



3 Reasons Why Agrium Inc.'s Shares Could Soar

Description

Agrium Inc. (TSX:AGU)(NYSE:AGU), one of the world's largest providers of agricultural products and services, has been one of the market's best performing stocks in 2015, rising more than 18% as the TSX Composite Index has returned just over 2.5%, and I think it could continue to outperform the overall market for the next several years. Let's take a closer look at three of the primary reasons why this could happen and why you should establish a long-term position today.

1. Triple-digit earnings growth to support a sustained rally

Agrium released very strong first-quarter earnings results on the morning of May 6, and its stock has responded by rising about 4% in the trading sessions since. Here's a breakdown of 10 of the most notable statistics from the report compared with the year-ago period:

1. Net earnings increased 366.7% to \$14 million
2. Earnings per share increased 300% to \$0.08
3. Revenue decreased 6.7% to \$2.87 billion
4. Crop nutrient sales increased 1.7% to \$911 million
5. Crop protection product sales increased 8.6% to \$793 million
6. Seed sales increased 3.4% to \$308 million
7. Gross profit increased 5% to \$584 million
8. Gross margin expanded 220 basis points to 20.3%
9. Adjusted earnings before interest, taxes, depreciation, and amortization increased 2.2% to \$190 million
10. Earnings before finance costs and income taxes increased 41.5% to \$75 million

Agrium noted that its triple-digit earnings growth can be attributed to "strong margins and operating rates for nitrogen products," while its weak revenue performance can be attributed to a "delayed start to the spring season in the U.S. this year."

2. The stock trades at inexpensive valuations

At current levels Agrium's stock trades at just 17 times its median earnings per share outlook of \$7.63

for fiscal 2015 and only 14.7 times analysts' estimated earnings per share of \$8.83 for fiscal 2016, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 21.1.

I think Agrium's stock could consistently command a fair multiple of at least 20, which would place its shares upwards of \$152 by the conclusion of fiscal 2015 and upwards of \$176 by the conclusion of fiscal 2016, representing upside of more than 16% and 35%, respectively, from today's levels.

3. A dividend that is on the rise

Agrium pays a quarterly dividend of \$0.875 per share, or \$3.50 per share annually, giving its stock a 2.7% yield at current levels. The company has also increased its dividend for four consecutive years, making it one of the top dividend-growth plays in the industry today, and its consistent free cash flow generation could allow this streak to continue for the next several years.

Is there a place for Agrium in your portfolio?

I think Agrium will continue to outperform the overall market because it has the support of triple-digit first-quarter earnings growth, because its stock trades at inexpensive forward valuations, and because it has increased its dividend for four consecutive years and has a current yield of approximately 2.7%. All long-term investors should strongly consider beginning to scale in to positions today.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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