



Is Nutrien (TSX:NTR) Stock Now Oversold?

Description

Nutrien ([TSX:NTR](#))([NYSE:NTR](#)) is down considerably from the 2022 high. Investors who missed the big rally at the start of the year are wondering if Nutrien is now [undervalued](#) and a good stock to buy.

Fertilizer market

Nutrien produces potash, nitrogen, and phosphate. These crop nutrients are used by farmers around the world to get better yields from their fields. The fertilizer sector went through a multi-year slump after the last big rally and that downturn led to the creation of Nutrien in 2018 through the merger of Potash Corp. and Agrium.

The rally in crop prices in the last two years picked up an extra tailwind when the war started in Ukraine. Russia and Ukraine are major producers of wheat, corn, and other key food products. Sanctions against Russia and the inability to get crop products out of Ukraine due to blockades at a strategic port are driving global prices even higher.

Demand for fertilizers has soared alongside higher food prices, as farmers plant more acres to take advantage of better crop margins. Potash prices had already moved higher on sanctions imposed against major producer Belarus in 2021. New sanctions against Russia, another significant potash producer, will provide another tailwind to the potash market.

In addition, soaring natural gas prices have reduced nitrogen production in Europe.

All of this means that Nutrien is seeing rising demand and higher prices for its key products. The situation is unlikely to change much in the near term. This should drive strong results for the company through the end of 2022 and into 2023.

Nutrien earnings

Nutrien reported strong Q1 2022 results. Sales jumped to US\$7.66 billion from US\$4.66 billion in the

first three months of 2021. Adjusted EBITDA came in at US\$2.6 billion compared to \$806 million in the same period last year. Net earnings hit US\$1.4 billion — up from \$133 million in Q1 2021.

Most of the gains came from the wholesale commodity business that sells the crop nutrients. Nutrien also has a large retail division that sells seed and crop protection products to farmers. Sales in the retail business in Q1 were similar to the previous year.

Outlook

Based on strong market prices and rising demand, Nutrien is increasing its potash output by one million tonnes to fill gaps caused by the sanctions against Belarus and Russia. As a result, management significantly increased the earnings outlook for the year. Nutrien now expects to deliver adjusted net earnings per share of US\$16.20 to \$18.70 for 2022 compared to the previous guidance of US\$10.20 to US\$11.80.

Nutrien intends to repurchase US\$2 billion in stock this year. The board also raised the dividend by 4% to an annualized rate of US\$1.92 per share. A larger increase could be on the way for 2023 if fertilizer prices hold their gains through the end of 2022.

Should you buy Nutrien stock now?

Nutrien trades near \$120 per share on the TSX at the time of writing compared to the 2022 high above \$144. Ongoing volatility should be expected, and the stock could pull back further if a deal is announced to soften or end Belarus and Russian sanctions as a means to combat global food inflation. Ideally, the stock would drop back to \$100 for starting a new position, but that isn't guaranteed to happen.

Investors who are bullish on the fertilizer market might want to start nibbling at the current level and look to add to the position on any additional downside. The rest of 2022 should generate record results, and the stock could easily retest the highs from earlier this year.

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