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I have sold the position in the large portfolio acquired in May 2020. Up 66% is good for a cyclical stock.

Nutrien Stock Price Analysis

NTR stock has rebounded nicely since the March 2020 lows as most stocks did.

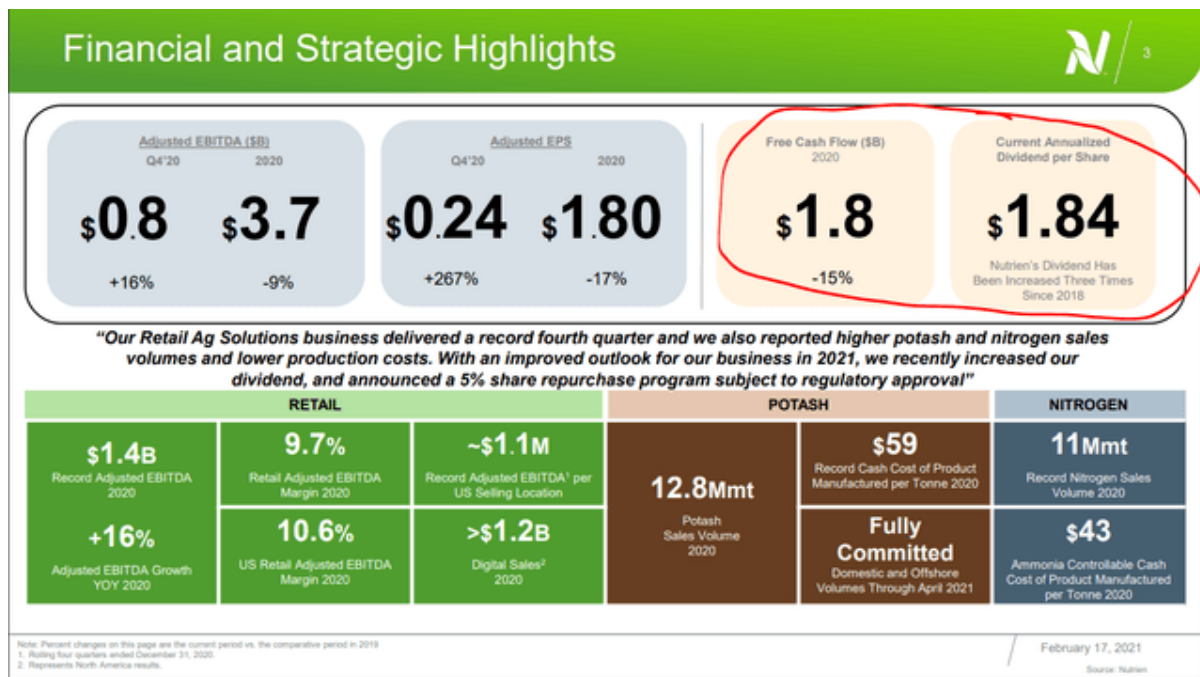


NTR stock price chart

However, one must keep in mind Nutrien is in a cyclical business and therefore volatility should be the only certainty. According to the [Peter Lynch stock categorization](#), cyclical stocks are a buy when things look terrible and a sell when things look rosy. Let's see where we are at the moment with NTR.

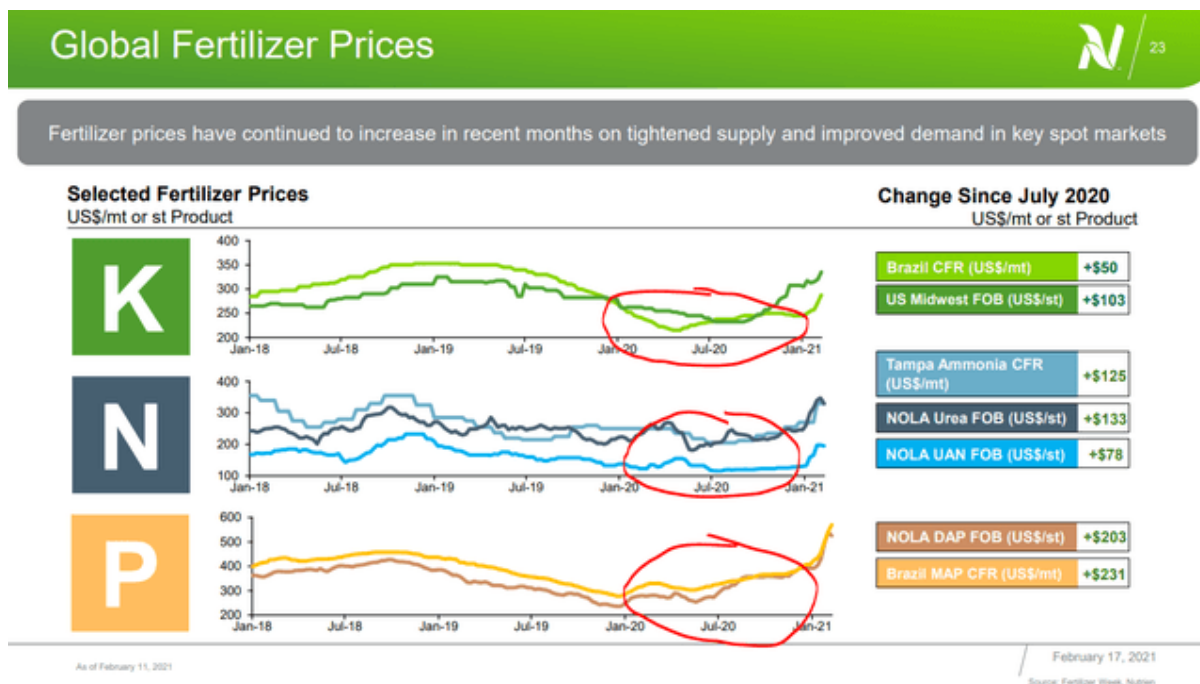
Nutrien Q4 2020 earnings update

Nutrien managed to reach \$1.8 billion in FCF in 2020 and declared a dividend of \$1.84 which gives a yield of 3.46%. The dividend pay-out is 60% of FCF.



Nutrien 2020 Results – Source: [Nutrien Q4 2020 Presentation](#)

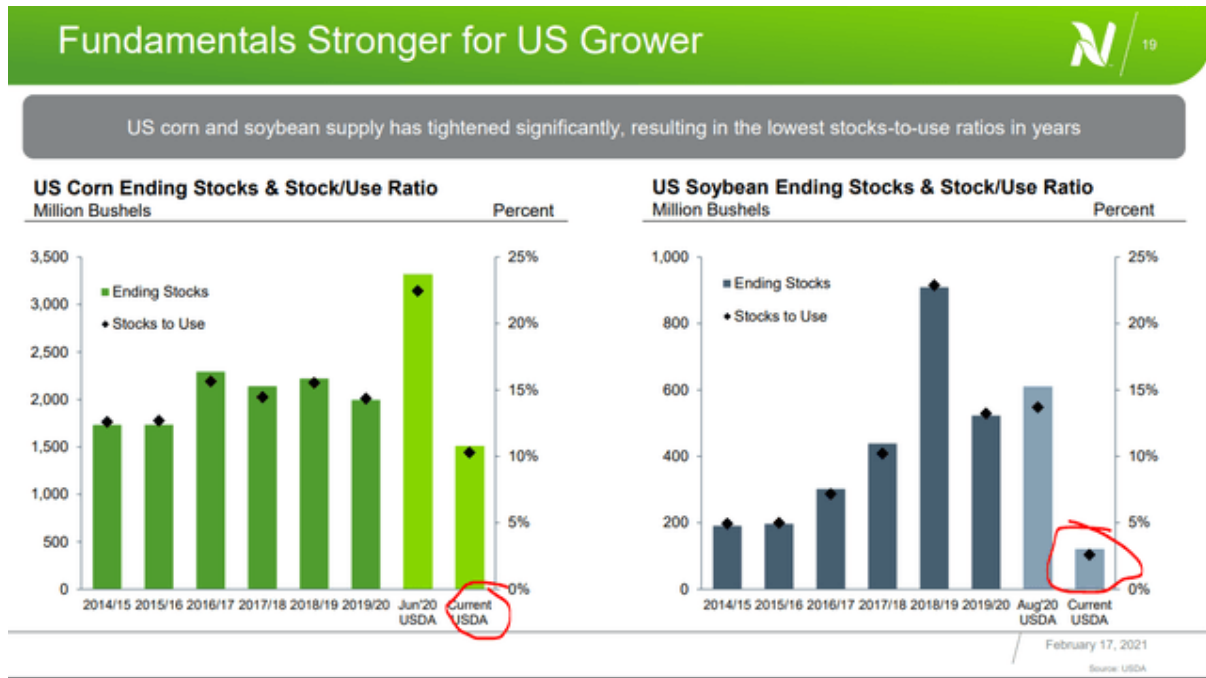
That is a really good performance given fertilizer prices have been relatively subdued in 2020. Fortunately, the combination of retail (Agrium) and production (Potash) is benefiting the company and giving it more stability as the retail cash flows are more predictable.



Fertilizer prices – Source: [Nutrien Q4 2020 Presentation](#)

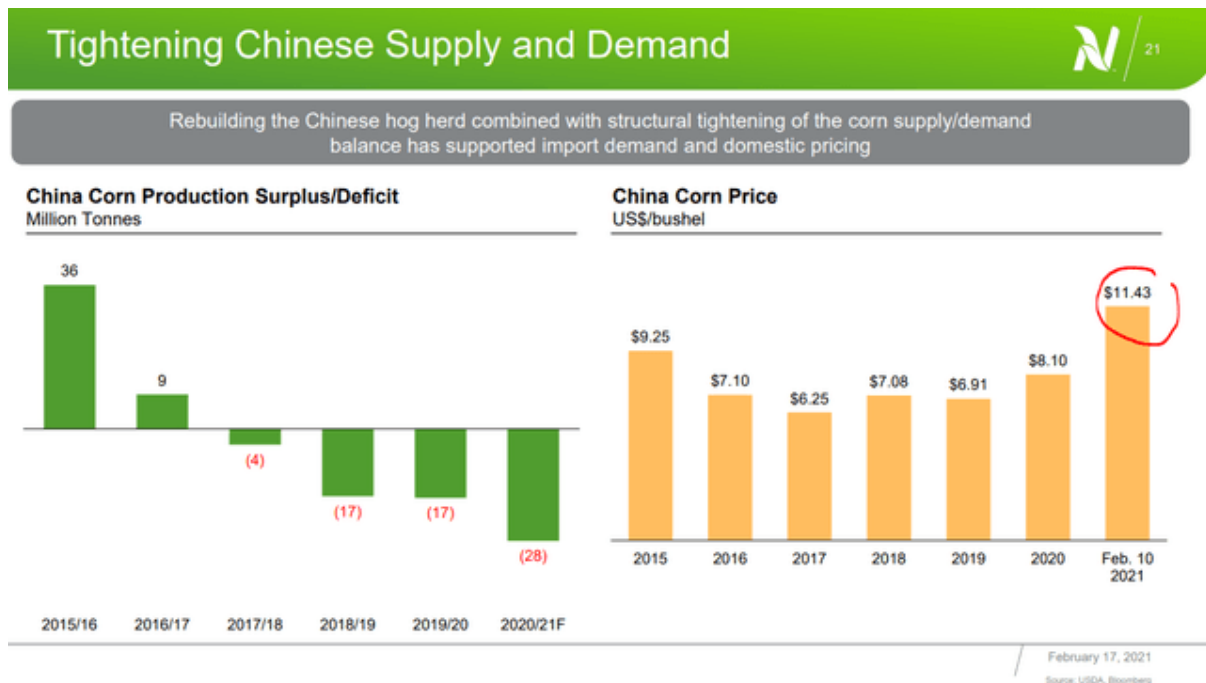
There has been a spike in fertilizer prices since January which bodes well and should lead to even better numbers for NTR in 2021 if the trends persist.

Profitability looks high for farmers across the globe, which bodes well for fertilizer consumption.



Low food inventory – Source: [Nutrien Q4 2020 Presentation](#)

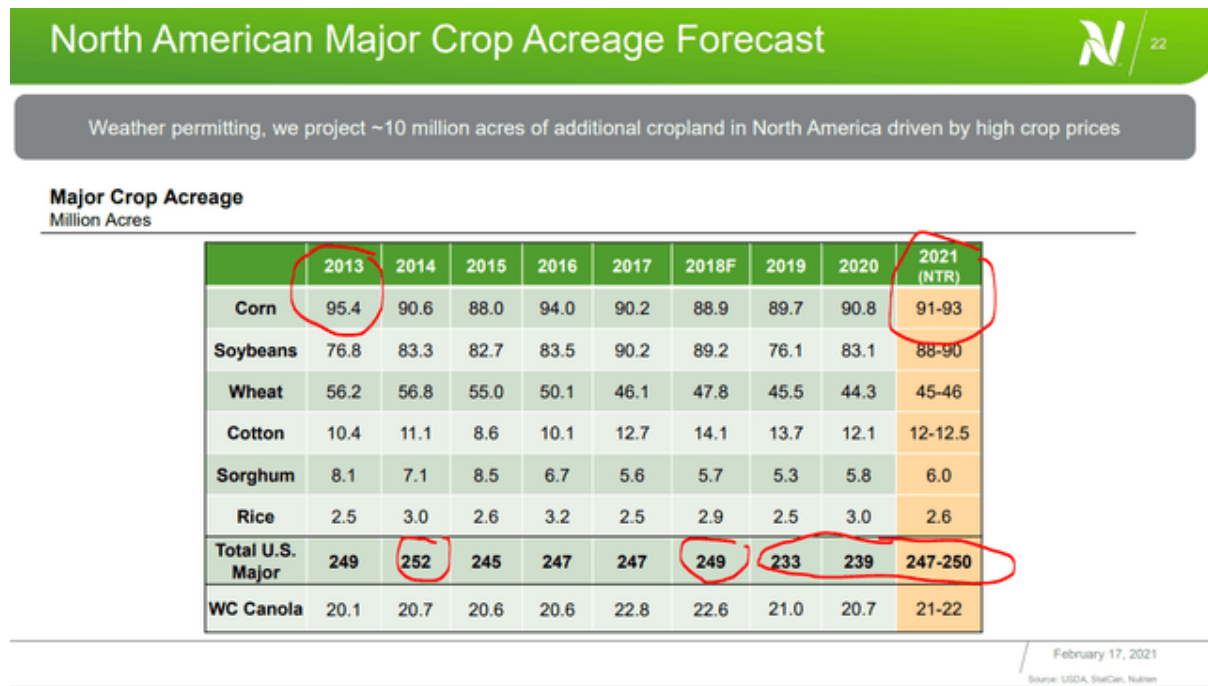
Low inventories lead to higher prices.



Corn price China – Source: [Nutrien Q4 2020 Presentation](#)

And, higher prices lead to higher crop acreages, that usually lead to higher production and consequently lower prices in the following years. This is something typical for a cyclical

industry but what is also common, the market seems to always forget about cyclicality and plot the current environment into long-term models.



High production in 2013/14 and 2018, led to lower prices – Source: [Nutrien Q4 2020 Presentation](#)

Prices usually decline after high production years.



Corn prices – Source: [Macrotrends](#)

However, higher prices can stay for a while longer, which also leads to a positive guidance for Nutrien.

Nutrien 2021 Annual Guidance



2021 Guidance Ranges ¹ (annual guidance except where noted)	Low	High
Adjusted net earnings per share ¹	\$2.05	\$2.75
Adjusted EBITDA (billions)	\$4.0	\$4.5
Adjusted Retail EBITDA (billions)	\$1.5	\$1.6
Adjusted Potash EBITDA (billions)	\$1.4	\$1.6
Adjusted Nitrogen EBITDA (billions)	\$1.1	\$1.3
Adjusted Phosphate EBITDA (millions)	\$250	\$350
Potash sales tonnes (millions) ²	12.5	13.0
Nitrogen sales tonnes (millions) ²	10.9	11.4
Depreciation & amortization (billions)	\$1.9	\$2.0
Effective tax rate on adjusted earnings	22%	24%
Sustaining capital expenditures (billions)	\$1.1	\$1.2

All references to per share amounts pertain to diluted net earnings per share.
Potash and nitrogen sales tonnes include manufactured product only. Nitrogen sales tonnes exclude ESNB and Rainbow products.

February 17, 2021

Source: Nutrien

Nutrien 2021 guidance - Source: [Nutrien Q4 2020 Presentation](#)

Despite the good environment, even their high end guidance leads to EPS of just \$2.75 which compared to the current stock price of \$55.25 gives a PE ratio of 20. A PE of 20 is high for a cyclical business like Nutrien. A bad year with weaker sentiment could quickly push the stock down as it was often the case in the past.

Nutrien Ltd

53,25 USD

-1,58 (2,88%) ↓

Closed: 4 Mar, 19:49 GMT-5 -Disclaimer

Pre-market 53,30 +0,050 (0,094%)

NYSE: NTR

+ Follow

1 day | 5 days | 1 month | 6 months | ytd | 1 year | 5 years | max



Open	54,90	Mkt cap	-	Prev close	54,83
High	55,02	P/E ratio	-	52-wk high	57,73
Low	52,59	Div yield	3,23%	52-wk low	23,85

NTR stock price since merger

I would not be surprised to see NTR make \$1 billion in FCF in a downturn and the market price it with a 10% FCF yield. That would imply a 70% downside from current levels.

I don't think such a bad scenario is very likely but I would argue NTR is exuberantly priced at the moment because the stock price seems to assume the current environment will persist for longer.

Something that might change the current environment is [BHP's Jansen decision](#) that should be made soon. If BHP decides to go onward with completing the Jansen mine that should be able to supply 8 million tons of potash annually, or almost 15% of global supply at very low cost, NTR's good times might not last for very long. Plus, sentiment might quickly turn negative.

Nutrien stock valuation

I have modeled 3 scenarios for NTR. In the first scenario I use \$1.5 billion in FCF with a 75% dividend pay-out ratio and calculate the present value on long-term 3% growth. With a terminal multiple of 10 on the FCF, the present value is \$15.52 billion.

Nutrien		LINK													
STOCK VALUE LIST(A)															
Scenario 1	FCF - with 75% DIV paid c	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	Terminal Value	Growth rate	
normal case	1.50	1.55	1.59	1.64	1.69	1.74	1.79	1.84	1.90	1.96	2.02	19.57	3%	next 5 years	
	10%)	1.05	0.99	0.92	0.86	0.81	0.76	0.71	0.66	0.62	0.58	7.55	3%	5 to 10 years	
	INTRINSIC VALUE											15.52	10%	Discount rate	
													10.0	Terminal multiple	
Scenario 2	FCF - with 75% DIV paid c	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	Terminal Value	Growth rate	
best case	2.00	2.06	2.12	2.19	2.25	2.32	2.39	2.46	2.53	2.61	2.69	52.19	3%	next 5 years	
	10%)	1.40	1.32	1.23	1.15	1.08	1.01	0.95	0.89	0.83	0.78	20.12	3%	5 to 10 years	
	Present value sum											30.76	10%	Discount rate	
													20.0	Terminal multiple	
Scenario 3	FCF - with 75% DIV paid c	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2030	Terminal Value	Growth rate	
worst case	1.00	1.03	1.06	1.09	1.13	1.16	1.19	1.23	1.27	1.30	1.34	13.05	3%	next 5 years	
	10%)	0.70	0.66	0.62	0.58	0.54	0.51	0.47	0.44	0.42	0.39	5.03	3%	5 to 10 years	
	Present value sum											10.35	10%	Discount rate	
													10.0	Terminal multiple	
Scenario	Probability	PV	Part												
Scenario 1 (normal case)	0.6	15.52	9.31												
Scenario 2 (best case)	0.2	30.76	6.15												
Scenario 3 (worst case)	0.2	10.35	2.07												
		Sum	17.53												

SVEN CARLIN

RESEARCH PLATFORM

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Nutrien stock valuation – Source: [Sven Carlin](#)

In case I use \$2 billion in FCF and a terminal multiple of 20 on the cash flows, only then is the current market valuation justified. High cash flows for eternity is not what one should expect from a cyclical company like NTR.

In the worst-case scenario, where cash flows fall to just \$1 billion and the multiple is lower, the present value is just \$10 billion but I find that very unlikely to happen given the quality of NTR’s assets and retail strength.

NTR stock investing conclusion

I have been following fertilizer stocks for a while and given the above and my experience, I know that when things look good and the expectations are exuberant, it is a good time to consider selling because when the price is high, the risk is higher too. With cyclical stocks, it is all about the price you pay and where we are in the business cycle.

I have therefore decided to sell my shares in Nutrien that I had bought last year when I [considered Nutrien stock to be cheap](#) because the sentiment was negative and it looked like we were at the bottom of the cycle.

I will reconsider repurchasing NTR when the market capitalization is below \$20 billion because at those levels I consider this a value investment with a margin of safety in relation to the cycle. That might happen, might not happen, but for now I have better risk reward opportunities compared to a 3 to 5% dividend yield NTR is giving at current levels in a good part of the cycle, alongside a price to FCF ratio in the mid-teens.

I’ll update on Nutrien when and if we again see a cycle downturn. The thing is that the long-term trend is positive as the global population is growing and demand for food and fertilizers is growing too. So, Nutrien remains a cyclical stock to follow within a positive long-term structural trend. On the watch list for now!

