



Agrium Inc. vs. PotashCorp./Saskatchewan: Which Will Offer Better Dividend Growth in 2015?

Description

Agrium Inc. (TSX: AGU)(NYSE: AGU) and **Potash Corp./Saskatchewan** (TSX: POT)(NYSE: POT) have both demonstrated a commitment to dividend growth over the past several years, with Agrium increasing its dividend by an impressive 27x, and Potash Corp. increasing its dividend 15x over the previous two years.

This dividend growth can be attributed to massive reductions in capital expenditures over the next few years for both companies, as they complete costly capacity expansions.

Which companies shareholders are set to benefit most? Let's take a look.

Agrium

Agrium currently has a dividend yield of about 3%, on an annual dividend of \$3.12 per share. As mentioned earlier, Agrium has increased its dividend by a huge 27x over the past three years, and this is was largely a result of Agrium playing "catch-up" with its peers, which had higher payout ratios.

Currently, Agrium has a payout ratio on earnings of about 58%, based on the trailing-12-months earnings of \$5.29 per share. This is a fairly conservative payout ratio, and is likely to lower even further, since Agrium's earnings for the trailing 12 months were affected by unfavorable weather and economic conditions.

Q3 2014 earnings were weaker than expected(especially from the retail segment) thanks to near perfect growing conditions, which reduced grain prices, as well as demand for crop protection products, and Q1/Q2 earnings were also very weak due to an unusually harsh winter, combined with unexpected plant shut-downs.

As grain and fertilizer prices rebound, Agrium can expect to benefit. This will be in addition to between \$635 and \$925 growth to Agrium's current \$2 billion EBITDA, expected between now and 2017. This growth will come from production capacity expansions, as well as from the retail segment through expanded brand offerings, and further synergies from its recent Viterra acquisition.

This earnings growth, combined with capital expenditures that are expected to drop from \$2.15 billion in 2014, down to \$1.3 billion in 2015, should result in a huge amount of free cash flow, and even lower payout ratio for Agrium.

Since approximately half of Agrium's EBITDA comes from its retail segment, Agrium's earnings are not subject entirely to cyclical fertilizer prices, giving Agrium the opportunity to provide a stable and growing dividend, in line with business growth. As a result, ValueAct CEO Jeffrey Ubben expects a \$5-6 per share dividend by 2015, in line with Agrium's expected 15-20% EBITDA growth over the next two years.

Potash Corp.

Potash Corp. is in a similar position to Agrium, with its Piccadilly mine ramping up, and its Rocanville mine expansion expected to be complete in 2016. With these projects completed, Potash Corp. will see a decline in capital expenditures, from the approximately \$1.6 billion spent in 2013, to sustaining capex of about \$750 million per year.

This should add to Potash Corp.'s already substantial free cash flow of \$1.4 billion for the trailing 12 months, leaving room for potential dividend increases. This increase could be further enhanced by increased prices for potash, greater production volumes, and greater netbacks on potash.

Unlike Agrium, however, Potash Corp. has no retail segment, and therefore its earnings are deeply tied to volatile fertilizer markets. Potash Corp. estimates that depending on demand from the potash market, 2016 EBITDA can vary from anywhere between \$2.8 billion (near current levels, and assuming no growth), to \$6 billion in a strong growth environment.

With mine expansions completing, growth opportunities for Potash Corp. are fairly limited, and earnings are ultimately tied to potash demand and pricing. Although there will definitely be room for dividend increases as Potash Corp. transitions into a mature company focused on returning cash to shareholders, with a payout ratio nearing 90% of earnings, and a high sensitivity to volatile fertilizer markets, it is unlikely Potash Corp. can deliver the same dividend growth as Agrium.

The verdict?

Agrium's low payout ratio, and steady, non-volatile growth provided by its retail operations leaves room for substantial dividend growth over the coming years, even in weaker fertilizer pricing environments. For dividend-growth investors, Agrium should be a smart play.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

Category

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

Date

2025/08/04

Date Created

2014/12/24

Author

amancini

default watermark

default watermark