



3 Reasons Why Agrium Inc. Is a Buy-and-Hold Stock

Description

Fertilizer stocks such as **Agrium Inc.** (TSX:AGU)(NYSE:AGU) have mostly traded sideways the last couple of years. However, Agrium got a boost earlier this year after activist investor ValueAct Capital accumulated a large position in the fertilizer and agricultural chemicals company. And there are other fundamental reasons why Agrium is worth watching, despite its high valuation.

Demographics

Everyone has to eat and a play on farming is a smart move for investors. In addition, population growth and rising incomes in emerging markets will produce changes in diet and increases in global food demand, says Peter Brieger, chairman and managing director of GlobeInvest Capital Management.

Brieger says the long-term trends supporting Agrium's future remain potent despite some volatility. When the stock does dip substantially, he takes the opportunity to top up.

Middleman

Agrium's main market is farmers, and that helps reduce some of the commodity risk for investors. While corn or soybean prices can oscillate from quarter to quarter or even year to year, farmers will always need agricultural chemicals.

Continued population growth worldwide, but no real expansion of farmland means a constant strain on farmers to keep yields high, and that translates to heavy reliance on fertilizers.

In addition, Agrium has an integrated model, with both wholesale production and 1,400 retail operations around the world, limiting its volatility.

Dividends

Agrium has a healthy dividend yield of 3.2% and is expected to generate \$11 a share of free cash flow by 2017, according to Brieger. Assuming Agrium pays out 50% of free cash flow, he says dividends could reach \$5.50 per share, a 45% increase from current levels.

On top of the dividend, a stock-buyback plan to repurchase up to 5% of outstanding shares will add additional stability to Agrium's stock and future earnings, making it a solid long-term play for dividend investors.

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