Is Nutrien Stock a Buy?

Description

Nutrien Ltd. (TSX:NTR) released its earnings report for the third quarter of fiscal 2023 at the start of the month, and the leading agricultural stock missed its expected earnings by a wide margin. The earnings results triggered a rapid 16.2% decline in its valuation on the stock market.

As of this writing, Nutrien stock trades for $105.12 per share. While it is up by 15.20% year to date, the agricultural giant is down by almost 29% from its 52-week high at current levels.

What happened with Nutrien stock?

Wall Street expected Nutrien to report Q3 revenue of US$8.7 billion. Nutrien's revenue was up by 36% year over year. Still, it missed the expected mark, reporting US$8.2 billion in revenue. The market consensus for Nutrien stock's earnings per share (EPS) was US$3.97. However, Nutrien reported an EPS of US$2.9.

The earnings miss in the quarter caught many by surprise, considering the stock received a boost through an impairment reversal worth US$330 million for its phosphate business, owing to a favourable outlook for its profit margins. The breakout of the Russia-Ukraine conflict earlier this year saw the company forecast higher prices for agricultural commodities.

If the higher prices are sustained, the company should rake in substantial cash flows and maintain its record earnings and revenue spree for the year. With its earnings report missing the mark, the disappointment and subsequent sell-off did not come as a surprise. Management's decision to lower its earnings guidance for the full year did not help either.

A growth spurt or sprint?

Nutrien has been consolidating the largely fragmented agriculture industry for several years. Its organic and acquisition-based growth has led to massive growth in revenues and earnings. However, the company recorded lower sales in North America in its latest quarter.

Its potash sales declined by almost 60% in the region compared to the same period last year. Higher prices indeed help its profit margins, but affordability is a critical issue that kept its sales volumes down.

Rising interest rates have impacted every industry, and it has not spared Nutrien stock. The company accordingly adjusted its earnings guidance for the year. It was previously expected to generate an EBITDA of anywhere between US$14 billion and US$15.5 billion.

Since its earnings release, Nutrien has lowered the range to US$12.2 billion and US$13.2 billion. The ag solutions provider is still profitable as a business, but its margins are significantly lower than previously expected.

Foolish takeaway

The question is: Is Nutrien stock a buy at current levels as an undervalued stock or not?

The troublesome situation in its North American market amid rising interest rates could result in a goodwill write-down. What does that mean? The cash flow discount rates companies use in impairment testing for goodwill rise because of higher interest rates.

Nutrien stock's cash-generating units (CGUs) in the region have a combined goodwill allocation of US$6.9 billion. Its CGUs barely passed the impairment test in the preceding quarter.

Another hike of 25 basis points in the key interest rates could result in a US$500 million write-down in goodwill carrying amounts on North American business units. Considering its EBITDA estimates for the year as they stand now, the company's management might not have the grounds to improve its earnings assumptions by the end of the year.

Trading at a 5.6 trailing price-to-earnings ratio, NTR stock looks attractively priced at current levels. Growing affordability concerns, potential price normalization, and climate change concerns may negatively impact its revenue in the coming years. Nutrien stock can be a good bet if things normalize for the better. However, it appears too risky to buy as things stand.

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