



Agrium's Plans for Expansion

Description

By Christine Conway

According to **Agrium** (TSX: AGU, NYSE: AGU) president and CEO Mike Wilson, the world will need 70% more crops by 2050. If that date seems too far to fathom, by 2030 that translates to an approximate 1.4 billion additional tonnes of crops.

As a wholesale provider of nitrogen, phosphate, and potash as well as a retail provider of seeds/nutrients as crop-protecting agents, Agrium is positioning itself to take advantage of the times. But if a major trend tied to population increase isn't enough to get your attention, at a recent Investor Day, the company spoke about a pipeline that it's developed to fuel its expansion.

The question for investors is whether these projects are factored in to the stock price.

Growth plans

The projects include expansions of the Vanscoy and Borger sites, purchases of additional retail locations through what it refers to as tuck-ins, growth of retail sales, and, of course, [the acquisition of Viterra's Canadian retail assets](#), which was just completed in early October. Here are some details about the projects.

- **Vanscoy expansion:** Vanscoy is a potash mine located in Saskatchewan. The expansion is projected to add 750,000 tonnes of potash, and increase production capacity by 40% by 2015.
- **Borger expansion:** Borger is a brownfield that currently produces ammonia. It would be partially repurposed with the build of a urea unit so that it could produce both ammonia and urea. This would give Agrium more flexibility depending on market demand and the cost of both products.
- **Retail tuck-ins:** Tuck-ins are acquisitions of smaller retail locations in areas that Agrium is already located. Year to date, there are 19 new locations.
- **Retail organic growth:** This comprises its retail sales of seeds and proprietary products. Agrium has more than 2,000 salespeople focused on the sales of chemical crop-protecting products, seeds, and fertilizer.

Put it all together ...

Agrium is projecting \$1.3 billion in EBITDA in 2015, up from \$950 million EBITDA in 2012.

The breakdown would have 30% of the increase coming from Viterra, 43% from organic retail growth, 20% from tuck-ins, and the remainder from other projects.

Here is an excerpt taken from the Investor Day presentation from earlier in October, showing how the cost of these projects relates to its anticipated return.

Investment	Capital Spend*	IRR	Completion Date
Viterra	\$300**	20%	2013
Vanscoy Expansion	\$1,750	12%	2014
Borger Expansion	\$650	12%	Q4, 2014
Retail Tuck-Ins	\$560	15%-18%	Ongoing
Retail Organic Growth	\$250	20%	Ongoing

Amounts in millions (USD). *Current and estimated future spend to 2017. **Includes working capital of \$300 million. IRR based on economic models[\[BR1\]](#) . Source: Investor Day presentation.

Final thoughts

According to Agrium, these projects are all within its control. However, what isn't in its control is the price of the commodities around which the business is built. As the price of the core commodities fluctuates, cash flow and timelines may deviate from what's expected.

While the company has secured a \$2.9 billion line of credit, the caution would be that even with the best-laid plans, only time will allow Agrium to show its ability to realize the objectives it's set itself.

The Canadian market is home to many strong Materials related companies like Agrium. However, we've got our fair share of outstanding businesses outside of this typically volatile space as well. [Click here now](#) to learn more about 5 of Canada's best businesses – one of which was recently taken over at a large premium.

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Fool contributor Christine Conway does not own shares of any of the companies mentioned at this time. The Motley Fool has no positions in the stocks mentioned above at this time.

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