



Does Agrium Inc. Belong in Your Portfolio?

Description

One way to guarantee that you've found a good investment is to pick stocks that are absolutely necessary for people. That's why I like telecom companies because people are addicted to their cell phones; it's why I like energy companies because people need electricity; and most of all I like agricultural companies because any company that is responsible for the creation of food deserves some analysis.

Agrium Inc. (TSX:AGU)(NYSE:AGU) is a producer of agricultural products and services, which it distributes both through its retail arm and its wholesale division.

Unlike other agricultural companies, Agrium took the balanced approach to building its business. While it is not the largest fertilizer company on the market, it does have significant operations in the three components used for fertilizer: nitrogen, phosphate, and potash. But rather than getting stuck on that, the company also has over 1,250 outlets in North and South America and Australia.

Some of the brand names it operates are Crop Production Services, Crop Production Services Canada, and Landmark.

It is because of this retail division that the company has been able to continue producing solid results. While the price of potash has crashed, earnings from the retail division have continued to provide enough earnings to keep investors happy.

Consumers need soil, seeds, and other equipment to create their gardens and farms, resulting in diversified revenue generation. And it has worked out wonderfully for investors. Since 2009 Agrium's share price has risen close to 200%, which blows out some of its contemporaries.

The good news for investors is that its wholesale business should start to return to its once-dominant position over the next couple of years. The company expects potash sales volumes to expand through 2017. This comes on the recent growth of its Vanscoy potash mine, which will be pushing out an additional one million tonnes. All told, the company expects to see its potash sales jump from 1.78 million tonnes to 2.4 million tonnes in 2016. Nitrogen will grow in a similar fashion.

All of this puts Agrium in an incredible position to both grow and provide lucrative rewards for its investors. The company pays out a 4.2% yield, which is \$5.07 per year. What makes this yield even more exciting is that it is paid in U.S. dollars. That means that when the money comes back to Canada, investors are actually receiving a significant bump due to the disparity between the loonie and the U.S. dollar.

Further, Agrium has been in the business of increasing its dividend. Over the past five years the company increased its dividend at a compound annual growth rate of 77.3%. However, if Agrium is going to continue growing that dividend, it's going to need to see significant growth. Its payout ratio five years ago was 5%; now it is 50%. If potash sees a resurgence over the next couple of years, Agrium could start hiking the dividend even more.

All told, Agrium is a necessity. People need to eat. When a company is an integral part of the supply chain for getting food on the table, it is worth looking at. And in my eyes, Agrium definitely belongs in your portfolio.

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1. Editor's Choice

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