



Can the Post-Earnings Rally in Agrium Inc.'s Stock Be Sustained?

Description

Agrium Inc. (TSX:AGU)(NYSE:AGU), one of the largest producers and distributors of agricultural products and services in the world, announced fourth-quarter earnings after the market closed on February 23, and its stock has responded by rising over 2%. Let's take a closer look at the results and the company's outlook in fiscal 2015 to determine if we should consider buying into this rally, or if we should wait for it to subside.

A quarter of year-over-year declines

Here's a summary of Agrium's fourth-quarter earnings results compared to its results in the same period a year ago.

| Metric | Q4 2014 | Q4 2013 |
|--------------------|----------------|----------------|
| Earnings Per Share | \$0.46 | \$0.74 |
| Revenue | \$2.71 billion | \$2.87 billion |

Source: Agrium Inc.

Agrium's diluted earnings per share from continuing operations decreased 37.8% and its revenue decreased 5.7% compared to the fourth quarter of fiscal 2013, as its net income from continuing operations decreased 36.4% to \$70 million.

The company's slight decline in revenue can be attributed to sales falling in both of its major segments, including a 2.1% decline to \$2.06 billion in its retail segment and a 12.9% decline to \$897 million in its wholesale segment. Outages at two of its largest production facilities and its steep decline in net income and earnings per share can be attributed to total operating expenses increasing 12.2% to \$625 million compared to the year-ago period.

Here's a quick breakdown of 10 other notable statistics from the report compared to the year-ago period:

1. Crop nutrient sales decreased 7.6% to \$972 million
2. Crop protection product sales decreased 8% to \$552 million
3. Nitrogen sales decreased 2.7% to \$404 million
4. Phosphate sales increased 25.8% to \$200 million
5. Potash sales decreased 91.6% to \$9 million
6. Gross profit decreased 1.1% to \$732 million
7. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased 25.1% to \$253 million
8. Operating profit decreased 41.5% to \$107 million
9. Cash provided by operating activities decreased 19.7% to \$980 million
10. Ended the quarter with \$848 million in cash and cash equivalents, an increase of 209.5% from the third quarter and 5.9% from the year-ago period

Agrium also provided its outlook on fiscal 2015, calling for the following performance:

- Earnings per share in the range of \$7.00-\$8.50
- The production of 3.6 million-3.8 million tonnes of nitrogen
- The production of 1.9 million-2.2 million tonnes of potash
- EBITDA in the range of \$1.15 billion-\$1.25 billion
- Crop nutrient sales in the range of 9.7 million-10.2 million tonnes
- Capital expenditures in the range of \$1.2 billion-\$1.3 billion

Should you invest in Agrium today?

Decreased sales and increased expenses led Agrium to a weak fourth-quarter performance, but its stock has responded by rising over 2%.

Although I do not think the post-earnings pop in Agrium's stock is warranted, I do think it represents an attractive long-term investment opportunity because it trades at favourable forward valuations and pays a generous dividend.

First, Agrium's stock trades at just 18.3 times its median earnings per share outlook of \$7.75 for fiscal 2015 and only 15.8 times analysts' estimated earnings per share of \$8.97 for fiscal 2016. I think the company's stock could consistently trade at a fair multiple of 20, which would place shares upwards of \$155 by the conclusion of fiscal 2015 and upwards of \$179 by the conclusion of fiscal 2016, representing upside of over 9% and 26% respectively from current levels.

Second, Agrium pays an annual dividend of \$3.12 per share, giving its stock a 2.2% yield at current levels, and I think this makes it qualify as both a value and dividend growth play today.

With all of this information in mind, I think Agrium represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and consider beginning to scale in to long-term positions today.

CATEGORY

1. Dividend Stocks
2. Investing

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