Nutrien Stock: More Pain Ahead?

Description

Nutrien (TSX:NTR)(NYSE:NTR) stock fell into a bear market since peaking back in April. The fertilizer company, which had enjoyed the massive windfall of higher agro commodity prices, is now on the retreat, and things could get uglier before they get any better, as investors take a bit of profit off the table.

Undoubtedly, Russia's invasion of Ukraine is a major reason why potash and other agricultural commodity prices took off. Though it's impossible to tell where the Ukraine-Russia situation is going next, I think that one should not rule out a bit of good news for a change. A peaceful resolution to the conflict or some sort of ceasefire in the second half of 2022 could bring for a cooling of potash, phosphorus, and nitrogen prices, leading to further pain in fertilizer kingpins like Nutrien.

Nutrien and the big fertilizer price windfall

NTR stock got too hot, and shares rose a bit too high. Even after the 24% plunge off 52-week highs, Nutrien shares are still up more than 45% over the past year. That's an impressive return when almost everything else is in the red over recession fears and higher interest rates. Nutrien has been a place to hide for many Canadian investors. However, the tides have recently turned, and the stock may not be so quick to bottom as many think.

As shares look to fall below $100 per share, I'd not look to catch the falling knife quite yet, even if next year proves to be a record year for free cash flow generation.

Ultimately, Nutrien's fate is tied to where fertilizer prices go next. Recently, the company planned to ramp up the potash production front to help meet the global shortage. The big boost will require considerable expenditures, all while Nutrien looks to reward shareholders with big share repurchases (around $2 billion for the year are planned).

Potash production boost and share buybacks coming

The big ramp-up could turn Nutrien into an absolute cash cow over the coming years if prices stay elevated. However, if prices slip, perhaps on a peaceful resolution to the Ukraine-Russia conflict, the production boost comes with some degree of risk.

Further, I'm not a big fan of Nutrien's share-buyback plan. Why? The stock is up big over the past year, and the valuation may be suspect. It would have been a better idea to wait for a steep pullback before committing to such a buyback. Indeed, a special dividend probably would have been a better use of the funds.

At writing, shares of NTR trade at 11.6 times trailing earnings, 1.6 times sales, and 7.7 times cash flow. That's indicative of a value stock. However, it's hard to tell if the stock is actually cheap, given the company may prove to have over earned for this period of elevated fertilizer prices. Now, I'm not calling Nutrien a value trap. But I think it's a risky proposition to assume fertilizer prices will remain at these heights forever.

The bottom line on Nutrien stock

As the technical backdrop decays, I think patient investors could get the double-digit entry point over the coming months. For now, the 2.2% yield doesn't seem bountiful enough, given the risks. I'm not a buyer here.

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Author
joefrenette