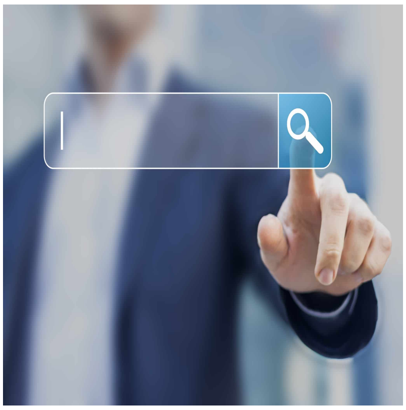

5 Things to Know About Nutrien Stock in November 2022

Description

Though fertilizer prices have been higher, **Nutrien** (TSX:NTR) stock has been quite volatile this year. It has been on a terrible downtrend this month, especially after its earnings for the third quarter (Q3) of 2022.

Let's see what the stock has in store for the future.

Competitive advantage

Nutrien is a $56 billion fertilizer company that makes potash, nitrogen, and phosphate. Its scale and integrated model play well optimizing costs and increasing profitability. In the last three years, the company has increased its volume sold through the retail network by 20%. This has notably improved its efficiency and has expanded gross margins.

Last year, there were enormous supply chain challenges due to geopolitical tensions that weighed on the global fertilizer markets. However, Nutrien's integrated network from operations to retail channel stood strong and supported its sales and margin expansion.

Financial growth

Nutrien has enjoyed handsome earnings growth this year thanks to higher fertilizer prices. In the last nine months, it reported a net income of $6.6 billion — an increase of a massive 240% year over year. Crop input supply has been tight this year due to the war in Europe and lower output from Belarus.

However, despite the strong growth so far, Nutrien lowered its guidance for 2022 early this month. It expects lower potash sales in Q4 2022 mainly due to higher inventory levels and cautious buying in North America and Brazil.

It now expects adjusted net earnings of US$13.9 per share this year, down from US$16.8 per share from its earlier guidance. A huge cut in guidance was evidently unwelcomed by investors, and the stock tumbled 14% on November 3.

Demand drivers

Prices of key crops like corn, soybean, and wheat are up 25-50% this year compared to the 10-year average. Higher expected crop prices will likely encourage farmers to boost production next year, ultimately increasing demand for NTR products.

Weather has been favourable in North America, which will ramp up activity and boost ammonia demand in the fall. Potash shipments from Eastern Europe are expected to decline significantly next year, so Nutrien could swoop in to fill the void.

Cyclicality

This year has been favourable for NTR and its investors. Despite the recent turmoil, it has returned 15% so far, beating broader markets. However, its exposure to commodity prices makes it a risky bet. There is a large element of cyclicality that drives its shareholder returns.

As a result, even though NTR has managed to outperform this year, it may not continue the streak in the long term. Plus, it is highly risky to enter cyclical stocks when their profit margins are at peaks. Note that NTR is seeing record margins this year. Its gross margin has come in at 43% in the last 12 months compared to its five-year average of 32%.

Valuation

NTR stock is currently trading six times its earnings and looks undervalued compared to peers. It looks fairly valued compared to its historical average. Note that cyclical stocks like NTR generally underperform in higher inflationary environments.

So, its depressed multiple indicates subdued growth expectations from investors. However, if the fertilizer prices remain higher for longer, this could turn out to be a smart value bet.

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