2 Reasons to Add Agrium Inc. to Your Portfolio

Description

Among Canada's many corporate success stories, one that often goes unnoticed is that of agriculture supply company **Agrium Inc.** (TSX: AGU)(NYSE: AGU). Since late 2005, when the company announced a transformational strategy, its shares have returned roughly 330%. Not bad!

That being said, the company has struggled as of late. The potash market, which accounted for 14% of profit last year, has remained severely depressed. Rail backlogs have hurt its grain-farming customers. And some harsh winter weather has impacted results recently.

Still, there are plenty of reasons to add Agrium to your portfolio. Below are the two biggest.

1. Strong, steady growth

This is a rare attribute to find in large Canadian businesses. Our stock market is dominated by companies that are very cyclical (energy, mining, financial services, etc.) or are struggling for growth (telecommunications, retail, utilities, etc.). But Agrium makes money off of agriculture, which really combines the best of both worlds.

For one, the business is very steady. And this should surprise no one – after all, everyone needs to eat, even when the economy is doing poorly. To illustrate, global grain consumption kept rising right through the global economic crisis.

Secondly, agriculture is a growth sector, and will remain one for many years to come. Population growth is one driver, with the world's population expected to reach 8.3 billion by 2030, from just over 7 billion today. Rising incomes are also fueling increased meat consumption, which requires yet more crop production. Overall, global crop consumption is expected to reach 6.9 billion tonnes, up from 5.3 billion tonnes in 2010.

So Agrium can ride this growth wave without even needing to grow market share.

2. The right mix of businesses

Agrium’s farm retail network is the global leader, with a strong footprint in North America, Argentina, and Australia. The company also produces each of the three crop nutrients. This integrated network comes with numerous advantages. Cost of capital is lower, acquisition opportunities are higher, and there are various operational synergies.

This is in stark contrast to a company like **Potash Corp./Saskatchewan** (TSX: POT)(NYSE: POT), which derived most of its gross margin from potash in 2013. When its biggest market suffered a downturn in July of last year, its stock cratered. Looking ahead, its stock remains very risky, especially with the prospect of increased supply.

But Agrium is a different story. Its various business lines decrease the risk of any one in particular faltering. And its dominant position in retail is especially secure. So the company can focus on benefiting from increased crop consumption, without having to worry about other headwinds.

CATEGORY

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