Which Company Is Canada's Best Agricultural Stock?

Description

Jim Rogers is perhaps most famous for posting a 4,200% gain as a hedge fund manager in the 1970s. He and partner George Soros started the fund in 1973, getting seed capital from several wealthy European families including the Rothchilds.

Less than a decade later in 1980, Rogers had made enough money that he decided to retire. His retirement was spent on a number of interesting projects, including two around-the-world trips, adventures chronicled in the books *Investment Biker* and *Adventure Capitalist*.

These days, Rogers lives in Singapore with his wife and two daughters. He mostly manages his own money, but he is still an active commentator on financial markets. Rogers has made it very clear he thinks one of the best investments over the long term will be agriculture.

In a recent interview with *Barron's*, Rogers listed several agricultural ETFs as his top picks, including one he has lent his name to. He went as far as telling *Barron's* he'd be willing to put 10% of a portfolio into agriculture.

Luckily for Canadian investors interested in the sector, there are plenty of ways to invest in agriculture right here at home. But which way is the best? Let's take a closer look at a few potential investments.

Potash

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is North America's largest potash producer. It owns a half dozen mines in Canada that account for approximately 20% of the world's supply of the mineral.

The company is currently suffering through a bit of a rough patch. Potash producers from Russia are flooding the world with supply, driving down prices. Demand is down somewhat in North America as well, as certain stretched farmers have to cut back on input costs. This appears to just be a blip on the long-term radar, but it's still concerning for investors focused on the short term.

But with weakness comes opportunity for long-term investors. Shares of Potash Corp. are the lowest they've been since 2009. Yet the company is still solidly profitable and is nicely positioned to take advantage of the next uptrend in the market.

One note of concern should be the company's 5.8% dividend. It's already been cut once in 2016. I wouldn't be surprised to see it cut again in a cost-savings move.

Agrium

Potash Corp. is mainly a commodity company. **Agrium Inc**. (TSX:AGU)(NYSE:AGU) is far more diversified; it's involved in everything from producing fertilizer to selling seed and crop protection to farmers. In many communities, farmers only have one choice to buy many of these supplies, and that's through Agrium.

The company continues to post good results. Free cash flow hit $8.59 per share in 2015, growth of 41% annually since 2013. In that same time, management bought back more than $1 billion of stock.

Management sees real potential to grow retail operations in the United States. Agrium controls about 17% of the market, but independents control 30%. The plan is to use the company's clout to take market share away from these smaller operators.

Unlike Potash Corp., Agrium pays a truly sustainable dividend; the payout comes in at approximately 50% of free cash flow. The current yield is 3.7%.

Rocky Mountain and Cervus

Although they're two different companies, I'm going to group agricultural equipment sellers, **Rocky Mountain Dealerships Inc.** (TSX:RME) and **Cervus Equipment Corp.** (TSX:CVL), together.

Both are suffering from a very competitive landscape that's affecting profitability. Cervus posted a decline of nearly 50% in its income before taxes in 2015, falling from $26 million to $15 million. Rocky Mountain's decline was similar.

This weakness caused Cervus to cut its dividend from $0.21 per share each quarter to $0.07. That's a current payout of 2.4%. Rocky Mountain hasn't cut its generous $0.12 per share quarterly dividend–good enough for a 6.5% yield–but many investors are worried a dividend cut is coming.

Both companies are quite cheap. Rocky Mountain trades at about 20% under book value and at just 8.2 times 2016's analyst projections. Cervus isn't quite as cheap, but it still trades about 5% under book value and at 10.7 times forward earnings.

As a value investor, I'm more inclined to look at Potash Corp. or one of the equipment dealers. They're cheap, and I like cheap. Investors looking for quality should look no further than Agrium, perhaps the finest agriculture stock in Canada.

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1. Investing
2. Metals and Mining Stocks

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