



Nutrien Ltd. (TSX:NTR): If I Could Only Buy 1 Stock...

Description

I look for thematic investment opportunities supported by positive secular trends. A secular trend is distinctly different from the cyclical trends that can influence financial markets in a much more transitory fashion. Secular trends are long term in nature. They can run for years or even decades, triggering fundamental shifts that are important for investors to identify.

Unlike cyclical trends, they can operate independently of the financial markets and can be highly disruptive, dramatically changing the landscape of a particular industry. These characteristics can make them powerful tailwinds for companies that are positioned to benefit from them, particularly because they are typically less affected by shorter-term market or economic gyrations.

Continued global population growth and, in emerging markets, a growing middle class with changing diets, are spurring the demand for increased food production. According to the United Nations Population Division, the current world population of 7.6 billion is expected to reach 8.5 billion by 2030, 9.7 billion by 2050, and 11.2 billion by 2100. To solve the current food crisis and meet the needs of the growing global population with its changing diets, food production will have to double within the next 30 years.

This increased food production will have to occur on less available arable land. The world has already lost a third of its arable land due to erosion or pollution in the past 40 years. This high-quality, food-producing land has been lost at a rate that far outstrips the pace of natural processes to replace diminished soil.

Doubling food production as the amount of arable land decreases can only be accomplished by intensifying production. The world will not be able to meet its food production goals without fertilizer. Today, commercial fertilizer is responsible for delivering 60% of the world's food production.

Nutrien Ltd.'s ([TSX:NTR](#))([NYSE:NTR](#)) competitive advantages are anchored by its unique business model, combining primary fertilizer production and manufacturing with the world's largest direct-to-grower retail distribution network. This unique business combination enables the company to achieve higher plant operating rates, leverage its size and scale with suppliers, achieve significant logistics and

distribution synergies, and gather detailed market intelligence globally from all levels of the crop input chain.

And because Nutrien is the largest agricultural retailer in the world, its retail segment has significant purchasing power. This is a unique competitive advantage for Nutrien. None of its fertilizer competitors has a retail business.

Formed through the merger of Agrium and Potash Corp. in January 2018, Nutrien is the world's largest and most diverse crop-input company. The company produces and distributes over 26 million tonnes of potash, nitrogen, and phosphate products to customers around the world.

Nutrien is targeting \$500 million in synergies from the merger of Agrium and Potash Corp. It expects to realize the full amount of these synergies on a run-rate basis by the end of 2019. I believe these synergies are achievable and should help drive earnings and cash flow growth. Analysts estimate \$200 million of synergies in 2018 alone.

Combined with its agriculture retail network, which it has rebranded Nutrien Ag Solutions following the merger, and which services over 500,000 growers, Nutrien offers investors exposure to the growing global demand for agricultural products and services.

Nutrien is well positioned to meet the needs of a growing world and create value for its stakeholders, offering an attractive earnings profile, growing free cash flows, and a solid balance sheet. The company is benefitting from better fertilizer prices from favourable market conditions. It is an attractive investment supported by strong cash generation and execution, with a favourable total return profile.

The term "transformational" is used too often in company press releases describing mergers or acquisitions, but I believe it is appropriate to describe this transaction. The "merger of equals" between Agrium and Potash Corp. represents a bold strategic action by both companies to create a stronger business to address the current market challenges and capitalize on future strategic opportunities.

More importantly, in the long run, I believe there are significant potential strategic benefits. As Nutrien president and CEO Chuck Magro said, "Combining our complementary assets will enable us to serve our customers more efficiently, deliver significant operating synergies and improve our cash flows to provide capital returns and invest in growth."

So far, this is exactly what Nutrien has been doing.

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