



RRSP Investors: This Stock Should Be a Cornerstone Holding

Description

As far as commodity players go, **Nutrien Inc.** ([TSX:NTR](#))([NYSE:NTR](#)) remains a [top pick of mine](#) in this space for a number of reasons. Long-term investors seeking capital safety and income would do well to consider Nutrien a portfolio staple. This stock provides diversification and low-beta earnings which are excellent as far as risk-adjusted returns go.

But, these commodities are under pressure?

Potash is oversupplied, the nitrogen market fundamentals aren't great, and phosphates tend to always be oversupplied. This supply/demand unfavourability doesn't look good on the surface. One may wonder why buying this stock near 52-week highs makes sense?

Answer: Nutrien is in an enviable position in this sector. The company has a dearth of low-cost, long-life mines and a price position in this sector which is unmatched. The company is one of the largest global producers of all the commodities it focuses on combined. Nutrien can therefore influence market prices by its production targets. With more consolidation potentially on the horizon in this sector, Nutrien could run away as the only significant way to play this space.

Hidden gem is not in the company's commodity division

Despite these commodity-related headwinds, where Nutrien's real value is found is in its downstream retail division. The former-Agrium assets acquired as part of the Potash Corp-Agrium merger are the real cream here. These assets include an impressive network of farming supply stores.

These assets produce much higher margins than the company's commodity division and actually benefit from lower input costs. This makes Nutrien far less reliant on commodity prices as a whole to make money. In recent years, the company's retail division has been the only reason this company has turned a profit.

Starting in 2021, we could see an improvement in commodity prices in this sector. This would be a

huge boost for Nutrien's share price, given where the current supply/demand imbalance sits today. I would encourage long-term value investors to consider this stock at these levels. I believe significant upside is on the horizon, and think this is a great buy-and-hold stock for any long-term portfolio.

Dividend supported by solid fundamentals

The company's dividend yield of 3.7% is a juicy one for income investors. When one considers the size of Nutrien's cash flows and the strength of this company's balance sheet, this dividend yield is very safe. The company's operating cash flow during a pandemic came in just shy of \$3 billion.

Thus, an implied valuation of less than 10 times cash flow is one that value investors should salivate at today. To keep this in perspective, we're in an environment where ten-times sales looks cheap.

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