3 Reasons to Buy Agrium Now

Description

Agrium (TSX: AGU)(NYSE: AGU) is a great company for investors looking to benefit from the growing demand for food.

The world's population continues to rise at an alarming rate. At the same time, valuable farmland is routinely being turned into subdivisions and shopping malls.

Agrium produces and retails the three key nutrients farmers use to improve crop yields: nitrogen, potash and phosphate.

Here are three reasons why I think now is a good time to buy Agrium.

1. Diversified business model

Compared to other companies in the agriculture space, namely **PotashCorp** (TSX: POT)(NYSE: POT) and **Mosaic** (NYSE: MOS), Agrium's diversified business model provides investors with a hedge against the volatile tendencies of the wholesale side of the crop nutrients industry.

Agrium is a vertically integrated business and sells its products both wholesale and through its network of retail locations.

The retail division represents about 43% of the company's earnings, providing investors with more stability because it isn't heavily affected by big price changes in the global potash market.

Currently, Agrium is the largest direct-to-grower distributor of seed, crop nutrients and crop protection products in North America. It also has an extensive network in Australia.

Agrium's recent acquisition of Viterra's 200 sales outlets continues to add revenue and synergies to the retail division.

2. Potash and nitrogen production

Agrium is expanding its Vanscoy potash operation by a million tonnes. The increase is expected to come on line at the end of 2014, boosting Agrium’s potash production by more than 40%. The $1.8 billion project will add significantly to earnings moving forward.

Recent potash deals with China and India have put a floor under the market at $300 per tonne. This will calm the nerves of investors who have been sitting on the sidelines looking to take a position in the potash producers, including Agrium. Global potash demand is trending higher and prices should drift upwards through 2015.

Nitrogen represented 34% of Agrium’s gross profit in 2013. Natural gas is the key cost component for nitrogen production and the price spike in Q1 2014 had an impact on margins. Production costs are likely to be lower in the second half of 2014 as natural gas prices decrease. Natural gas closed at $3.95 per mmBtu last week. This is the first time it has been under $4 since early December of last year.

3. Increasing dividends and share buybacks

Agrium has increased its annual dividend from $0.11 per share to $3 per share in just the past three years. The company also plans to buy back up to 5% of its outstanding shares before the end of Q1 2015.

With the major capital expenditures for the Vanscoy expansion nearly completed, Agrium should have ample free cash flow available to boost the dividend.

The bottom line

Agrium’s diversified business structure will allow it to weather rough times in the wholesale markets for its products.

With the new potash production, lower natural gas prices and improving synergies in the retail group, I think Agrium is set to reward investors as it transitions out of a tough wholesale environment.

Potash and nitrogen prices should trend higher in the second half of 2015, and the current 3% dividend is a good incentive to get paid while you wait for better times.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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