



Nutrien Stock: How High Could it Go in 2023?

Description

As 2023 wraps up its first month, I can't help but think about the many risks that exist in the market and the economy today. We've no doubt enjoyed one of the best bull market runs in the last many years, but 2022 saw all of that come to an abrupt halt. We're left with high inflation, high interest rates, and the very real prospect of a prolonged recession. So, where do we go for stock market returns?

It won't be as easy, but solid returns are still out there if we look in the right places. A stock like **Nutrien** ([TSX:NTR](#)) could be the answer. Nutrien is the world's largest provider of crop inputs and services. For example, Nutrien supplies potash, which is a fertilizer that helps increase crop yields and resist disease. It's just one of a handful of products that Nutrien's global supply chain provides to help "feed the world."

Nutrien stock has a long and volatile history. But in the last couple of years, it's performed phenomenally well, up 72%. Read on to see why I believe it could go much higher in 2023.

Very bullish fundamentals

While financial results for 2022 have not been reported yet, it seems that it was a record year for Nutrien. In the first nine months of the year, the company reported record results. In fact, earnings hit a record \$6.6 billion — up 233% versus the prior year. This was driven by very tight market fundamentals. Strong demand combined with low supplies created the perfect storm and pushed up pricing.

Looking ahead, these favourable fundamentals show no signs of abating. In fact, global grain stocks are expected to decline to the lowest level in 25 years. This kind of supply shortage takes time to correct, so it will be with us for a while. On the demand side, the driving force behind the increased demand for Nutrien's products is the growing global population. This will continue to translate into growing demand for grain, fertilizer, and crop protection products.

Nutrien's story is just beginning

The pricing power that Nutrien has been benefitting from has been returned after many [rough years of supply issues and difficult growing seasons](#). Today, agriculture commodities futures are trading at pricing that's 50% above the 10-year averages. But this has been a story in the making, coming to fruition over many years. In the last five years, revenue has increased 53%. Also, net income has grown 390% and cash flow from operations has increased 89%.

When supplies of essential commodities are so low, we can almost know for sure that there will be a day of urgency when panic starts to set in. This day has not come yet, but I believe it is coming. If and when this happens, we will see grain and crop prices soar higher, along with Nutrien's stock price.

Valuation for Nutrien stock is still very depressed

Nutrien stock [trades at a mere 5.6 times earnings](#). Yet its earnings increased 246% in 2022 and are expected to more than double in 2023. Furthermore, the stock trades at 1.6 times book value while its return on equity (ROE) is an impressive 30%. This value discrepancy is extreme and over the next year, I expect it to be rectified as the market recognizes the value in Nutrien stock.

In my view, a stock price of closer to +\$140 would start to more accurately reflect the very positive market fundamentals that Nutrien is experiencing. This translates into a +40% return for shareholders.

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