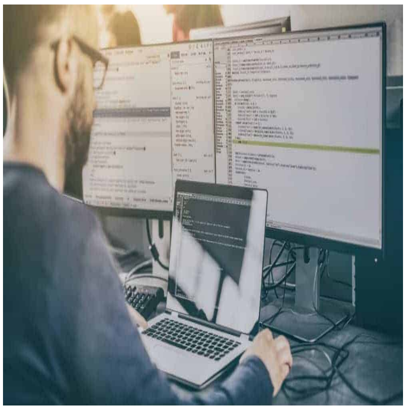

Buy Alert: This TSX Stock Is Up 20% Since May and Could Move Higher in 2020

Description

Agriculture is an evergreen sector and is recession-proof. Pandemic or no, people have to eat, and companies in the agri-manufacturing space will always have a demand for their products.

Ag Growth International (TSX:AFN) is an equipment manufacturer for bulk commodities like seed, fertilizer, grain, feed, and food processing systems. The company manufactures around the world including North America, the U.K., Europe, Brazil, and India.

While the second quarter of 2020 saw a lot of manufacturing facilities get shut down temporarily or reduce operations, the company's results show its resiliency. Strong demand in North America and resumption of services in Brazil, EMEA, and India meant that sales for Q2 of 2020 came in at $261 million compared to $293 million in 2019, a drop of just over 10.5%, and adjusted EBITDA was $44 million compared to $51 million.

Outlook for 2020

COVID-19-related delays took a toll on the company's operations in the second quarter, but the opening up of economies has changed its outlook for the rest of the year. Its North American commercial segments saw project delays as Ag customers postponed projects. However, this has resulted in a higher backlog compared to the same period last year.

The India market is seeing COVID spread further and Ag's operations were shut for three weeks. However, the country opened up in the second half of Q2. Orders resumed and a good rice crop has meant milling activity is strong and backlogs have been robust once again.

It's the same case with Brazil where operations resumed after a two-week shutdown. In fact, sales in Brazil have risen to record levels and backlogs are up 60% year over year.

While strong demand in North America has increased Ag's farm backlogs by 25% in the region compared to the same period in 2019, a decent showing from Brazil and India has ensured that the overall sales backlog for the company is 7% higher. In fact, Ag says, "With respect to outlook, we expect adjusted EBITDA in the second half of 2020 will exceed 2019 results. As of June 30, 2020 our Farm backlogs were 25% higher than the prior year."

What's next for TSX investors?

If the outlook for 2020 holds, it is not unreasonable to expect Ag stock to move higher by the end of the year. Ag is not a dividend-shy company either. In the pre-pandemic era, Ag used to pay out a dividend of $2.4 per share. It now pays $0.6 a share — a cut of 75% — but still indicating a yield of 1.7%. A strong third quarter could suggest that the payout might increase.

I had written about Ag on May 12 this year when the stock was around $30 per share. It's now up over 20% to $35.57. Analysts have given it a price target of $43.57. That's an upside of another 22% from current levels. I had recommended a buy then, and I'm recommending a buy now.

Governments worldwide must ensure that their populations are well fed, and Ag is poised to ensure that they achieve their goals.

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