



## Agrium Inc.'s CEO Is Buying Shares: Here's Why You Should Too

### Description

When a CEO or other insider of a corporation begins voluntarily buying shares for their personal portfolio, it is always wise to take note. It can be an important sign that shares are either trading at a reasonable value or the CEO has a positive view of the company's fundamentals going forward.

**Agrium Inc.'s** (TSX:AGU)(NYSE:AGU) CEO Charles Magro purchased 3,800 shares at about \$131 per share on September 9. Even more importantly, this isn't the first time—he also bought 3,800 shares at about the same price on July 7, 2015.

Why is Agrium's CEO buying now at those prices? Let's take a look.

### **Agrium is well positioned for a recovery in agriculture markets**

Things are about as bad as they can be right now in agriculture markets. Crop prices are down 30% from last year (following a multi-year decline), seed and crop protection prices are down, a drought occurred in Canada, and potash prices are also at multi-year lows.

Looking at Agrium's recent results (and share price, for that matter), you would never know it, but Agrium beat consensus earnings estimates by a considerable margin. Agrium's diversified business model is allowing it to not only ride out the downturn well, but also position itself for an expected recovery in agriculture markets by making key investments.

About half of Agrium's earnings come from its stable retail segment, which operates stores globally and sells seeds, crop protection products, and merchandise to farmers. The other half of Agrium's earnings is from its wholesale segment and is split among sales of the key fertilizers—potash, nitrogen, and phosphate—with an emphasis on nitrogen.

This diversification has protected Agrium from weakness in the market, while allowing it to expand. For example, Agrium has been taking advantage of the low crop-price environment by expanding its retail store network, acquiring 16 locations so far in 2015 at reasonable prices. This gives Agrium excellent exposure to farmer spending when it rebounds.

Agrium is able to fund these acquisitions thanks in part to growing free cash flow from its wholesale segment, which it has also been investing in. Agrium recently completed a one million tonne per year expansion at its Vanscoy potash facility, resulting in Agrium's capital expenses dropping and sales increasing. Agrium is also investing in an expansion of its Borger nitrogen facility, due to be complete in 2016.

The end result is simple—the eventual completion of Agrium's expansions will see its capital expenditures annually fall from \$1.2 billion this year to \$600 million by 2018, while revenues increase. This will give Agrium considerable free cash flow to continue making retail expansions, raise its dividend, buy back shares, and respond to increasing demand for potash and nitrogen fertilizer. Just how considerable will Agrium's free cash flow be? Analysts at RBC estimate it will grow from \$290 million this year to \$1.3 billion by 2018.

Many experts expect that potash prices have likely bottomed because a small handful of producers control most global supply, and these producers will be focused on holding production back to maintain prices. Over time, growing demand should push prices higher.

### **Agrium is also trading at a reasonable price**

Agrium's CEO likely sees its rapidly rising free cash flow and strong positioning for a recovering agriculture market as a reason to buy now, but the price also looks right.

Agrium is currently trading at about 11 times its 2016 earnings. This is compared with its closest competitor, **Potash Corp./Saskatchewan Inc.**, which is trading at about 12 times 2016 earnings. This is despite the fact that Agrium has a stronger growth profile, better dividend growth, and better overall diversification.

More importantly, however, is the fact that the entire sector is likely poised to see valuations expand. As crop and fertilizer markets recover, valuations should increase, which means that Agrium could be worth considerably more than it is today as potash prices rise, and higher crop prices give farmers more income to spend at Agrium's retail locations.

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amancini

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