



Why Warren Buffett Would Like This Top TSX Stock

Description

One of the largest players in the agricultural sector in the world, **Nutrien** ([TSX:NTR](#))([NYSE:NTR](#)) has been a [top pick](#) of mine for a while. In this article, I'm going to discuss why I think this is a company that might fit Warren Buffett's investment style.

This is a company with a meaningful moat

Defensiveness is something the Oracle of Omaha has shown an affinity for over the years. Yes, Nutrien is in a cyclical business and is dependent upon commodities prices. These factors are not inherently defensive and lowers this company's durable competitive advantage significantly.

That said, I think the vertically integrated business model of Nutrien is attractive from a defensiveness standpoint. Accordingly, I think the specifics around the retail component of Nutrien's business provides the company with a small moat. As a result of the Potash Corp-Agrium merger which created this entity, Nutrien has gained an impressive portfolio of farm supply retail outlets.

Furthermore, Nutrien has diversified its business away from North America. The company acquired a foothold in South America and Australia, expanding its retail network in these markets. More acquisitions could be on the horizon, as Nutrien looks to become a global player in agri-business. This geographic diversification makes Nutrien less reliant on North American cyclicalities related to the harvest and planting cycles.

Commodities market improving: Broadly bullish for Nutrien

Crops such as corn have seen a market improvement recently. Other crops such as wheat and soybeans are also trading near five-year highs. It appears the supply and demand fundamentals across various agricultural commodities has improved much better than expected recently.

These factors play right into the strength of Nutrien as an input supplier for these core staples. Planting season is right around the corner in North America, and I think Nutrien is likely to see very strong

demand for its inputs drive fertilizer prices higher. This should have an outsized affect on the company's margins in the coming quarters.

Investors in Nutrien have, for a long time, hoped for such a rebound in commodity prices. I think a bull market in commodities could be forming, and investors looking to get in on this trade ought to consider companies like Nutrien right now. This is a picks-and-shovels approach to the sector. Additionally, Nutrien is a very attractively priced option right now.

Bottom line

Nutrien's price to book value of around 1.3 times right now is extremely cheap. This is made even more apparent when considering Potash Corp and Agrium traded around 2.5 to three times book prior to the merger. Indeed, the combined entity is a much better option considering the synergies this company has created. This vertically integrated company is one of the best ways to play the commodities space for those who believe we're in the midst of a bull market in commodities.

Investors are able to pick up a yield of 3.5% while raking in some impressive capital gains over the next few years. I think this is one of the safest commodities plays on the TSX right now. Indeed, this is a company I think Warren Buffett might be looking at right now.

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Author

chrismacdonald

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