



## 3 Reasons to Buy Agrium

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As an income investor, I'm always searching for megatrends that can support a company's dividends over the next 10 or 20 years — and few trends are as strong as the impact of a growing human population on food demand.

Perhaps no other company is better positioned to exploit this trend than **Agrium** (TSX: AGU)(NYSE: AGU). Over the past decade, the stock has vastly outperformed the broader market, rallying more than 425%.

Yet despite the bull run, there's still room for the company to grow. Here are three reasons to add this stock to your portfolio.

#### 1. This stock has a *hidden* yield of 8.8%

Agrium's business is vital to day-to-day life. The company produces the ingredients for crop fertilizers such as nitrogen, phosphate, and potash, which are needed to feed a hungry planet. Needless to say, without these commodities our lives would be drastically different.

Because of its irreplaceable business, Agrium generates an enormous amount of cash, which it returns to investors through dividends. In 2011, the company paid out just a modest \$0.11 per share every year. However since then, the dividend has already been increased three times to \$3.00 per share annually — a 2,700% increase overall. Today, the stock has a 3.2% dividend yield.

Now for most investors, receiving big dividend cheques would be enough. However, if you dig through the financial statements, you'll discover that the company is returning much more money to shareholders than the dividend yield would imply.

Agrium has also made it a mission to pay off enormous amounts of debt and buy back huge quantities of its own stock. If you tally together all of these initiatives — dividends, share buybacks, and debt repayments — the stock has a total “shareholder yield” of 8.8%.

However, all of this is nothing compared to what could happen next ...

## **2. Get ready for the coming food crisis**

Over the past century we have witnessed remarkable advances in farming technology. However, Mother Nature has her limitations as topsoil erodes, underground aquifers are depleted, and natural disasters wreak havoc on production. Industrialization in areas like China and India is also reducing the world's arable land.

Compounding these supply challenges is the fact that demand worldwide is predicted to increase dramatically over the next few decades. According to the United Nations, the global human population is expected to grow by almost 3 billion people over the next 30 years. We will need to double the world's food production by 2050 in order to feed the entire planet.

The only way to counter these trends is by using more fertilizer to increase production from existing fields. Companies like Agrium that supply agricultural industries are poised to make a fortune.

## **3. The company has a long growth runway**

In response to the coming food crisis, Agrium has several expansion initiatives that should drive earnings.

The expansion at its Saskatchewan potash mine is well underway. So far, everything is on schedule and on budget. Once production hits its stride in 2015, the \$1.8 billion project will add an extra million tonnes of annual potash production, bringing the company's total production to about three million tonnes per year.

On the retail side, the acquisition of Vitera's 210 retail outlets has provided a big boost to the company's retail presence in western Canada. Management projects that this will immediately add about \$90 million in EBITDA this year. However, there's room to tally an extra \$15 million to \$20 million to this figure through cost-cutting and other initiatives.

The bottom line is this: Agrium's 3.2% dividend yield makes it an attractive choice for income-hungry investors. Thanks to the bullish outlook for global food prices, shareholders can count on a growing stream of earnings and dividends for the foreseeable future. If you can stomach the risk, Agrium is an attractive addition to any income portfolio.

## **CATEGORY**

1. Investing

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