Nutrien Ltd. (NTR)

Updated April 6th, 2021 by Felix Martinez

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	2.2%	**Market Cap:**	$30.98 B
Fair Value Price:	$41	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	06/30/21[1]
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-6.0%	**Dividend Payment Date:**	07/15/21[2]
Dividend Yield:	3.3%	**5 Year Price Target**	$52	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	2.2%

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 the global market on potash, 3% nitrogen, and 3% phosphate. Nutrien has a market capitalization of approximately $30.98 billion, more than 20,000 workers, and produced roughly $21 billion in revenue in 2020.

On February 17, 2021, Nutrien reported the fourth quarter and the Fiscal Year (FY)2020 results. Total sales increased 17% Year over Year (YoY) to $4,052 million for 4Q20. For the entire year, sales increased 4% to $20,908 million compared to $20,084 million for the entire year of 2019. The increase came mostly from the Crop nutrients segment, which saw sales increased by 22% for the quarter and a 4% increase for the year. The Seed segment also saw significant growth for the quarter, which saw sales increase by 54%, but only 5% for the year. Net income came in at a gain of $459 million for the year, which is much lower than the $992 million earned in 2019.

The Company closed the sale of its stake in Misr Fertilizers Production Company during last quarter. The total net proceeds received from the transaction was $540 million. The management team expects to redeploy the cash to generate higher returns for shareholders.

On the earning release, Management approved a 2.2% dividend raise from $0.45 per share per quarter to now $0.46 per share per quarter. This represents the third straight year of dividend raises.

Management provided their full-year earnings guidance for 2021. They expect the Company to make $2.05-$2.75 per share for the year. Thus, we will use the midpoint of $2.40 per share for our calculation.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	---	---	---	---	---	---	---	$2.34	$1.95	$1.60	***$2.40***	***$3.06***
DPS	---	---	---	---	---	---	---	$1.63	$1.76	$1.80	***$1.84***	***$2.03***
Shares[3]	---	---	---	---	---	---	---	609.0	573.0	569.0	***550.0***	***520.0***

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 mainly 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 0.7% of its market capitalization in 2020. We expect a 5% growth per year over the next five years from a rebound in cyclical fertilizer pricing and consistent share repurchases.

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[1] Estimate

[2] Estimate

[3] Share count is in millions.

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Dividend growth is expected to be 2% 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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	---	---	22.1	26.1	38.3	***23.2***	***17.0***
Avg. Yld.	---	---	---	---	---	---	---	4.0%	2.6%	4.0%	***3.3%***	***3.9%***

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 23.2.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	---	---	---	69.7%	90.3%	112%	***77%***	***66%***

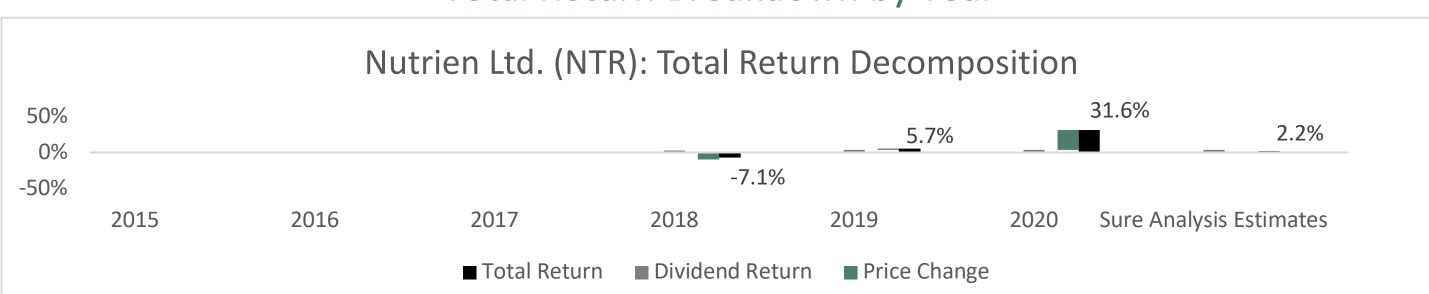
Nutrien has an economic moat from its potash and nitrogen production operations resulting in relatively high returns on invested capital in most years compared to the broader materials sector. The Company has geographically significant production assets in Canada that sit on the bottom half of the global 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 $314/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 0.5, 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 2.2% annualized 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.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8715	7927	7305	7115	6279	4456	4547	19636	20084	20908
Gross Profit	4286	3410	2790	2647	2269	830	694	5392	5502	5239
Gross Margin	49.2%	43.0%	38.2%	37.2%	36.1%	18.6%	15.3%	27.5%	27.4%	25.1%
SG&A Exp.	211	219	231	245	239	212	214	2876	3013	3311
D&A Exp.	489	578	666	701	685	695	692	1592	1799	1989
Operating Profit	3906	2962	2301	2127	1681	477	317	2215	2143	1691
Operating Margin	44.8%	37.4%	31.5%	29.9%	26.8%	10.7%	7.0%	11.3%	10.7%	8.1%
Net Profit	3081	2079	1785	1536	1270	323	327	3573	992	459
Net Margin	35.4%	26.2%	24.4%	21.6%	20.2%	7.2%	7.2%	18.2%	4.9%	2.2%
Free Cash Flow	1234	1021	1588	1454	1054	365	574	545	1774	1774
Income Tax	1066	826	687	628	446	44	-183	-93	316	-77

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	16257	18206	17958	17724	17469	17255	16998	45502	46799	47192
Cash & Equivalents	430	562	628	215	91	32	116	2314	671	1454
Accounts Receivable	892	716	500	708	468	427	390	2746	3047	3019
Inventories	731	762	728	646	749	768	788	4917	4975	4930
Goodwill & Int. Ass.	115	126	137	142	192	180	166	13641	14414	14586
Total Liabilities	8410	8294	8330	8932	9087	9056	8695	21077	23930	24827
Accounts Payable	578	623	450	457	426	340	255	3053	4016	4415
Long-Term Debt	4537	4081	3937	4246	4227	4591	4441	9203	10031	10220
Shareholder's Equity	7847	9912	9628	8792	8382	8199	8303	24425	22869	22365
D/E Ratio	0.58	0.41	0.41	0.48	0.50	0.56	0.53	0.38	0.44	0.46

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	19.4%	12.1%	9.9%	8.6%	7.2%	1.9%	1.9%	11.4%	2.1%	1.0%
Return on Equity	42.4%	23.4%	18.3%	16.7%	14.8%	3.9%	4.0%	21.8%	4.2%	2.0%
ROIC	25.0%	15.8%	13.0%	11.5%	9.9%	2.5%	2.6%	15.4%	3.0%	1.4%
Shares Out.	---	---	---	---	---	---	---	609.0	573.0	569.0
Revenue/Share	24.85	22.63	20.90	21.06	18.75	13.27	13.53	31.42	34.44	36.70
FCF/Share	3.52	2.91	4.54	4.30	3.15	1.09	1.71	0.87	3.04	3.11

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