Nutrien Ltd. (NTR)

Updated September 6th, 2021 by Felix Martinez

Key Metrics

Current Price:	$61	**5 Year CAGR Estimate:**	10.5%	**Market Cap:**	$34.9 B
Fair Value Price:	$82	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	09/29/21
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.2%	**Dividend Payment Date:**	10/15/21
Dividend Yield:	3.0%	**5 Year Price Target**	$91	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**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 closed transaction 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 $34.9 billion, more than 20,000 workers, and produced roughly $21 billion in revenue in 2020.

On August 9, 2021, Nutrien reported its second-quarter results for Fiscal Year (FY)2021. Total sales increased 16% Year over Year (YoY) to $9,763 million for 2Q20. The increase came mainly from the Crop nutrients segment, which saw sales increased by 20% for the quarter. The Seed segment also saw significant growth for the quarter, which saw sales increase by 7%. For the first six months of the year, total sales are up 14% compared to the first six months of last year. Crop nutrients and Nutrien Financial were leading the way, with highest year-over-year sales growth for the six months of the fiscal year. Net income came in at $1,113 million for the quarter, compared to a net gain of $765 million in 2Q20. This is an increase of 45% year over year. Also, for the first half of the year, the net gain is 71% compared to the first half of last year. Nutrien generated record adjusted EBITDA of $3.0 billion and free cash flow of $1.9 billion in the first half of 2021. This represents an increase of 36 percent and 40 percent, respectively, compared to the first half of 2020 and 17 percent and 12 percent, higher than the previous record for the Company in the first half of 2019.

Management provided their full-year earnings guidance for 2021. They expect the Company to make $4.60-$5.10 per share for the year. Thus, we will use the midpoint of $4.85 per share for our calculation. This is 67% higher than our last estimate of $2.90 per share for FY2021.

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	***$4.85***	***$5.35***
DPS	---	---	---	---	---	---	---	$1.63	$1.76	$1.80	***$1.84***	***$2.03***
Shares[1]	---	---	---	---	---	---	---	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 2% 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 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.

[1] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	---	---	---	---	---	---	---	22.1	26.1	38.3	***12.6***	***17.0***
Avg. Yld.	---	---	---	---	---	---	---	4.0%	2.6%	4.0%	***3.0%***	***2.2%***

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 increase to 17 as a baseline potentially. Thus, the Company has a low valuation at the current price with a current PE of 12.6.

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%	***38%***	***38%***

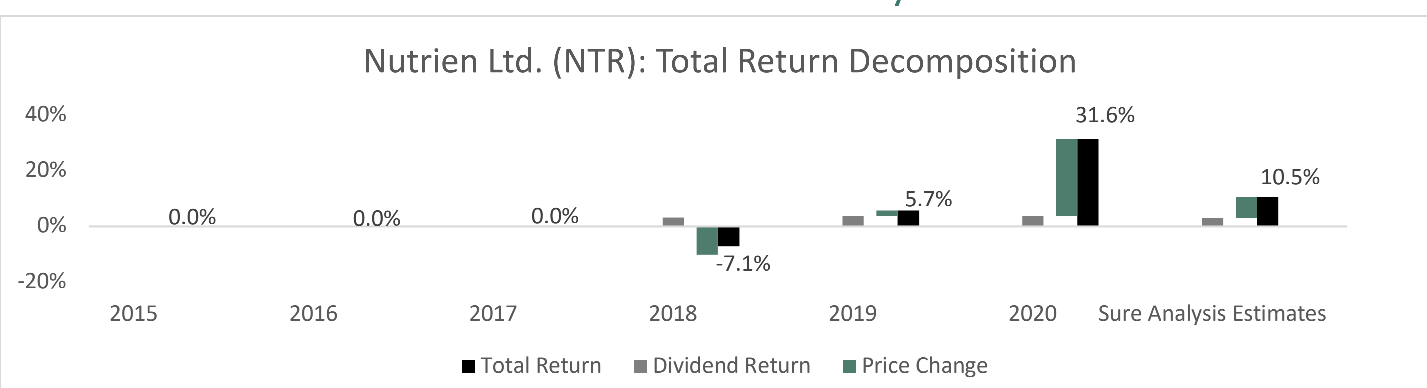
Nutrien has an economic moat from its potash and nitrogen production operations resulting in relatively high returns on invested capital in most years compared to the broader materials sector. The Company has geographically significant production assets in Canada that sit on the bottom half of the global 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 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 have 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, 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 10.5% annualized return over the next five years, we consider Nutrien a Buy. 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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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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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.