



Why Is Everyone Talking About Nutrien Stock?

Description

Nutrien ([TSX:NTR](#)) stock declined nearly 14% during Thursday's trading session after releasing Q3 earnings results that widely missed market expectations. Rising interest rates could trigger a painful write-down of a key segment in the leading [agricultural](#) inputs giant's upcoming earnings.

What happened?

Nutrien reported Q3 revenue of US\$8.2 billion, up 36% year over year. Although quarterly sales fell below Wall Street's expectations of US\$8.7 billion. GAAP earnings per share (EPS) of US\$2.9 missed market consensus estimates of US\$3.97. The miss was despite a boost from a US\$330 million impairment reversal in the Phosphate operating business due to a more favourable margins outlook.

The company is supposed to be reaping huge cash flows and maintaining its record revenue and earnings spree in 2022. Since the Ukraine war broke out, Nutrien correctly forecast sustained high prices for fertilizers, crop chemicals, and other agricultural inputs

Thus, Nutrien's revenue and earnings performance widely disappointed an enthusiastic NTR stock investor base that anticipated the great times to continue rolling. Then, management tamed the market's expectations further by adjusting its prior earnings guidance for the full year lower.

Nutrien suffers setbacks in a key revenue segment

Nutrien recorded lower sales in North America during the third quarter. The company's potash sales volumes in North America declined 59% year over year. Higher prices for potash have seemingly rendered the key agricultural input unaffordable and out of reach for some farmers.

The company sees a temporary reduction in potash purchasing in North America and Brazil impacting its sales volumes and realized prices in the year's second half. However, like "transitory inflation," some customer purchase trends may seem temporary — until they aren't.

In the meantime, Nutrien has adjusted its prior earnings guidance for the full year 2022 downwards.

The new guidance is for full-year adjusted earnings before interest, taxes, depreciation, and amortization (adjusted EBITDA) for 2022 to fall between US\$12.2 billion and US\$13.2 billion, down from a prior outlook between US\$14 billion and US\$15.5 billion. Management now expects 2022 net earnings per share of US\$13.25-US\$14.50, a significant climbdown from prior guidance for EPS of US\$15.80-17.80.

Nutrien still runs a profitable business. However, it won't make as much profit and reap as much cash flow as management expected back in August.

In fact, I am afraid that problems in the North American market could soon result in a significant goodwill write-down.

Beware of a potential goodwill write-down in NTR's next earnings report.

Rising interest rates raise the cash flow discount rates companies use in impairment testing for goodwill. Nutrien's cash-generating units (CGUs) in North America, which have a combined goodwill allocation of US\$6.9 billion, passed an impairment test by a whisker last quarter as the discount rate on adjusted EBITDA rose to 8.5% by September 30, 2022.

The company anticipates that a further increase in benchmark interest rates by 25 basis points could trigger a potential US\$500 million write-down in goodwill carrying amounts on North American business units.

Benchmark interest rates are rising at a record pace. The Bank of Canada raised benchmark rates by 50 basis points in October. Following suit in November, the U.S. Federal Reserve raised rates by another 75 basis points.

Given Nutrien's lower adjusted EBITDA estimates for 2022, management may have no reasonable basis to improve its future earnings assumptions for the businesses in question by December. A goodwill write-off is highly likely given rising discount rates.

Should you buy the dip in Nutrien stock?

NTR stock may still seem attractive after the recent drop as the business remains profitable despite lower volumes in North America. The company is committed to completing its US\$4 billion share repurchase program by February to support its share valuation. Globally, international sales remain strong as prices remain firm.

Nutrien's potash "Offshore" sales growth of 122% during the third quarter is a promising growth sign as European fertilizer and Nitrogen production remains curtailed. However, NTR stock seems [undervalued](#) given a forward PE of 5.1 times 2023 earnings per share.

That said, the company may not be able to sustain its elevated earnings and bumper cash flow in 2022

once commodity prices normalize. Revenue growth is slowing, and grower affordability and adverse weather conditions may still negatively impact revenue and earnings in 2023.

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Date

2025/09/26

Date Created

2022/11/04

Author

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