Nutrien Ltd. (NTR)

Updated January 4th, 2021 by Felix Martinez

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	-0.3%	**Market Cap:**	$27.3 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/30/20
% Fair Value:	164%	**5 Year Valuation Multiple Estimate:**	-9.4%	**Dividend Payment Date:**	01/14/21
Dividend Yield:	3.7%	**5 Year Price Target**	$38	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.7%

Overview & Current Events

Nutrien Ltd. (NTR) is a Canadian company formed through Agrium and PotashCorp's merger 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% phosphate. Nutrien has a market capitalization of approximately $27.3 billion, more than 20,000 workers, and produced roughly $20 billion in revenue in 2019.

On November 2, 2020, Nutrien reported results for the third quarter and the first nine months of the Fiscal Year (FY)2020. Total sales increased 1% Year over Year (YoY) to $4,205 million for 3Q20. The first nine months sales increased by 1% to $16,807 million compared to $16,581 million in the first nine months in 2019. The increase came mostly from the Merchandise segment, which saw sales increased by 73%, and the Seed segment, which saw sales increase by 72% for the quarter. Online sales exceeded $1.0 billion in the first nine months of 2020. This is more than double managements annual goal of $500 million. Online sales accounted for 43% of North American sales of products. Net income came in at a loss of $(587) million for the quarter and a loss of $(45) million for the nine months. The Company reported that it decided to close the smallest of the four ammonia plants in Trinidad. The closure is expected to enhance the competitiveness at that site. The Company is now running three plants at normal production levels.

Management updated their full-year earnings guidance to $1.60-$1.85, lowering the top end from $1.90 per share last quarter. Thus, we will use the midpoint of $1.73 per share for our calculation. The management team also expects adjusted EBITDA to be between $3.5 billion - $3.7 billion. The new guidance puts the dividend at risk with a potential payout of 104% or higher..

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	---	---	---	---	$2.34	$1.95	***$1.73***	***$2.17***
DPS	---	---	---	---	---	---	---	---	$2.06	$1.33	***$1.80***	***$2.09***
Shares[1]	---	---	---	---	---	---	---	---	609.0	573.0	***569.0***	***569.0***

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 its potash production side, 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 the equals. Analysts expect an EPS rebound in 2021 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 5% 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 3% as the company normalizes its payout ratio. Significant increases or decreases in fertilizer prices would substantially affect the growth rate and are mostly outside the company's control.

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[1] Share count is in millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	---	---	---	---	---	---	22.1	26.10	***27.8***	***17.0***
Avg. Yld.	---	---	---	---	---	---	---	---	4.0%	2.6%	***3.7%***	***5.7%***

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. Thus, the company has a high valuation at the current price with a current PE of 27.8.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	80%	68.2%	***104%***	***96%***

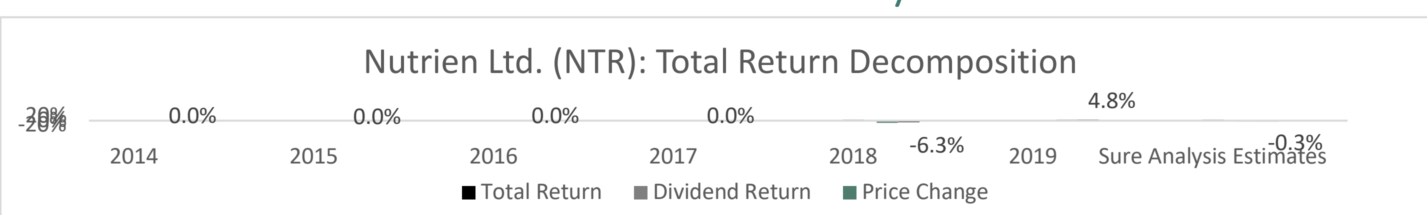
Nutrien has an economic moat from its potash and nitrogen production operations resulting in relatively high returns on invested capital in most years compared to the broader materials sector. The company has geographically significant production assets in Canada that sit on the bottom half of the global 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 economic moat.

Agricultural commodities, especially fertilizer, are not very economically sensitive because people need to eat through recessions and expansions. However, the agricultural and fertilizer industries do have their 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. Nutrien enormously benefits from higher potash rates, nitrogen, and phosphate and is hurt by lower prices. Nutrien's balance sheet is moderate, with a debt/equity (D/E) ratio of 0.6, which is better than the D/E ratio of 1.0 in 2019. The company currently has an S&P credit rating of BBB, which is an investment-grade rating.

Final Thoughts & Recommendation

With an expected (0.3)% annual return over the next five years, we consider Nutrien to be a Sell. However, Nutrien has a high-performance variance based on crop nutrition commodity prices and could deliver significantly higher or lower returns 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 different cycles 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	4016
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.