



## Why Agrium Inc. Shares Are Set to Rise This Autumn

### Description

**Agrium Inc.** (TSX:AGU)(NYSE:AGU) is a well-known seasonal stock, and fortunately for current and potential shareholders, the season begins now. Seasonality is a phenomenon whereby certain stocks and/or industries experience recurring gains or losses during a period of several months.

When these patterns repeat for periods of a decade or more, an investor can state with a strong level of confidence that the pattern is likely to occur again, especially if well over 50% of the years showed positive results. Using seasonality can be an excellent way to choose an entry point for a stock, and combining this with attractive fundamental characteristics and a reasonable valuation is a recipe for excellent returns.

Agrium's period of seasonal strength begins at the end of June and continues into early January, and over the past 18 years Agrium has averaged a return of about 13.8% during this period, according to Equityclock.com. More importantly, this period has been profitable 75% of the time over the past 20 years.

### Why Agrium shares rise between July and December

An average return of 13.8% between July and December over the past 18 years that was profitable 75% of the time is certainly an intriguing option. These returns are not only attractive on their own, but also relative to S&P 500 Index (for Agrium shares that trade in the U.S.), as well as the broader materials sector.

On average over the past 18 years Agrium has gained 10% relative to the S&P 500 between the beginning of July and December. Relative to the broader materials sector, Agrium has also gained about 18%.

This seasonality is due to the buying activity of farmers. Agrium sells crop nutrients (such as potash, phosphate, and nitrogen), but also sells other agricultural products such as seeds, merchandise, and crop protection products. Typically, farmers will receive most of their revenues from grain sales in the second half of the year as they are completing their harvest.

This means farmers typically have the most revenue during the second half of the year, which they then use to purchase various agricultural products in preparation for the next year's crop. This purchasing activity is also accelerated due to the fall crop input application season in North America, and the spring application season in Argentina, where Agrium has operations.

Not only are farmers in North America purchasing fertilizer in the fall for the next year, but they are also applying it because they often have more time during the fall. In addition, farmers also typically make large equipment purchases towards the end of the year for tax optimization reasons.

The end result is Agrium sees a boost to earnings in the second half of the year. The strength of the boost depends on grain prices and volumes, and while prices are low, this should help with volumes.

### **Agrium will see expanding free cash flow over the next several years**

Buying Agrium now is not simply an opportunity to make a quick buck on a seasonal trade; rather, it is an opportunity to purchase ownership in a fantastic business. Thanks to the completion of several major capital projects, Agrium will see both growing cash flows and declining capital expenditures over the next several years.

Agrium just completed its one million tonne potash expansion at its Vanscoy mine, and is in the middle of completing a major expansion of its nitrogen facility at Borger, Texas, which should add 610,000 tonnes of urea production and 145,000 tonnes of ammonia production.

The end result is Agrium will see its free cash flow explode from \$289 million in 2015 to \$1.3 billion in 2018, or \$9.40 per share. This will allow Agrium to not only grow its dividend by an impressive double-digit growth rate, but it will also allow Agrium to continue to buy back shares and make more investments to drive growth.

### **CATEGORY**

1. Investing

### **Category**

1. Investing

### **Date**

2025/08/27

### **Date Created**

2015/08/21

### **Author**

amancini

default watermark