



## Why This Fertilizer Maker's Dour Outlook Should Make You Happy

### Description

*By Neha Chamaria*

How do you take an investor's attention away from a disappointing development? Top it up with some good news, of course! That's exactly what **Agrium** (TSX:AGU, NYSE:AGU) tried to do recently. In an [announcement](#) made a couple of days back, the fertilizer and seed retailer cleverly tried to hide a morbid outlook for the upcoming quarter behind a rather sizeable dividend increase. However, the market clearly wasn't impressed. The stock has lost more than 3% since then, as of this writing.

I think the market is making a mistake, and investors may actually consider buying into Agrium's disappointing guidance. And it's not just the dividend that's exciting.

### What to expect

Agrium operates two business divisions — retail and wholesale. Through retail, it sells crop nutrients, crop protection products, and seeds. Its wholesale business revolves around the three important fertilizers – nitrogen, potash, and phosphate. If you follow the fertilizer industry closely, you'll know that Agrium's wholesale business was to blame for its soft third-quarter outlook.

Operating earnings from Agrium's wholesale division are expected to slip 64% year over year in the third quarter. The issues are twofold. First, the company faces dwindling demand from key offshore markets and a sudden spurt in cheaper products from China. These issues have sent prices of phosphate and nitrogen fertilizers tumbling in recent months. In addition, the recent [breakup of](#) one of the two biggest potash cartels in the world has put tremendous pressure on potash prices. That explains Agrium's muted outlook.

### Better, but not best

Nonetheless, Agrium projects its retail business to generate higher operating earnings year over year. That's good news, but not entirely. Agrium's wholesale business generated nearly 4.5 times the operating earnings of its retail division in Q3 2012. That means even a substantial improvement in retail earnings may not be enough to offset the expected sharp drop in wholesale earnings, and that's certainly going to hurt Agrium's bottom line. In short, brace up for a sad third-quarter earnings report.

But that doesn't mean you should kick the stock off your radar. In fact, consider the drop in Agrium stock price as an opportunity, because business is likely to pick up soon.

### Why you shouldn't worry

Agrium expects significant demand for crop input as the fall season approaches. In its latest market analysis report, **PotashCorp** (TSX:POT, NYSE:POT) has even projected "historically strong sales" for potash in the second half of the year, and forecasts strong demand for phosphate ahead of the fall application. As for nitrogen, **Citigroup** sees prices near bottoming.

And even though its retail business doesn't carry as much clout on the bottom line, the division continues to see strong demand. Furthermore, Agrium is rapidly spreading its wings, having just received regulatory approval to acquire 210 stores in Canada from grain and seed handler Viterra. For perspective of how big a deal that is, Viterra has 35% market share in Canada with its count of 257 stores.

### The extra treat

Of course, Agrium's dividend bounty is a huge attraction. The company announced a 50% increase in its quarterly dividend per share, which translates into an annualized yield of 3.5% at its current share price. That may not be as juicy as PotashCorp's dividend yield of 4.3%, but is still [among the best](#) in the industry. In fact, Agrium's dividend has increased 28-fold since 2010!

### Foolish takeaway

A dour outlook may have taken some sheen off Agrium's stock, but prudent investors shouldn't fear. Agrium is among the most diversified companies in the agricultural sector, and the stock is trading pretty cheaply at a P/E of less than 10. Even despite recent news, income and growth investors alike shouldn't overlook Agrium.

### What are you doing October 1?

Our senior investment analyst will unveil his [top two stock ideas](#) for new money now on Oct. 1. And YOU can be one of the select few investors to find out first — just [click here](#) to reserve your invitation.

*Disclosure: Fool contributor Neha Chamaria does not own shares in any of the companies mentioned at this time. The Motley Fool owns shares of Citigroup.*

### CATEGORY

1. Investing

### Category

1. Investing

**Date**

2025/09/08

**Date Created**

2013/09/27

**Author**

motley-fool-staff

default watermark

default watermark