $1.76 | ***$1.80*** | ***$2.30*** |
| **Shares**[1] | --- | --- | --- | --- | --- | --- | --- | --- | 609.0 | 583.0 | ***583.0*** | ***583.0*** |

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 significant stake in both sides, and with a 52/48 split, the merger was one of equals.

Analysts expect an 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 6.7% of its market capitalization in 2019. We expect a 4% growth per year over the next five years from a rebound in cyclical fertilizer pricing and consistent share repurchases. Dividend growth is expected to be 5%, as the company normalizes its payout ratio. Significant increases or decreases in the prices of fertilizer would affect the growth rate substantially and are mostly outside of the company's control.

## Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | --- | --- | --- | --- | --- | --- | --- | --- | 22.1 | 21.30 | ***18.6*** | ***20.00*** |
| **Avg. Yld.** | --- | --- | --- | --- | --- | --- | --- | --- | 3.5% | 3.7% | ***4.2%*** | ***4.2%*** |

[1] Share count is in millions.

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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 long 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 an anticipated mild recovery in agriculture commodity prices, which have been in a multi-year bear market, we expect Nutrien's P/E ratio to decline to 17 as a baseline potentially.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payout | --- | --- | --- | --- | --- | --- | --- | --- | 28.5% | 81.1% | ***80%*** | ***84%*** |

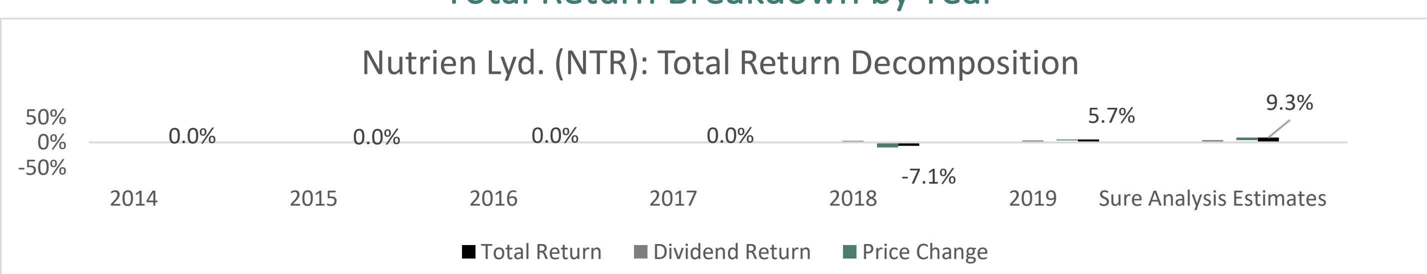
Nutrien has an economic moat from its potash and nitrogen production operations resulting in relatively high returns on invested capital in most years compared to the broader materials sector. The company has geographically significant production assets in Canada that sit on the bottom half of the global 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 in the upper half of the global cost curve. Its retail agriculture 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 rates in potash, nitrogen, and phosphate, and is hurt by lower prices. Nutrien's balance sheet is moderate, with a debt/equity (D/E) ratio of 1.0, which is much lower than the D/E ratio of 2.7 in 2018. The company currently has a credit rating of BBB.

## Final Thoughts & Recommendation

With an expected 9.3% annual return over the next five years, we consider Nutrien to be a Buy. 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 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | 6539 | 8715 | 7927 | 7305 | 7115 | 6279 | 4456 | 4547 | 19636 | 20023 |
| **Gross Profit** | 2690 | 4286 | 3410 | 2790 | 2647 | 2269 | 830 | 694 | 5392 | 5441 |
| **Gross Margin** | 41.1% | 49.2% | 43.0% | 38.2% | 37.2% | 36.1% | 18.6% | 15.3% | 27.5% | 27.2% |
| **SG&A Exp.** | 220 | 211 | 219 | 231 | 245 | 239 | 212 | 214 | 2876 | 3013 |
| **D&A Exp.** | 449 | 489 | 578 | 666 | 701 | 685 | 695 | 692 | 1592 | 1799 |
| **Operating Profit** | 2350 | 3904 | 2974 | 2314 | 2142 | 1694 | 491 | 314 | 2226 | 1982 |
| **Operating Margin** | 35.9% | 44.8% | 37.5% | 31.7% | 30.1% | 27.0% | 11.0% | 6.9% | 11.3% | 9.9% |
| **Net Profit** | 1775 | 3081 | 2079 | 1785 | 1536 | 1270 | 323 | 327 | 3573 | 992 |
| **Net Margin** | 27.1% | 35.4% | 26.2% | 24.4% | 21.6% | 20.2% | 7.2% | 7.2% | 18.2% | 5.0% |
| **Free Cash Flow** | 981 | 1234 | 1021 | 1588 | 1454 | 1054 | 365 | 574 | 647 | 1774 |
| **Income Tax** | 701 | 1066 | 826 | 687 | 628 | 446 | 44 | -183 | -93 | 316 |

## Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Assets** | 15547 | 16257 | 18206 | 17958 | 17724 | 17469 | 17255 | 16998 | 45502 | 46799 |
| **Cash & Equivalents** | 412 | 430 | 562 | 628 | 215 | 91 | 32 | 116 | 2314 | 671 |
| **Accounts Receivable** | | 892 | 716 | 500 | 708 | 468 | 427 | 390 | 2746 | 3542 |
| **Inventories** | 570 | 731 | 762 | 728 | 646 | 749 | 768 | 788 | 4917 | 4975 |
| **Goodwill & Int. Ass.** | 115 | 115 | 126 | 137 | 142 | 192 | 180 | 166 | 13641 | 14414 |
| **Total Liabilities** | 8862 | 8410 | 8294 | 8330 | 8932 | 9087 | 9056 | 8695 | 21077 | 23930 |
| **Accounts Payable** | 167 | 578 | 623 | 450 | 457 | 426 | 340 | 255 | 3053 | |
| **Long-Term Debt** | 5578 | 4537 | 4081 | 3937 | 4246 | 4227 | 4591 | 4441 | 9223 | 10031 |
| **Shareholder's Equity** | 6685 | 7847 | 9912 | 9628 | 8792 | 8382 | 8199 | 8303 | 24425 | 22869 |
| **D/E Ratio** | 0.83 | 0.58 | 0.41 | 0.41 | 0.48 | 0.50 | 0.56 | 0.53 | 0.38 | 0.44 |

## Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Return on Assets** | 12.5% | 19.4% | 12.1% | 9.9% | 8.6% | 7.2% | 1.9% | 1.9% | 11.4% | 2.1% |
| **Return on Equity** | 27.0% | 42.4% | 23.4% | 18.3% | 16.7% | 14.8% | 3.9% | 4.0% | 21.8% | 4.2% |
| **ROIC** | 15.6% | 25.0% | 15.8% | 13.0% | 11.5% | 9.9% | 2.5% | 2.6% | 15.4% | 3.0% |
| **Shares Out.** | 364.44 | 350.65 | 350.36 | 349.59 | 337.82 | 334.94 | 335.78 | 336.13 | 608.54 | 583.00 |
| **Revenue/Share** | 17.94 | 24.85 | 22.63 | 20.90 | 21.06 | 18.75 | 13.27 | 13.53 | 31.42 | 34.34 |
| **FCF/Share** | 2.69 | 3.52 | 2.91 | 4.54 | 4.30 | 3.15 | 1.09 | 1.71 | 1.04 | 3.04 |

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