



CF Industries Holdings (CF)

Updated March 5th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$81	5 Year CAGR Estimate:	9.9%	Market Cap:	\$16 B
Fair Value Price:	\$112	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	05/14/24 ¹
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.0%	Dividend Payment Date:	05/31/24
Dividend Yield:	2.5%	5 Year Price Target	\$118	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

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 about \$6 billion in annual revenue and trades with a market capitalization of \$16 billion.

CF posted fourth quarter and full-year earnings on February 14th, 2024, and results were somewhat mixed. Fourth quarter earnings came to \$1.44, which missed estimates for \$1.60. Revenue was off a staggering 40% year-over-year to \$1.57 billion, but was still \$70 million ahead of expectations.

Average selling prices were lower than in the year-ago period as lower global energy costs reduced the global market clearing price required to meet global demand. Sales volume in the fourth quarter was actually higher than last year, but the decline in pricing was too big to overcome.

The average cost of natural gas was \$3.01 per MMBtu, which was less than half what it was last year in Q4 when it averaged \$6.88. Net earnings came to \$274 million, while EBITDA was \$592 million on an adjusted basis. These compare quite unfavorably to \$680 million and \$1.25 billion, respectively.

CF repurchased 2.9 million shares for an aggregate cost of \$225 million during Q4. We start 2024 with an estimate of \$32 in book value per share, and \$6.35 in earnings-per-share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.75	\$2.96	-\$1.19	-\$0.57	\$1.24	\$2.23	\$1.62	\$6.40	\$17.60	\$8.07	\$6.35	\$6.67
BV/S	\$17.42	\$17.31	\$14.36	\$15.34	\$12.83	\$13.22	\$13.66	\$14.98	\$25.69	\$30.38	\$32.00	\$33.63
DPS	\$1.00	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.50	\$1.60	\$2.00	\$2.21
Shares²	242	233	233	233	231	219	214	214	197	188	180	170

CF Industries' book value per share grew steadily from 2008 through 2012. However, since peaking in 2012, it has fallen markedly. Book value soared in 2022 with bumper earnings, but 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 1% book value expansion annually for the next five years as the industry struggles with choppy demand and extremely volatile pricing, as earnings have come back down to more normalized levels. 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 India and Brazil as

¹ Estimated date

² Share count in millions

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

CF Industries' earnings have improved markedly. We are forecasting a dividend of \$2.21 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/B	2.9	2.6	3.8	3.3	3.4	3.4	2.4	3.5	3.3	2.6	2.5	3.5
Avg. Yld.	2.0%	2.1%	4.2%	53.7%	2.7%	2.6%	3.7%	2.3%	1.8%	2.0%	2.5%	1.9%

CF Industries' price-to-book ratio has moved up in recent years after spending most of the past decade under 3. At 2.5 times book value today, we see CF as undervalued against our fair value estimate of 3.5 times book value. We forecast a tailwind to total returns from the valuation as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27%	40%	---	---	97%	54%	74%	19%	9%	20%	31%	33%

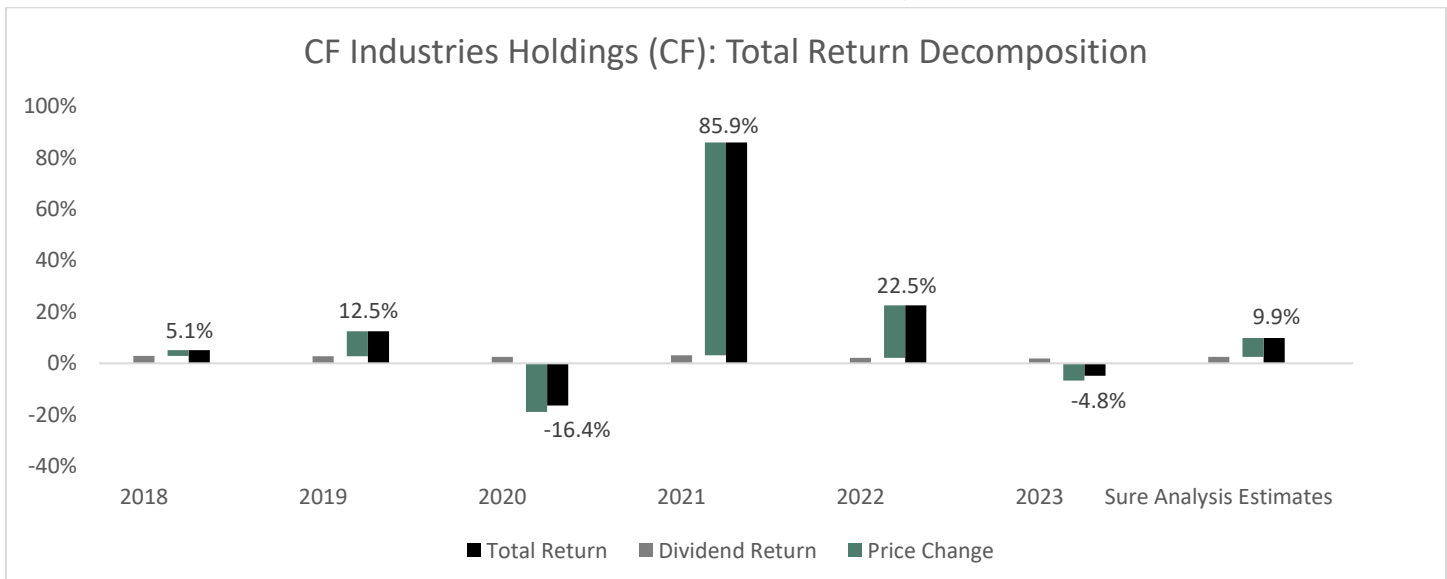
We forecast CF's payout ratio as settling in around 30% of earnings over the intermediate term. The somewhat uncertain earnings outlook and focus on other forms of capital allocation will keep a lid on potential dividend increases.

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 deteriorated in recent quarters, and we see the stock as undervalued today, driving a potential 7% tailwind to total returns. In addition, we think the path to higher earnings and book value is going to be tough and is deteriorating, and with prospective returns now estimated at 9.9% annually, the stock earns a hold rating. The yield of 2.5% is about 100 basis points higher than the S&P 500.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,743	4,308	3,685	4,130	4,429	4,590	4,124	6,538	11,186	6,631
Gross Profit	1,778	1,547	843	434	917	1,174	801	2,387	5,861	2,545
Gross Margin	37.5%	35.9%	22.9%	10.5%	20.7%	25.6%	19.4%	36.5%	52.4%	38.4%
SG&A Exp.	152	170	173	191	214	239	206	223	290	289
D&A Exp.	393	480	678	883	888	875	892	888	850	869
Operating Profit	1,596	1,320	588	234	722	934	598	2,203	5,561	2,252
Operating Margin	33.6%	30.6%	16.0%	5.7%	16.3%	20.3%	14.5%	33.7%	49.7%	34.0%
Net Profit	1,390	700	(277)	358	290	493	317	917	3,346	1,525
Net Margin	29.3%	16.2%	-7.5%	8.7%	6.5%	10.7%	7.7%	14.0%	29.9%	23.0%
Free Cash Flow	(388)	-1,262	-1,594	1,158	1,075	1,101	922	2,349	3,393	2,256
Income Tax	773	396	(68)	(575)	119	126	31	283	1,158	410

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11,254	12,683	15,131	13,463	12,661	12,172	12,023	12,375	13,313	14,376
Cash & Equivalents	1,997	286	1,164	835	682	287	683	1,628	2,323	2,032
Accounts Receivable	186	210	227	297	226	229	256	497	582	459
Inventories	203	321	339	275	309	351	287	408	474	299
Goodwill & Int. Ass.	2,135	2,546	2,473	2,500	2,468	2,475	2,478	2,091	2,089	3,033
Total Liabilities	6,682	8,296	8,639	6,779	6,930	6,535	6,420	6,339	5,460	6,003
Accounts Payable	66	97	81	99	101	78	85	565	575	114
Long-Term Debt	4,593	5,537	5,778	4,692	4,698	3,957	3,961	3,465	2,965	2,968
Shareholder's Equity	4,210	4,035	3,348	3,579	2,958	2,897	2,922	3,206	5,051	5,717
LTD/E Ratio	1.09	1.37	1.73	1.31	1.59	1.37	1.36	1.08	0.59	0.52

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	12.7%	5.8%	-2.0%	2.5%	2.2%	4.0%	2.6%	7.5%	26.1%	11.0%
Return on Equity	29.9%	17.0%	-7.5%	10.3%	8.9%	16.8%	10.9%	29.9%	81.0%	18.8%
ROIC	15.7%	7.3%	-2.5%	3.0%	2.7%	4.9%	3.3%	9.6%	32.9%	13.8%
Shares Out.	242	233	233	233	231	219	214	214	204	194
Revenue/Share	18.48	18.25	15.81	17.66	18.94	20.71	19.16	30.24	54.78	34.22
FCF/Share	(1.51)	(5.35)	(6.84)	4.95	4.60	4.97	4.28	10.86	16.62	11.64

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

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