



Is Agrium Inc. the Missing Piece to Your Portfolio?

Description

For investors looking to acquire companies that have the potential to be around for a long time, it is important to think about what they offer. Technology companies can easily be disrupted, which increases the levels of volatility. On the other hand, people need to eat, so investing in companies along that supply chain is often a good idea.

One company that I believe warrants a deeper look is **Agrium Inc.** (TSX:AGU)(NYSE:AGU), which is a producer of agricultural products and services.

It distributes products and services through its retail arm and it has a wholesale division. On the fertilizer side, it has operations for nitrogen, phosphate, and potash, which are all necessary for fertilizers. On the retail side, it runs 1,250 outlets in North and South America and Australia with brands such as Crop Production Services, Crop Production Services Canada, and Landmark.

It's because of these different retail brands that the company has been able to do so well. Potash and fertilizers have experienced a bit of a drop in value due to oversupply and low demand. For companies that are focused almost entirely on potash, this has resulted in cut dividends and dropping share prices. For Agrium, though, things are looking up.

In the fourth quarter, Agrium announced that it had generated net earnings of US\$200 million, which an EPS of US\$1.45 per share. For context, it only generated US\$70 million in earnings in the previous year's fourth quarter.

On top of this, Agrium has been able to increase its full-year free cash flow from US\$841 million all the way to US\$1.2 billion. Despite a drop in sales by 8%, its profits were still up by 9% because of its diversified business.

But that was last year. This year looks like it will be even better. Agrium's wholesale operations are expected to grow due to expanding demand in potash. The company expects to see volumes expand through 2017. Further, the company expects that its Vanscoy potash mine will push out an additional one million tonnes. If the company is right, it expects to see sales jump from 1.78 million tonnes to 2.4 million tonnes in 2016 with further growth in 2017.

Because of its smart diversification and growth, Agrium has been able to pay an incredibly lucrative dividend. It pays a 4.17% yield, which is US\$5.07 per year. When brought back home, this dividend starts to look incredibly lucrative at \$6.77.

I expect to see the company continue to grow its yield.

Over the past five years Agrium's dividend has increased at a compound annual growth rate of 77.3%. Five years ago, its payout ratio was 5%; now it's 50%. If sales of potash do in fact increase as the company expects, then I expect there will be another dividend increase this year. However, even if there isn't a dividend increase, the company is still paying a lucrative yield that is well maintained and secured.

In my opinion, if you don't own Agrium, you're missing out on a lot of long-term-growth potential. Consider adding it soon.

CATEGORY

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