



Is the Earnings-Induced Drop in Agrium Inc. a Buying Opportunity?

Description

Agrium Inc. (TSX:AGU)(NYSE:AGU), one of the largest producers and distributors of agricultural products and services in the world, announced second-quarter earnings results after the market closed on August 5, and its stock has responded by falling over 2%. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or a warning sign to avoid the stock for the time being.

A quarter of mixed growth

Here's a summary of Agrium's second-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q2 2015	Q2 2014
Earnings Per Share	\$4.71	\$4.34
Revenue	\$6.99 billion	\$7.34 billion

Source: Agrium Inc.

Agrium's earnings per share from continuing operations increased 8.5% and its revenue decreased 4.7% compared with the second quarter of fiscal 2014. Its strong earnings-per-share growth can be attributed to its earnings from continuing operations increasing 8% to \$675 million, helped by its total costs of products sold decreasing 7.9% to \$5.28 billion.

The company noted that its slight decline in revenue can be attributed to "unfavourable weather conditions and competitive pricing pressure as a result of lower crop prices," as well as "reduced U.S. corn acreage," which impacted its crop nutrient and seed sales.

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

1. Crop nutrient sales decreased 3.7% to \$2.61 billion

2. Crop protection product sales decreased 1.4% to \$2.17 billion
3. Seed sales decreased 5.4% to \$982 million
4. Merchandise sales decreased 20.2% to \$174 million
5. Services & other sales decreased 3% to \$227 million
6. Gross profit increased 6.8% to \$1.71 billion
7. Gross margin expanded 260 basis points to 24.4%
8. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 10.1% to \$1.15 billion
9. Cash provided by operating activities increased 145.9% to \$91 million
10. Ended the quarter with \$647 million in cash and cash equivalents, a decrease of 17.1% from the beginning of the quarter

Agrium narrowed its full-year earnings-per-share outlook for fiscal 2015. It is now calling for earnings per share in the range of \$7.00-7.50 compared with its previous outlook of \$7.00-8.25. It also lowered its EBITDA outlook and is now calling for \$1-1.05 billion compared with its previous outlook of \$1.15-1.22 billion.

Should you buy or avoid Agrium's stock on the dip?

It was a great quarter overall for Agrium despite facing numerous headwinds, but its narrowed earnings outlook put a damper on the results, so I think the post-earnings weakness in its stock is warranted. With this being said, I also think the dip represents a great long-term buying opportunity because the stock now trades at inexpensive forward valuations and because it has a high dividend yield with a track record of increasing its payment, which will attract income investors.

First, Agrium's stock now trades at just 18 times its median earnings-per-share outlook of \$7.25 for fiscal 2015 and only 14.9 times analysts' estimated earnings per share of \$8.73 for fiscal 2016, both of which are inexpensive compared with the industry average price-to-earnings multiple of 19.2.

Second, Agrium pays a quarterly dividend of \$0.875 per share, or \$3.50 per share annually, which gives its stock a yield of approximately 3.3% at today's levels. It is also important to note that the company has increased its annual dividend payment for three consecutive years, and if it maintains its current quarterly rate for the rest of 2015 and all of 2016, this streak will reach five.

With all of the information provided above in mind, I think Agrium represents one of the best long-term investment opportunities in the agriculture industry today. Foolish investors should strongly consider beginning to scale in to positions over the next couple of trading sessions.

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