3 Reasons Why Agrium Inc. Should Be Part of Your Portfolio

Description

Agrium Inc. (TSX:AGU)(NYSE:AGU) is a leading producer of agricultural products and services. The company is organized into retail and wholesale segments and focuses on three core crop nutrients: potash, phosphate, and nitrogen.

The company serves seven countries across North and South America, Europe, Africa, and Australia, providing crop inputs to over half a million growers and employing over 15,000 employees.

As compelling as those facts are, let's take a look at a few reasons why Agrium really should be part of your portfolio.

1. Agrium has strong results

Agrium trades just below $137, short of the 52-week high of $146.51. Unlike most of the market, the stock is up over 6% in the last three months. Year-to-date, this figure improves to 24%. Over the course of a full year the stock is up 34%.

Agrium has a quarterly dividend of US$0.875. The company has a record of increasing the dividend over the past several years, with the most recent increase occurring in May this year by 12%, effective with the July 2015 dividend.

Analysts maintain an outperform rating on the stock, with price targets being set as high as $150.

2. Agrium has a competitive advantage

Agrium fits the definition of a seasonal stock perfectly. The agricultural products that the company sells are purchased primarily during the fall season near harvest, when farmers stock up and prepare for the following year's crops.

The company comprises the largest direct-to-grower distribution network in the world. In the U.S. retail market, the company has a 17% market share. With approximately 30% of the market comprising of smaller, independent producers.

Agrium has the clout, financial weight, and exposure to dip into this pool for acquisition purposes, which it has done on many occasions and will likely continue to do as a prime source of expansion.

3. Agrium has growth prospects for years to come

Agrium is uniquely positioned as the world's largest direct-to-grower distribution network at a time when the global population is rising rapidly, meaning that there is going to be a massive need to grow enough food for the estimated 1.5 additional tonnes of oilseed and grains that will be consumed each year by 2050.

Agrium has completed a production capacity expansion to the Vanscoy potash facility and is on the verge of completing work at the Borger Nitrogen plant. Once both of these facilities are online, a capacity increase of up to 20% will be possible. Similarly, the capital expenditures have peaked and will start to come down.

Both of these events will have a significant impact on free cash flow, feeding even higher dividend increases for investors. For example, free cash flow is expected to reach $1.3 billion by 2018 from $289 million in 2015.

In my opinion, Agrium represents a great opportunity for an investor to diversify their portfolio with a stock that not only shows incredible growth prospects, but has a handsome dividend that is also on the rise.

CATEGORY

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2. Investing

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1. Editor's Choice

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