1 TSX Stock That Can Zoom Ahead on a Market Rally

Description

As first-quarter results for **TSX** companies start rolling in, it's interesting to see how organizations have responded to the COVID-19 challenge. While non-essential companies have taken a beating on the index, companies that provide essential services are only just starting to find their feet.

Ag Growth International (TSX:AFN) is a leading equipment provider in the agriculture space. It provides solutions for bulk commodities including seed, fertilizer, grain, feed and food processing systems. It has manufacturing facilities in North and South America, Europe and Asia.

AGI reported its results for the first quarter of 2020 recently. Sales came in at $228 million, up 5.9% year over year. Adjusted EBITDA fell from $30.6 million in Q1 of 2019 to $25.7 million in Q1 of 2020 due to supply chain inefficiencies driven by the COVID-19 pandemic.

The company has slashed its attractive dividend by 75% as a measure to conserve cash. The stock used to pay out a dividend of $2.4 per share. It has now dropped to $0.6 a share.

The company is seeing a backlog of 9% and it confirmed there have been no cancellations on any orders. AGI has outlaid an amount of $15 million for its capital expenditure for the rest of the year. It has put a pause on all mergers and acquisitions right now.

The company generally sees a sequential growth in numbers for the first two quarters. This year, it is expecting a downward divergence because of the impact of COVID-19.

COVID-19 impact on this TSX stock

COVID-19 has had an adverse impact on AGI's business, which explains the drop from $46.3 on February 10 to a low of $15 in the last week of March. The pandemic has affected the company's production, supply chain and product delivery. AGI stock closed trading at $29.58 yesterday which is still 48% below its 52-week high of $57.

That said, most of AGI's operations have been active since the onset of the pandemic. There have been temporary suspensions in Italy, India, Brazil and France, and at a number of locations in the U.S. There have been no production suspensions in Canada.

Most international suspensions have lasted between two and four weeks spread over March and April. AGI is operating between 50% and 80% of capacity in the international markets. The U.S. saw suspensions lasting between three to 10 days.

While North America is already operating at full capacity, AGI says it has very strong backlogs in Brazil and MEA regions that will bring those facilities to 100% capacity in the coming two weeks.

Taking the global uncertainty into account, AGI says it is bracing for an extended crisis. However, AGI believes that this crisis will generate an increase in business as the company is a key part of the global food infrastructure chain.

Governments and societies will increase investments in facilities as they try to increase capacity. Order intake since the onslaught of COVID-19 is up by 9% compared to the same period in 2019.

There are too many unknown variables in the world right now, and a mutation of the virus could trigger another slew of lockdowns.

If that occurs, countries will not want to be food-deficient. Capacity centres will go in for automation, which translates into good business for this TSX company.

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