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3 Reasons Agrium is Poised to Outperform in 2014

Description

With 2013 drawing to a close, it's time to assess how your stocks performed over the year to help you make informed investment decisions for the year ahead. While investors usually want to avoid an underperformer, a stock ending the year on a negative note may turn around quickly in 2014 if the right catalysts are in place.

Agrium (TSX:AGU, NYSE:AGU) is one such stock, which has lost 13% year to date. That sounds uninspiring, but Agrium investors are better off than those of **PotashCorp** (TSX:POT, NYSE:POT) and **Mosaic**, shares of which have tumbled 25% and 21%, respectively, during the year. Naturally, Agrium investors would want to see their stock outperform peers in 2014 too, but with greater returns. Here are three things that could push Agrium higher next year.

Strong demand for retail products
While Agrium is considered a fertilizer company, not many know that its retail division, comprising of crop protection, nutrients, and seeds, contributed 75% to the company's total sales during the nine months ended September 30, 2013. While the demand and prices of fertilizers are subject to the vagaries of uncontrollable factors such as the weather and crop prices, the demand for seeds and crop protection products is relatively inelastic. That explains why Agrium's sales for the nine-month period remained flat year over year despite a weak fertilizer business.

Whether, and to what extent, the prices of the three key nutrients that Agrium deals in – nitrogen, potash, and phosphate – will rebound next year is anyone's guess. Last week, PotashCorp announced plans to lay-off 18% of its workforce in anticipation of tough business conditions ahead. Aside from cutting production in some of its potash mines, PotashCorp is also shutting down a phosphate plant.

Even if nutrient prices continue to remain soft next year, Agrium's retail business should help maintain its top line growth. And if nutrient prices bounce back, I expect Agrium's revenue to rise at a faster pace compared to peers.

Successful synergies from the Viterra acquisition

Agrium made a huge headway into the Canadian market this year by acquiring the grain and seed-handling company, **Viterra**. Having added 210 farm stores to its portfolio, Agrium is Canada's biggest agriculture retailer now. The timing is perfect, because Statistics Canada is pegging 2013-2014 to be the biggest-ever crop year in Canada. That's a massive opportunity for Agrium to move all that produced crop around.

The real benefits from the Viterra acquisition should start reflecting in Agrium's performance in 2014. Successful synergy is expected to generate $75 million to $90 million in operating earnings next year, which is a boon, especially if the fertilizer market takes longer to recover.

Greater return to shareholders
Agrium reinvested most of the available cash to grow its business over the past few years. Those investments have paid off, with Agrium's earnings per share climbing to $9.55 in 2012 from just $2.33 in 2009. Agrium is now poised to share the benefits of that growth with shareholders.

From an annual dividend of just $0.11 per share in 2011, Agrium's dividend has grown to $2 per share this year. Agrium's dividend yield has inched up to 3.4%, next only to PotashCorp's dividend yield of 4.5% and better than Mosaic's 2.4% yield. Agrium also has a share repurchase program underway.

Lower capital spending in the wake of uncertainties in the fertilizer market – Agrium withdrew plans to expand two nitrogen facilities this year – frees up greater cash, which is likely to go into the shareholders' pockets. Greater dividends, or even share buybacks, should continue to support Agrium's share prices in 2014 and beyond.

The Foolish bottom line
While a weak fertilizer market can restrict Agrium's growth, a diversified portfolio should help it weather the storm. Agrium stock looks cheap at 10 times earnings. With dividends expected to grow bigger, this is one stock you should have on your radar in 2014.

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