



3 Reasons Why Now Is a Good Time to Buy Agrium Inc.

Description

If you are unsure about where oil prices are headed and are sitting on the sidelines for now until some perspective and direction is formed, why not take this time to look at an alternative sector to place your cash? The agriculture sector is set to strengthen, in part due to the rally in the New Zealand dollar.

At such times, one company looks to be a great investment: **Agrium Inc.** (TSX:AGU)(NYSE:AGU).

Agrium is a major retail supplier of agricultural products and services in North America, South America, and Australia. It is also a wholesale producer and marketer of all three major agricultural nutrients and a supplier of specialty fertilizers in North America.

Since the start of the year, shares of the company have gained about 14%, although the ride has been bumpy. Here are three reasons why now is a good time to buy the stock.

1. Lower natural gas prices

Agrium's single biggest product is nitrogen fertilizer. When natural gas prices were higher, 40% of the cost of producing nitrogen fertilizer was of natural gas. Now, the price of natural gas has fallen to two-year lows of \$3.00/MMBtu. That's mainly due to a recent warm spell in what is traditionally a cold Canadian winter, and abundant supply. With lower natural gas prices, that cost amounts to only 20% of producing nitrogen fertilizer. Any further weakness in natural gas prices will only add to Agrium's benefit.

2. Dividend growth

The company has one of the strongest stories of dividend increases in Canada over the last 10 years. Currently, Agrium's dividend yield is about 3.2%, with dividend payout at \$3.12 per share. The company has increased its dividend by a whopping 27x over the past three years as Q3 saw an increase in dividend by 4%. The company's capital expenditure is also expected to drop to \$1.3 billion in 2015, from \$2.15 billion in 2014. This should free up some cash that could potentially be used to pay shareholders.

3. Seasonality trends

One analyst at Salman Partners says there is a strong seasonal pattern in Agrium that reveals the

company share price, on average, usually tends to dip around the end of December. From January onwards, until the end of March, its share price then tends to gain steam. Based on this theory, now would be the perfect time to buy the stock and enjoy a decent 3% yield now onwards.

CATEGORY

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