



Fertilize Your Portfolio and Watch Your Retirement Savings Grow

Description

When companies merge, one of the most often-touted benefits is *synergy*. What exactly is meant by synergy? The concept is a simple one to understand. It means that the combined company is more effective and efficient than if they remained separate.

As the saying goes, “two heads are better than one!”

In financial terms, synergy from a merger is the value of the combined entity minus the fair value of the two firms as separate entities. If the difference is positive, then there is synergy.

Did you know? Research has shown that mergers and acquisitions, more often than not, fail to achieve the targeted synergies. The reason? Forecasting is extremely difficult, as there are thousands of variables at play.

Thus, when companies succeed post-merger, it is often reflective of a good plan and management team. A strong management team can be a valuable asset; consider the case for **Nutrien Ltd.** ([TSX:NTR](#))([NYSE:NTR](#)).

Long-awaited merger

On the [first trading day of the year](#), Nutrien was born as a result of the long-proposed merger between Canada's two largest fertilizer companies: Potash Corp. and Agrium. Talks between the two companies started in earnest back in 2016.

Targeted synergies

Nutrien is expected to benefit from higher revenues and lower costs by eliminating overlapping operations. Cuts are expected to free up approximately US\$500 million in operational costs, half of which are expected in 2018.

The newly combined company has a strong value chain from production through to retail. The company's size has also provided it with a strong competitive advantage. It has a leading global

agricultural retail network and is the largest crop nutrient company in the world.

The end result is expected to be a leaner and more profitable company.

So far, so good

In early May, the company posted its first quarterly results, and it did not disappoint. Although it suffered from a late spring, the company raised full-year earnings-per-share guidance.

In keeping with its intent to return cash to shareholders, the company repurchased 1.6% of shares outstanding in the quarter. It also declared a quarterly dividend of \$0.40 per share, and Nutrien now yields a healthy 3.12%.

More importantly, the company has already delivered \$150 million in synergies through March 31, 2018. One quarter down, and Nutrien is already on pace to surpass this year's expected financial synergies.

Since the company went public, there have been seven insider trades on the open market. Six of which were buys. Analysts are also bullish with an average overweight rating and a price target of \$74.27. This implies upside of 12% over Friday's closing price.

Insiders and analysts are putting their faith in management. If the first quarter is any indication, [so should you](#).

CATEGORY

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2. Investing

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