CF Industries Holdings (CF)

Updated November 19th, 2022, by Josh Arnold

Key Metrics

Current Price:	$101	**5 Year CAGR Estimate:**	-5.5%	**Market Cap:**	$20 B
Fair Value Price:	$79	**5 Year Growth Estimate:**	-3.0%	**Ex-Dividend Date:**	02/13/23[1]
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	02/28/23
Dividend Yield:	1.6%	**5 Year Price Target**	$68	**Years Of Dividend Growth:**	1
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

CF Industries manufactures and distributes nitrogen fertilizer products worldwide. Its primary products include ammonium nitrate, urea ammonium nitrate solution, granular urea, and anhydrous ammonia. It also offers non-fertilizer products like diesel exhaust fluid, nitric acid, and urea liquor. CF Industries distributes its products through cooperatives, traders, wholesalers, farmers, and industrial customers. The company was founded in 1946 as a cooperative but eventually went public in 2005. CF Industries now generates over $11 billion in annual revenue and trades with a market capitalization of $20 billion.

CF reported third quarter earnings on November 2nd, 2022, and results were weaker than expected on both the top and bottom lines. Earnings-per-share came to $2.18, which missed estimates by $1.32. In addition, while revenue soared 71% higher to $2.32 billion, but missed estimates by $70 million.

Average selling prices were higher across all segments once again due to decrease global supply availability. Higher global energy costs reduced global operating rates and geopolitical factors disrupted global fertilizer supply. Sales volumes were higher than 2021 due to higher starting inventories.

Natural gas was $8.35 per MMBtu, which was double the $4.21 from the year-ago period as global energy costs continue to soar.

Net earnings were $438 million, up from a $185 million net loss in the same period of 2021. EBITDA was $826 million, which was up enormously from -$10 million a year ago.

The board authorized a $3 billion share repurchase program, good for about 15% of the float.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.58	$4.72	$3.75	$2.96	-$1.19	-$0.57	$1.24	$2.23	$1.62	$6.40	***$18.20***	***$8.00***
BV/S	$18.75	$18.18	$17.42	$17.31	$14.36	$15.34	$12.83	$13.22	$13.66	$14.98	***$22.50***	***$19.32***
DPS	$0.32	$0.44	$1.00	$1.20	$1.20	$1.20	$1.20	$1.20	$1.20	$1.20	***$1.60***	***$1.77***
Shares[2]	315	279	242	233	233	233	231	219	214	214	***199***	***190***

CF Industries' book value per share grew steadily from 2008 through 2012. However, since peaking in 2012, it has fallen markedly. Book value is still well below where it ended 2011, and we see growth for CF as being challenging. We use book value to value the stock rather than earnings, given the latter's extreme volatility.

We forecast -3% book value growth annually for the next five years as the industry struggles with choppy demand and extremely volatile pricing, and as the current base for CF is inflated from disruptions related to the pandemic. We think the long-term outlook for CF's products is strong, but results will oscillate instead of rising consistently. Farmers around the world continue to demand the best from fertilizer as it means higher yields, which will push the industry forward. CF Industries is poised to meet that demand as it continues to ramp up its own capacity. Management sees demand from

[1] Estimated date
[2] Share count in millions

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.

India and Brazil as driving higher pricing over the long-term, but in any particular period, demand and pricing could be quite weak. We see forecast earnings for 2022 as a long-term top.

CF Industries' earnings have improved markedly. We are forecasting a dividend of $1.77 per share in five years' time, which is up slightly from the current payout. CF finally raised its dividend for the first time since 2015 in early-2022.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/B	3.0	2.5	2.9	2.6	3.8	3.3	3.4	3.4	2.4	3.5	***4.5***	***3.5***
Avg. Yld.	0.8%	1.1%	2.0%	2.1%	4.2%	53.7%	2.7%	2.6%	3.7%	2.3%	***1.6%***	***2.6%***

CF Industries' price-to-book ratio has moved up in recent years after spending most of the past decade under 3. At 4.5 times book value today, we see CF as quite overvalued against our fair value estimate of 3.5 times book value. We forecast a meaningful headwind to total returns from the valuation as a result, particularly as evidence of peaking earnings becomes clearer later in the year.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	6%	9%	27%	40%	---	---	97%	54%	74%	19%	***9%***	***22%***

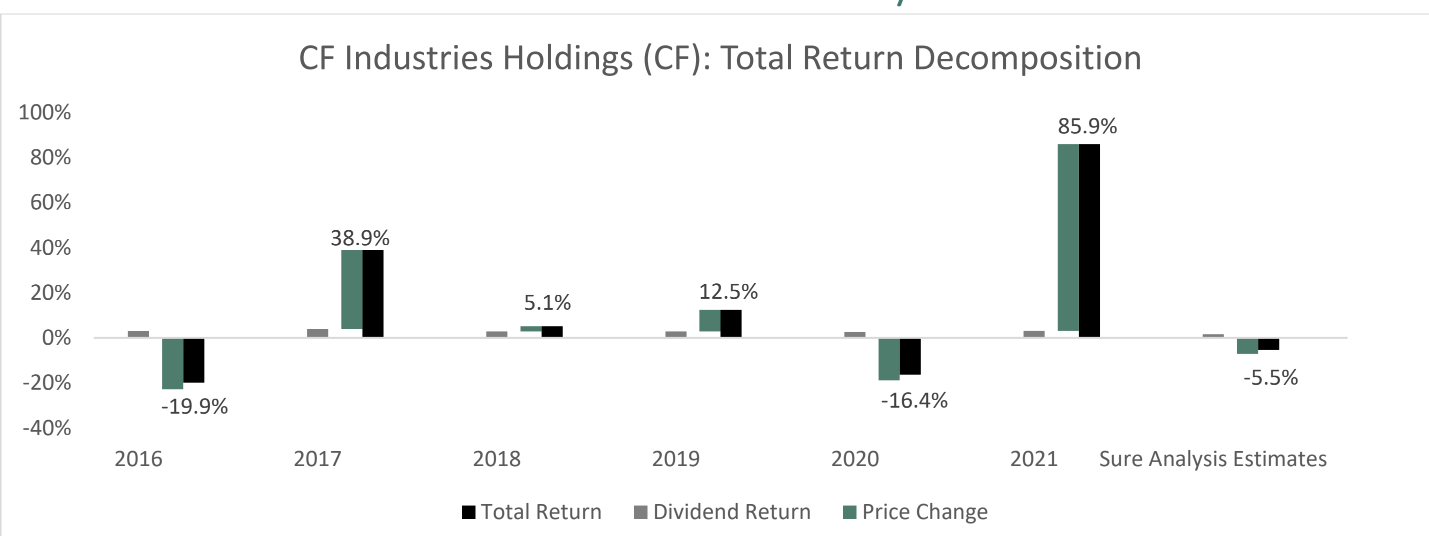
We forecast CF's payout ratio as settling in around 22% of earnings over the intermediate term. The somewhat uncertain earnings outlook and focus on other forms of capital allocation will keep a lid on potential dividend increases.

CF Industries will suffer during the next recession as it is highly dependent upon commodity pricing. This was evident in 2009 when earnings-per-share fell from $2.43 to $1.48. Its competitive advantage is in its immense size in an industry that has experienced a significant amount of consolidation, but this doesn't save CF from macro headwinds.

Final Thoughts & Recommendation

CF Industries' growth outlook has improved in recent quarters, but the massive rally in the stock has the valuation well ahead of our estimate of fair value, driving a 4.9% headwind. In addition, we think the path to higher earnings and book value is going to be tough (-3% going forward), and with prospective returns now estimated at -5.5% annually, the stock earns a sell rating. Its yield is also unappealing at 1.6%.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,104	5,475	4,743	4,308	3,685	4,130	4,429	4,590	4,124	6,538
Gross Profit	3,113	2,520	1,778	1,547	843	434	917	1,174	801	2,387
Gross Margin	51.0%	46.0%	37.5%	35.9%	22.9%	10.5%	20.7%	25.6%	19.4%	36.5%
SG&A Exp.	152	166	152	170	173	191	214	239	206	223
D&A Exp.	420	411	393	480	678	883	888	875	892	888
Operating Profit	2,940	2,343	1,596	1,320	588	234	722	934	598	2,203
Operating Margin	48.2%	42.8%	33.6%	30.6%	16.0%	5.7%	16.3%	20.3%	14.5%	33.7%
Net Profit	1,849	1,465	1,390	700	(277)	358	290	493	317	917
Net Margin	30.3%	26.8%	29.3%	16.2%	-7.5%	8.7%	6.5%	10.7%	7.7%	14.0%
Free Cash Flow	1,852	643	(388)	-1,262	-1,594	1,158	1,075	1,101	922	2,349
Income Tax	964	687	773	396	(68)	(575)	119	126	31	283

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	10,167	10,678	11,254	12,683	15,131	13,463	12,661	12,172	12,023	12,375
Cash & Equivalents	2,275	1,711	1,997	286	1,164	835	682	287	683	1,628
Accounts Receivable	213	225	186	210	227	297	226	229	256	497
Inventories	278	274	203	321	339	275	309	351	287	408
Goodwill & Int. Ass.	2,114	2,142	2,135	2,546	2,473	2,500	2,468	2,475	2,478	2,091
Total Liabilities	3,885	5,240	6,682	8,296	8,639	6,779	6,930	6,535	6,420	6,339
Accounts Payable	117	169	66	97	81	99	101	78	85	565
Long-Term Debt	1,605	3,098	4,593	5,537	5,778	4,692	4,698	3,957	3,961	3,465
Shareholder's Equity	5,902	5,076	4,210	4,035	3,348	3,579	2,958	2,897	2,922	3,206
LTD/E Ratio	0.27	0.61	1.09	1.37	1.73	1.31	1.59	1.37	1.36	1.08

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	19.3%	14.1%	12.7%	5.8%	-2.0%	2.5%	2.2%	4.0%	2.6%	7.5%
Return on Equity	35.4%	26.7%	29.9%	17.0%	-7.5%	10.3%	8.9%	16.8%	10.9%	29.9%
ROIC	25.6%	17.8%	15.7%	7.3%	-2.5%	3.0%	2.7%	4.9%	3.3%	9.6%
Shares Out.	315	279	242	233	233	233	231	219	214	214
Revenue/Share	18.87	18.50	18.48	18.25	15.81	17.66	18.94	20.71	19.16	30.24
FCF/Share	5.73	2.17	(1.51)	(5.35)	(6.84)	4.95	4.60	4.97	4.28	10.86

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

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