



Nutrien (TSX:NTR) Stock: Should You Buy Now?

Description

Nutrien ([TSX:NTR](#))([NYSE:NTR](#)) just reported record results for the second quarter (Q2) 2022 and the first half of the year. Investors who stayed on the sidelines during the surge in the share price earlier this year and watched it plunge in recent weeks are wondering if NTR stock is now undervalued and good to buy for a retirement portfolio.

Nutrien earnings

Nutrien produces potash, nitrogen, and phosphate. These products are used by farmers as fertilizer to boost yields on their fields. Nutrien also has a retail operation that sells seed and crop protection products to farmers around the globe.

Nutrien reported net earnings of US\$3.6 billion in Q2 2022 compared to US\$1.1 billion in the same quarter last year. For the first six month of 2022 the company generated net earnings of US\$4.99 billion compared to US\$1.25 billion last year. Free cash flow in Q2 hit US\$3.4 billion, up from US\$1.66 billion in the quarter a year ago. In the first half of 2022, Nutrien generated free cash flow of US\$5.23 billion compared to \$1.89 billion in 2021.

Share buybacks

Nutrien is using the excess cash to repurchase 10% of its outstanding stock under the current normal course issuer bid (NCIB). This translates into about US\$5 billion being used to buy back shares. Share repurchases benefit remaining shareholders by driving up earnings per share. This tends to support a higher stock price over time. In addition, cash payments in the form of dividends or special payouts are spread across fewer outstanding shares.

Market conditions

Soaring crop prices led to a surge in demand for crop nutrients over the past two years, as farmers

used rising profits to boost acreage and increase fertilizer spending. In addition, sanctions imposed on Belarus in 2021 and the war in Ukraine this year have reduced potash supplies from the region, further driving up commodity prices. According to Nutrien's Q2 2022 report, potash shipments from Belarus dropped 25% in the first half of 2022 compared to last year. Shipments from Russia fell 50%.

At the same time, nitrogen production in Europe is down considerably due to spiking natural gas prices. Natural gas prices are up in Canada as well, but nowhere near as high as in Europe. Nonetheless, the soaring cost base is having an impact on Nutrien's results.

Supply chain issues, the war in Ukraine, export restrictions on fertilizer by the Chinese and other countries are also all impacting the global fertilizer market, and Nutrien expects the challenging conditions to extend into 2023.

Commodity prices are falling from their 2022 highs, and this will show up in Nutrien's earnings for the second half of the year. In fact, Nutrien is reducing its financial guidance, after bumping up the targets in May. The lower guidance is primarily due to weaker-than-expected nitrogen earnings as well as reduced potash and nitrogen volume sales. Crop prices are down from their highs and fertilizer prices soared to the point where farmers now appear to be cutting back purchases.

Nutrien expects adjusted net earnings per share for 2022 to be US\$15.80 to US\$17.80 compared to the May guidance of US\$16.20 to US\$18.70.

Should you buy Nutrien stock now?

Nutrien trades near \$105 per share on the [TSX](#) at the time of writing. That's down from the closing high above \$144 in April but up from \$94 in the middle of July. The long-term prospects for the company look good due to expected population growth and the ongoing loss of arable land across the globe.

That being said, the peak of the current commodity cycle might have already occurred, and more downside could be on the way for fertilizer prices in the next 12 months. Nimble traders might be able to make some money on a near-term spike, but Nutrien's reduced guidance for the rest of the year is concerning. Given the uncertainties and the current market trend in commodities, I would look for other opportunities in the market today.

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