



Why I'd Buy This Beaten-Up Stock on the Way Down

Description

As global stocks continue to drop, the suggestion that buying a commodities player on the way down may seem crazy. Many believe the only direction that the stock prices of companies like **Nutrien** ([TSX:NTR](#))([NYSE:NTR](#)) will move seems to be down.

That said, from a long-term perspective, my take is that there is a lot to like about Nutrien's business model. I'll run through some of the pros and cons for investors to consider.

Cons

It's perhaps easier to be negative on Nutrien's outlook right now. Being positive about anything trading in the commodities space is difficult these days.

The U.S. dollar remains high. Commodity prices are continuing to decline. The global demand for potash certainly does not look good in the short term due to this coronavirus pandemic. China and India are the two largest consumers of most of what Nutrien sells. If markets believe farmers may not be able to get enough credit or have enough cash on hand to make purchases, large-scale revenue declines could certainly be in order.

On the supply side, a large mine being built by Australian mining company **BHP Billiton** (Jansen mine) could flood the market in the years to come. This could provide more in the way of price instability for many of Nutrien's key products, particularly potash.

If we do get a deep and prolonged recession, things may be bad for a longer time than most analysts think. This could potentially put additional downward pressure on Nutrien's already beaten-up share price.

Pros

Over the long term, it's obvious that the growth drivers for Nutrien remain strong. Agricultural inputs will

continue to increase as global food consumption increases, with Chinese and Indian growth paving the way. The developing world is becoming a larger piece of the market in terms of fertilizer sales.

Continued government support for the farming sector in most countries should aid in smoothing out concerns about food security via a recession. We should get back to record production levels sooner than other industries may experience.

Nutrien remains a swing producer in key farming inputs. These inputs include potash, phosphorus, and nitrogen. Also, Nutrien has a strong retail farm supplies business from the Agrium side of the Potash Corp. and Agrium Inc. merger. This diversified business model, and corresponding market power and pricing power should provide for less volatility over the long run.

In addition, Nutrien has great fundamentals and is a great free cash flow generator. This is due, in large part, also to the merger with Agrium Inc., which increased its retail exposure and has greatly improved the company's balance sheet.

If we do get a deep recession, and the U.S. prints money to the same degree (or potentially an even greater degree) as 2008/2009, then U.S. dollar depreciation should help global commodity prices. This will drive up stock prices in a sector that has not received a reprieve in quite some time.

Stay Foolish, my friends.

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1. Investing

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1. commodities
2. coronavirus
3. fertilizer
4. international
5. recession

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