



## If You Want to Get Rich, Become a Farmer... or Buy Agrium Inc.

### Description

People in the 1950s traded tractors for cubicles. But the people of 2050 may trade cubicles for tractors.

Here're the facts. The average age of a farmer in America is 58. Food prices have more than doubled in the past decade. And over the next 30 years, we'll have an extra 2 billion mouths to feed.

Unfortunately, there are more people today studying public relations than agriculture. Skip the MBA or the PhD — farming, not finance, might offer the best career path for today's new graduates.

Of course, most of us are unlikely to trade in our current professions for ploughs and pitch forks. However, there are still plenty of other ways to profit. Case in point: **Agrium Inc** (TSX: AGU)(NYSE: AGU).

### If you don't buy Agrium now, you'll hate yourself later

For years, this fertilizer maker has been prized by income investors because of its growing dividend. Buoyed by the increasing demand for crop nutrients, the firm has boosted its payout 16-fold over the past decade. The most recent hike last week was 4%, a sign that management sees more good times ahead.

Admittedly, the stock's 3.2% yield might not be high enough to whet your appetite. However, Agrium has a number of things going for it. This year's bumper crop means high nutrient removal, which should support fall fertilizer demand. Low natural gas prices are also helping Agrium's bottom line.

The company's third-quarter results highlight these trends. Earnings from continuing operations were up 14% to US\$91 million, or US\$0.63 per diluted share. Net profit margins also improved 26 basis points year over year.

That growth is expected to continue for a couple of reasons. First, Mother Nature is approaching her limits. In spite of the ongoing technological revolution in farming, natural disasters continue to wreak havoc on production. We're seeing rampant water depletion, topsoil erosion, and climate change.

Compounding those issues, demand worldwide is expected to grow drastically in the next few decades

. Humanity's population is at 7 billion and counting. By 2050, we're going to have to feed 9 billion people.

Thanks to mankind's ever bigger appetite, farmers will need to squeeze as much food out of each acre as possible. That will require even higher quantities of fertilizers.

Second, the firm is also ramping up operations. Agrium is scheduled to finish an expansion at its Saskatchewan potash mine later next year. That will result in a big bump in output and cut in capital spending.

Management is under pressure to return most of that new cash flow to shareholders. In October, activist hedge fund ValueAct Capital started calling on executives to nearly double the company's dividend. While this target is probably out of hand, the added pressure could result in further dividend hikes.

### **This is the one dividend stock to own for the next 100 years**

Of course, this stock is no slam dunk. Agrium could still be hit by changing commodity prices. Natural gas, in particular, is the primary input for the nitrogen business. While prices are low now, higher gas rates would really eat into margins.

But the risks aside, Agrium is becoming a cash flow machine. Investors should be able to count on big dividend hikes in the years to come. So in case you don't look good in overalls, this stock is a good alternative.

#### **CATEGORY**

1. Dividend Stocks
2. Investing

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