



Is Nutrien Stock a Good Buy at These Levels?

Description

Canada's leading crop nutrient stock **Nutrien** ([TSX:NTR](#))([NYSE:NTR](#)) has seen a decent recovery of late, gaining almost 30% since July. The demand-supply imbalance led by the war in Europe has mainly been behind higher fertilizer prices, benefiting Nutrien. The stock has gained 52% since last year, notably outperforming broader markets.

Supply woes amid geopolitical tensions suggest higher prices

Experts, analysts, and even Nutrien expect that supply issues in agriculture and fertilizer markets are to stay well beyond 2022. So, the strong price environment surrounding key crop nutrients will likely aid producers.

Nutrien is the largest potash and third-largest nitrogen producer globally. Supply woes have weighed on prices, which boosted its earnings in the last few quarters.

For the latest quarter, Nutrien reported a net income of \$3.6 billion that ended on June 30, 2022. This was a mind-blowing growth of 225% against the same period last year. Higher fertilizer prices have notably expanded its margins in the last few quarters. To be precise, Nutrien saw its gross margins boost from a long-term average of 25% to over 42% in the last three quarters.

Higher earnings growth will likely continue

Notably, Nutrien management upped its annual guidance for 2022 after a solid second-quarter (Q2) performance. It updated earnings guidance from \$14.75 per share earlier to \$16.8 per share for this year. Given the guidance midpoint, NTR stock is currently trading at seven times its earnings. This is lower than its peers and historical average and indicates [handsome upside potential](#).

Apart from the earnings growth, the company has a solid balance sheet with little debt and a solid liquidity position. As a result, Nutrien has been aggressively buying back its own shares this year. Till early August, it had repurchased 22 million shares worth \$1.8 billion. That's approximately 4% of its

total float.

Dividends and share buybacks are two methods of distributing excess cash among shareholders. Although shareholders prefer dividends, share repurchases have some unique advantages. For example, share repurchases reduce the total number of outstanding shares in the market. Thus, it facilitates lower outgo of the company's future [dividends](#) and boosts per-share earnings. Plus, buying increases the stock price in the short term and indicates the management's view of shares being undervalued.

What makes NTR stock a risky bet?

The supply woes will likely continue to push fertilizer prices higher, at least for the next few quarters. Higher prices for key crops like soybean and corn should encourage farmers to grow harvests, ultimately boosting demand for fertilizers. So, leading producers like Nutrien should see steep financial growth, driven by higher prices and increased output.

However, investors should keep in mind that Nutrien is in a commoditized business, and there is a significant element of cyclicity. So, if it is seeing higher earnings growth and margin expansion this year, it may moderate or normalize in the next few years to surge back only after a few years. The stock price will follow its earnings, making it a riskier bet for the long term. If you are okay with the stock's large drawdowns, it could create meaningful value.

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