



Which of These 4 Hot Fertilizer Stocks Is a Buy?

Description

After **Mosaic's** and **Potash's** (TSX:POT) impressive quarterly numbers, investors' expectations for **CF Industries** and **Agrium** (TSX:AGU) surged. While CF's stock gained 4% in the week prior to its earnings announcement, Agrium's stock tacked on 6%. Unfortunately, these expectations quickly deflated. The result: All four stocks have stopped short in their tracks, leaving investors to sulk. The \$64,000 question is: What should investors make of the situation and what should they do now?

Same time, different situation

Both Agrium and CF Industries reported a double-digit slump in year-on-year revenue growth in their respective last quarters. In sharp contrast, Potash reported a solid 20% jump. Mosaic had a softer 2% growth in sales, but its earnings grew at 26% clip year-on-year. What did Potash and Mosaic do right that the others didn't? Nothing. It was all a matter of how different things were during last year's first quarter.

Potash and Mosaic rely on potash and phosphate nutrients for revenue, both of which are key export products. The two companies are leading members of the legal cartels Canpotex and PhosChem, which control the export of potash and phosphate, respectively. So their sales, to a great deal, depend on international markets. With China and India putting fresh contracts on ice last year because of pricing issues, these companies had a tough time moving inventory and generating sales.

This year, they had a couple of contracts to work on. North American potash producers recorded a staggering 74% jump in year-on-year in offshore shipments during the first quarter. Naturally, this helped Potash and Mosaic.

Agrium and CF depend more on the North American market for sales. Exceptionally warm weather last year resulted in a surge in demand for nutrients as farmers in the U.S. rushed to plant earlier than usual. CF's Q1 2012 revenue surged 30% while Agrium reported a sparkling 35% rise in revenue for the same period. It was a record for both companies. With the weather in the U.S. back to normal this year, the first quarter turned out to be weak for both companies.

So investors shouldn't read much into the recent misses and beats. Instead, they should focus on

what's in store. Fortunately, there's good news ahead.

Why you should buy

Expectations about this year's spring planting are shooting to the moon, with both CF and Agrium pitching for record planting of corn and soybeans. CF's order book at the end of the first quarter was heavier by \$700 million compared to the year-ago period, indicating solid demand for nutrients. These companies should be doing brisk business right now, especially because both derive a major chunk of revenue from the most widely applied nutrient — nitrogen. CF even operated its ammonia plant at 100% capacity this past quarter in anticipation of robust demand.

Meanwhile, prices of nitrogen are expected to firm up. Rising revenue should also help the companies offset higher costs of a key input — natural gas — in the event that gas prices continue to rise.

Which is it, CF or Agrium?

Agrium can make a lot out of a good planting season as it also sells seeds and crop protection products. Yet, the company's outlook doesn't seem to reflect any of the optimism. Agrium has provided an unusually wide range of \$4.60-\$5.40 earnings per share for the second quarter, which is uninspiring given that it earned \$5.40 per share in Q2 2012. The tepid outlook is one reason why the stock lost ground after the company's earnings announcement. But I think the pessimism is already baked into the stock price, and investors should consider initiating long positions at the current level.

CF doesn't provide quarterly guidance but has left investors hopeful with the words "very positive for the second quarter". CF is banking on urea ammonium nitrate, or UAN, which makes up most of its sales volumes. UAN prices have also been on an upward trajectory in recent months. CF's stock is just about 20% away from its 52-week low and is trading at a remarkably low P/E of six times.

Or is it the other two?

Canpotex's contract commitments to China and India will continue into the second quarter, so investors can again expect high offshore shipment numbers from Potash and Mosaic. To investors' delight, Potash expects to earn anything between \$0.70 and \$0.85 per share next quarter, which, if achieved, will be an impressive improvement over the \$0.60 per share it earned during the same period last year. With a P/E of 17, Potash might not be a bargain basement stock, but a handsome dividend yield of 3.4% makes up for it.

Though Mosaic didn't provide EPS guidance for its next quarter, investors remain optimistic. For the nine months ending February 28, Mosaic earned \$3.29 per share, which is greater than the \$3.24 it earned in the comparable period last year. With the ongoing quarter expected to be a strong one, Mosaic looks poised to end its financial year on a high note. Though the stock is nearing its 52-week high, there appears enough room for upside given its P/E multiple of just 13.

And the award goes to...

While all four stocks look good, I'll pitch for CF Industries and Agrium at this point. Having lost significant value in recent months and trading below 10 times P/E each, they look promising.

Potash and Agrium are two of Canada's finest businesses. The Motley Fool's [Special Free Report "3 U.S. Companies That Every Canadian Should Own"](#) profiles 3 of the best that our neighbour to the south has to offer. To download this report at no charge, simply [click here](#).

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An original version of this post, authored by Neha Chamaria, appeared on Fool.com

Fool contributor Neha Chamira has no position in any stocks mentioned at this time. The Motley Fool owns shares in CF Industries Holdings.

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