



3 Reasons to Buy This Undervalued Stock for Your TFSA Today

Description

As investors, we know that maximizing returns while [minimizing downside risk](#) is ideal. But, of course, in the real world, it is not so simple. Finding the right balance between minimizing the level of risk in our TFSA and maximizing the return potential of your TFSA is a difficult task. The right balance will depend not only on an individual investor's risk-tolerance level but also on correctly quantifying and understanding the risk as well as the potential return.

In this article, I would like to put forth an [undervalued stock](#), **Nutrien** ([TSX:NTR](#))([NYSE:NTR](#)), that I believe has a very attractive risk/reward profile or trade-off. The following three reasons illustrate why I believe you should consider adding this stock to your TFSA today.

Nutrien's leading position

Nutrien has a unique global footprint in the agricultural industry and a vertically integrated model that provides the company with a diversified source of revenue that is relatively stable, with a positive long-term demand profile.

This \$42 billion company, which was formed through the January 2018 merger of Potash Corp and Agrium, is in the business of producing the world's nitrogen, phosphate, and potash fertilizer needs.

This is complemented by an agricultural retail network that provides an extensive list of products and services, such as a complete range of nutrients to help growers increase their crop yield and effectively feed the world. Through this integration, Nutrien lessens its exposure to the agricultural cycle, as the retail business's revenue is more stable and predictable.

Strong market fundamentals

The global population is increasing. As a result, the agricultural industry can be expected to experience steady and growing demand for the foreseeable future. So, while this market is cyclical and subject to changing demand and supply levels on a short-term basis, things are looking good for the long term.

While the fertilizer market can be unpredictable, as it is impacted by variables such as the weather, the market has been strong recently. In Nutrien's potash business, for example, price and volume increases have resulted in a 46% increase in gross profit.

And as we look to the future, we can see strong fundamentals to come. 2019 is seeing one of the lowest corn plantings in a decade, but Nutrien is expecting 2020 to be a very good crop year for corn. Corn requires more fertilizer than other crops, so it is an important crop for Nutrien.

TFSA investors uninterested in this top pick?

Geopolitical risks and trade issues with China have done nothing to help Nutrien's valuation. But at the end of the day, investors can take comfort in the fact that Nutrien has great leverage to a rise in fertilizer prices and that Nutrien stock is very attractively valued.

And with a plan to return cash to shareholders, I think TFSA investors should be interested. With a dividend yield of 3.27%, a recent 7.5% increase in its dividend, and an aggressive share-buyback program, we can see how Nutrien's plans to return this cash to shareholders has already begun. The repurchase program was recently increased to 50.4 million shares, up from the 32.2 million previously announced.

Foolish bottom line

The agriculture industry is setting up for strong years ahead, with demand growth and price increases expected to continue. Nutrien is a clear beneficiary of this. With a rapidly rising free cash flow generation profile, an expected \$600 million in synergies from the merger (was previously expected to be \$500 million), and a stock that is trading at a price to cash flow multiple of 17 times trailing cash flow of \$4.07, Nutrien has a bright future ahead.

The company is following through on its plan to achieve synergies and to return cash to shareholders, making this stock a strong choice for your TFSA.

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Date

2025/08/09

Date Created

2019/08/02

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