Agrium Inc.: Is it the Right Dividend Stock for You?

Description

There are two things I look for in a dividend-paying company. The first is whether or not that dividend is safe at the present time. Once I know that it's secure, I then ask if I'm going to grow my earnings with this stock. We're investors; therefore, we want to see an increased return on investment. For dividend investors, that means we want to see the dividend grow.

One company that has historically done very well with dividend growth is **Agrium Inc.** (TSX:AGU)(NYSE:AGU). Presently, it pays a 4.04% yield, which nets investors about $1.14 per share, per quarter. The payout ratio for this is 48.38%, which is much higher than other companies in the same industry. Here's what's incredible … If you'd owned this stock five years ago, you only got a payout ratio of 5%. That means the dividend has had a compound annual growth rate of 77.3%.

But the past does not always dictate the future. Can Agrium continue to grow its dividend? To answer that, let's analyze the company in a bit more detail.

Agrium's business is split up in two pieces. The first is the wholesale side, which provides nitrogen, phosphate, and potash, which are all necessary for fertilizers. However, as many agricultural investors know, potash has dropped in value significantly because of price wars. Yet, Agrium remains strong in comparison to other companies.

The reason for that is that Agrium's second side of the business is retail, which provides agricultural products and services across North America, South America, and Australia. All told, it has 1,250 outlets with brand names such as Crop Production Services, Landmark, and Crop Production Services Canada.

While other agricultural companies were seeing their earnings drop, Agrium saw tremendous growth. In its fourth-quarter 2015 results, the company announced that it had generated US$200 million in net earnings with an EPS of US$1.45 per share. That's incredible growth from the fourth quarter 2014, when it only generated US$70 million in net earnings.

Further, full-year free cash flow increased from US$841 million to US$1.2 billion despite the fact it had an 8% drop in sales. Fundamentally, profits were up so much because of its diversified business.

Farmers still need goods, so they still shop at Agrium stores whether the price of fertilizer is high or not.

But like I said above, I want to see growth in the dividend. Is Agrium’s dividend going to grow?

On the retail side, I expect conditions to remain strong and get stronger. As more of the world develops, especially Latin America, the need for high-quality agricultural goods will also increase. That will allow Agrium to continue pushing its earnings on this side.

On the wholesale side, the growth is going to come over the next few years. Analysts and potash miners expect that global potash shipments will rise to 70 million tonnes by 2020 from the present 59-62 million tonnes today. Should that occur, I expect that the price will rebound, increasing margins for the companies.

As for the dividend, so long as free cash flow continues to increase, Agrium will increase the dividend. It has stated that its goal is to stay in the range of 40-50%. Right now it is on the high side, but if earnings stay strong and get stronger, the dividend will likely follow.

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