



## Good Times on the Farm Means Good Times for These Three Companies

### Description

High crop prices as a result of last year's U.S. drought and good harvest yields in Canada have combined to pad the bank account of the Canadian farmer. The first chart below shows that nominal farmer net cash income (money available for debt repayment, investment or personal withdrawal) reached a record high in 2012 at \$13.1 billion (red line).

[farmer income chart](#)

Source: Agriculture and Agri-Food Canada, RBC Capital Markets

Even though Agriculture and Agri-Food Canada (AAFC) expect crop prices to normalize in 2013, the group forecasts continued strong levels of cash income for 2013.

Money in Canadian farmers' pockets is good news for these three companies:

### **Cervus Equipment** (TSX:CVL)

Cervus sells and services (say that 10 times fast) agricultural and industrial equipment, mostly in Western Canada. Agricultural related revenues make up approximately 70% of the top line, indicating the company is highly exposed to the spending patterns of the Western Canadian farmer.

The company reports on Thursday March 14<sup>th</sup> and expectations are for solid growth from both divisions. The stock is relatively flat year to date and up 10% over the past year. A dividend yield just under 4% is an attractive feature, as is the fact that the Chairman and CEO own 26% and 4% of the company respectively. As long as crop prices remain firm, business should be good for Cervus.

### **Vicwest** (TSX:VIC)

Vicwest has two operating divisions. Westeel, a familiar name to those of us with a rural background, designs and manufactures crop handling and storage systems for agriculture. Westeel accounts for approximately 50% of overall revenues. 25% of Westeel's business pertains to grain storage. Revenues are predominantly based in Canada, but international expansion has begun.

The rest of Vicwest is largely made up of a building products division. This division produces exterior, structure related products for industrial and commercial construction.

The success of the Canadian farmer drives one side of the business while the other division faces more broad-based economic sensitivity. The mix seems to work as the company is a consistent generator of free cash, however, the balance sheet is a touch heavy with debt and margin/profitability ratios have declined from where they were 5 years ago. Even though the stock yields 4.5%, to gain a level of comfort with Vicwest, these red flags related to the financial statements require some poking and prodding.

### **Ag Growth International ([TSX:AFN](#))**

Unlike the other two names, Ag Growth is 100% agriculture. The company dominates the North American portable grain handling (augers) market with a 40% share. Commercial crop handling, storage and conditioning solutions are part of the product line-up as well. Business in the U.S. made up 54% of the company's 2012 sales, with Canada and International making up 25% and 21% respectively.

Similar to its peers, Ag Growth pays a nice yield of 6.9% and its history of generating free cash indicates the dividend is affordable. The company carries some debt but is not as leveraged as Vicwest, and profitability/margin ratios don't demonstrate a definitive trend. The company has grown considerably from its launch in 2003 and international expansion is expected to continue this trend. If they are able to maintain the dividend, Ag Growth, ironically, doesn't require much growth to make this an appealing investment.

### **The Foolish Bottom Line**

Three companies that provide a way to play a theme – wealthy farmers. Steady dividends and successful growth initiatives provide all three with a reasonable chance of generating market beating returns for Canadian investors over the long-term.

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*Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.*

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:AFN (Ag Growth International)

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