Nutrien Stock Analysis

THE KEYS WHEN IT COMES TO NUTRIEN:

- Low cost potash producer with 6 million tonnes production ramp up option at extremely low cost and 50 years of production ahead
- Integrated with retail after the merger with Agrium contributing $650 million in synergies
- $2 billion cash flow at the bottom, or possible bottom, of the fertilizer cycle
- Good distributions to shareholders and sound balance sheet
- Possible growth coming from pricing but also from operations
- Potash is an oligopoly with 9 global players playing the prisoners dilemma game with China and India on pricing and production rates
- Global demand is likely to grow but production growth has also a lot of potential. However, expansion is not cheap
- The market is expecting lower for longer potash prices
- The trend is for an increase in demand for potash over the long-term.
- Stock is at multidecade lows.
- To make it a great buy, a low risk high reward one, the market cap needs to be around $12 billion!

Contents

Introduction and current situation

Nutrien is a stock that I have followed for a while now. Actually, since 2014 have I been following the sector (time flies). It was usually on the expensive side of things due to its quality but now is the time to give it another good look!

A lot has been going on with the company on a corporate level, from merging to selling the SQM stake which might create risks but also opportunities!

Nutrien is the entity created after the merger of PotashCorp and Agrium in 2018.

The current situation is the following:

Mosaic, CF and Nutrien cut to Sell equivalent BofA on weaker ag outlook

May 11, 2020 11:20 AM ET | About: The Mosaic Company (MOS) | By: Carl Surran, SA News Editor

- Mosaic (MOS -8.9%) is one of the three worst performers on the S&P 500 after Bank of America downgrades the stock and three other agricultural companies, warning Q1 could mark the peak for the group in terms of volume growth.
- BofA cuts Mosaic, CF Industries (CF -7.3%) and Nutrien (NTR -3.4%) by two notches to Underperform from Buy, while lowering Corteva (CTVA -5.1%) to Underperform from Neutral, saying optimism surrounding the group "has diminished greatly as record corn acres, lower fuel ethanol consumption, and record soybean production in Brazil could lead to the lowest cash prices for corn and soybeans in 14 years."
- Analyst Steve Byrne expects the sector will "struggle in 2H20 and potentially into 2021."
- MOS's average Wall Street analyst rating and Seeking Alpha Authors' Rating are Bullish, while its Quant Rating is Bearish.

Source: SA

The thing is that if there is enough food, there will be less incentive to produce more, less incentive to apply more fertilizer and fertilizer prices will fall. Lower oil prices destimulate ethanol production and consequently also food prices decline. However, this is typical Wall Street; 'when the short-term outlook is negative, you better sell everything as it is all worth nothing'. Also, the downgrade comes after the stock has gone down 50%. When it goes back up, you can expect an upgrade, but only after the fact.

This is exactly where we as retail, long-term investors have the opportunity to pick up good long-term businesses at below intrinsic value. We have to calculate the long-term outlook beyond the cycles and the likely cash flows in various scenarios and understand sector dynamics.

There are many moving parts, but all that can be researched in order to find the long-term cycle values. There are also some competitive advantages as mining costs, distributions costs, scale but also non-competitive issues like investments in capacity, low debt cost that stimulates investments in this part of the cycle consequently lowering general pricing.

In light of the above, the stock price is extremely volatile but the business is what it is and actually much more stable. They didn't have one year of negative cash flows in the last decade.

Nutrien Ltd NTR | ★★★★★

Financials

Export | Ascending

	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	TTM
Revenue USD Mil	6,539	8,715	7,927	7,305	7,115	6,279	4,456	4,547	19,636	20,023	20,490
Gross Margin %	40.1	49.2	43.0	38.2	37.2	36.1	18.6	14.8	27.5	27.2	26.1
Operating Income USD Mil	2,303	3,922	2,974	2,314	2,142	1,694	491	307	2,226	2,080	1,923
Operating Margin %	35.2	45.0	37.5	31.7	30.1	27.0	11.0	6.8	11.3	10.4	9.4
Net Income USD Mil	1,806	3,081	2,079	1,785	1,536	1,270	323	327	3,573	992	916
Earnings Per Share USD	4.88	8.78	5.92	5.10	4.55	3.80	0.95	0.97	5.72	1.70	1.57
Dividends USD	0.33	0.61	1.40	2.98	3.50	3.73	2.45	1.25	1.63	1.76	1.78
Payout Ratio % *	6.7	6.2	23.6	46.7	87.5	82.4	238.6	75.4	—	77.7	113.3
Shares Mil	364	351	350	350	338	335	336	336	624	583	575
Book Value Per Share * USD	19.94	21.74	28.65	29.01	26.38	25.67	23.96	25.33	36.21	40.28	38.78
Operating Cash Flow USD Mil	2,999	3,485	3,225	3,212	2,614	2,338	1,260	1,225	2,052	3,665	3,654
Cap Spending USD Mil	-2,019	-2,248	-2,204	-1,624	-1,160	-1,284	-895	-652	-1,405	-1,891	-1,958
Free Cash Flow USD Mil	980	1,237	1,021	1,588	1,454	1,054	365	573	647	1,774	1,696
Free Cash Flow Per Share * USD	2.69	3.64	2.91	4.42	4.14	3.39	1.36	1.57	-1.20	2.61	—
Working Capital USD Mil	-1,052	214	642	76	-260	-194	-303	1,721	3,327	1,536	—

* Indicates calendar year-end data information

Source: Morningstar – PotashCorp prior to 2018

We have to see whether there is a difference between the stock price and the long-term value of the business. Nutrien is one of the biggest companies and has historically delivered stable returns. It is likely it will do so in the future too.

Nutrien Ltd
TSE: NTR

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44,70 CAD +0,40 (0,90%) ↑
15 May, 16:15 GMT-4 · Disclaimer

1 day | 5 days | 1 month | 6 months | YTD | 1 year | 5 years | Max

Open	44,25	Div yield	5,70%
High	45,36	Prev close	44,30
Low	44,15	52-wk high	73,00
Mkt cap	25,44B	52-wk low	34,80
P/E ratio	20,22		

From the last [proxy report]:

Outstanding Common Shares

There were 569,140,484 common shares outstanding on March 20, 2020, the record date.

Plus, nobody owns more than 10%.

Nutrien – business overview

To give a full overview of the business it is better to start with the Annual report and then discuss sector dynamics from other sources.

2 Billion
ADDITIONAL PEOPLE TO FEED BY 2050[1]

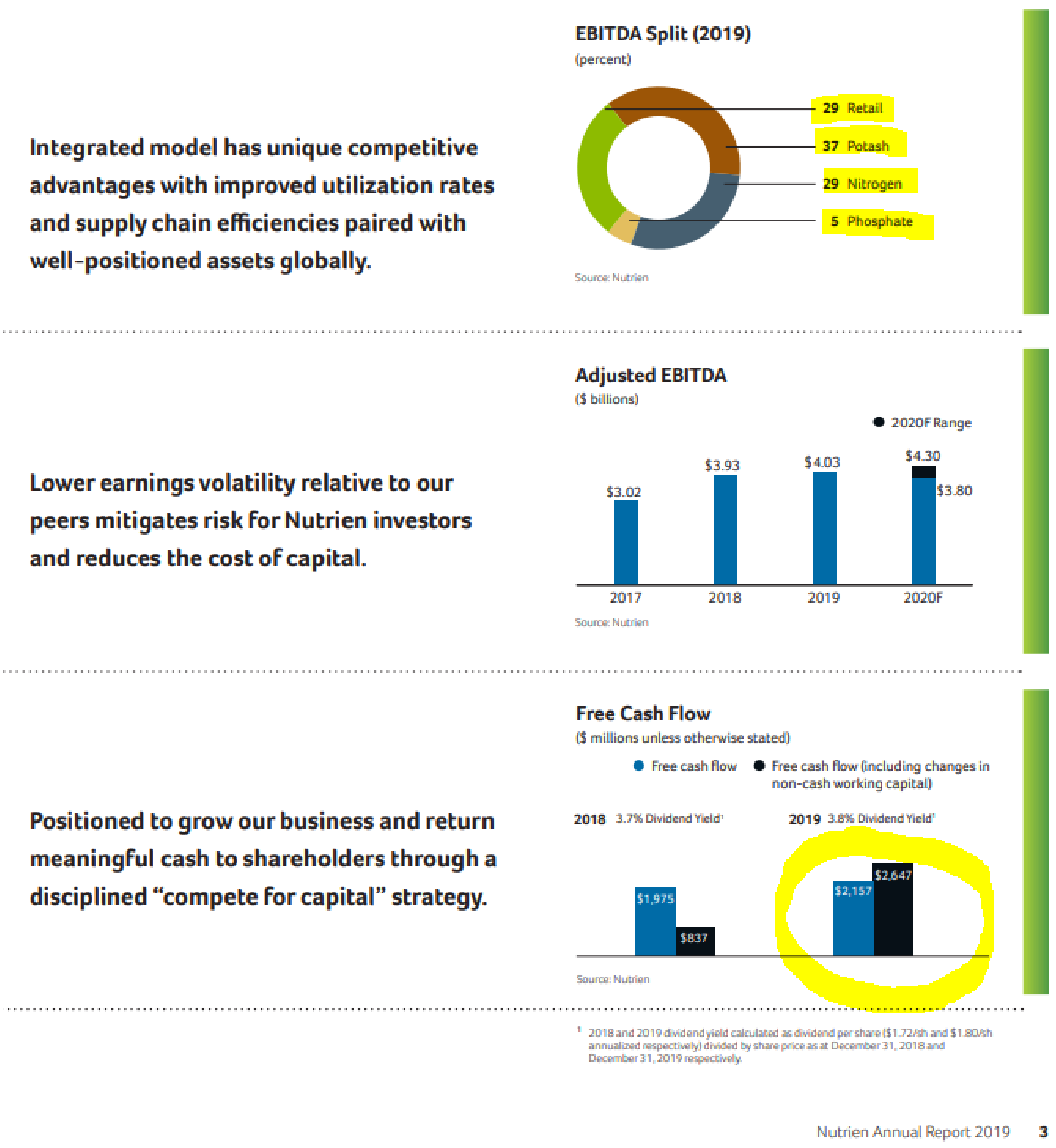
#1
AGRICULTURE RETAILER AND CROP NUTRIENT PRODUCER BY SIZE

>500K
NUMBER OF NUTRIEN GROWER ACCOUNTS

[1] Source: FAO

Nutrien Annual Report 2019 1

29% of EBITDA comes from retail, 37% from potash, 29% from nitrogen and 5% from potassium. They also show EBITDA per share but what am I more focused on is free cash flow. Over the last two years is was at $2 billion. With a market capitalization of $18 billion, we are looking at double digit returns if the last two years have been an indication of what we could normally expect from Nutrien.



Merger synergies are leading to $650 million in savings per year.

2019 Financial & Operating Highlights

Growing, Performing, Sustaining

At Nutrien, we are growing our business – efficiently and sustainably – to create value for our stakeholders. We are raising expectations of what an agriculture company can be by improving our business today and continually positioning ourselves for tomorrow.

$4.0B
ADJUSTED EBITDA
2018 $3.9B
2019 $4.0B

$2.2B
FREE CASH FLOW
2018 $2.0B
2019 $2.2B

318
RETAIL LOCATIONS ACQUIRED
2018 53
2019 318

$967K
RETAIL EBITDA/ US SELLING LOCATION
2018 NA
2019 $967,000

11.5%
PROPORTION OF NORTH AMERICAN SALES THROUGH THE DIGITAL PLATFORM [1]
2018 NA
2019 11.5%

$650M
ANNUAL RUN-RATE SYNERGIES ACHIEVED
2018 $521M
2019 $650M

1.2Mmt
CO_2 CAPTURED
2018 1.1Mmt
2019 1.2Mmt

13%
EMPLOYEE TURNOVER
2018 14%
2019 13%

25%
PROPORTION OF FEMALE VICE PRESIDENTS AND ABOVE
2018 19%
2019 25%

[1] North American digital Retail sales as a proportion of North American Retail sales that are available for purchase online.

Find out more at nutrien.com

Here are the financial highlights, we'll have to estimate what will be the future cash flows and dividends.

Financial & Operating Summary

Year ended December 31

(in millions of US dollars, unless otherwise noted)	2019	2018	Change (%)
Financial Performance			
Sales	$ 20,023	$ 19,636	+2
Gross Margin	5,441	5,392	+1
EBITDA	3,661	2,006	+83
Adjusted EBITDA	4,025	3,934	+2
Retail EBITDA	1,231	1,206	+2
Potash EBITDA	1,593	(203)	n/m
Potash Adjusted EBITDA	1,593	1,606	-1
Nitrogen EBITDA	1,239	1,215	+2
Phosphate EBITDA	194	255	-24
Earnings (loss) per Share from Continuing Operations	1.70	(0.05)	n/m
Adjusted Net Earnings per Share	2.17	2.68	-19
Strategic Initiatives			
Annual Run-Rate Synergies	$ 650	$ 521	n/m
Free Cash Flow	$ 2,157	$ 1,975	+9
Dividend Payout/Free Cash Flow	47%	48%	-1
Adjusted Net Debt/Adjusted EBITDA	2.5x	1.6x	+56
Working Capital Ratio	1.2	1.4	-14
Non-Financial Performance			
Lost-Time Injury Frequency [1]	0.34	0.34	–
Total Employees	22,300	20,300	+10
Employee Turnover Rate [2]	13%	14%	-1
Community Investment	$ 17	$ 17	–
Environmental Incidents	23	22	+5

[1] Frequency based for every 200,000 hours worked.
[2] 2018 data was restated.
n/m – Not a meaningful variance change.

All in all, Nutrien looks like a good company, let's see whether what the CEO says is true:

Overview Management's Discussion & Analysis Two Year Highlights Financial Statements Other Information

Letter from the President and CEO

Nutrien is built to deliver superior value through the agriculture cycle. We are a company that has generated and expects to generate more stable earnings than our peers and have made accretive investments through the ups and downs of the market. Through 2019, where challenging weather and escalating trade issues created headwinds for our industry, we remained focused on executing our strategic plan and demonstrating the strength of our model.

The situation is simple, there is significant pressure on fertilizer prices, and as we have seen, the pressure is expected to continue in 2020 and perhaps in 2021.

Perhaps this quote from the Annual report better explains the company:

"We have some of the world's highest quality, lowest-cost crop nutrient production assets, combined with an unparalleled Ag Retail distribution network. We leverage our unmatched size, scale and platform to create superior long-term shareholder value."

So, it is about the assets, that have a competitive advantage and about retail plus scale. This shows the power the company has:

Our focus in Potash is to strengthen our industry-leading position through further network optimization. We have unmatched volume optionality with the ability to ramp-up approximately 6 million tonnes of production capability at current sites with virtually no incremental investment. We also see a path to bring on additional brownfield capacity quicker and cheaper than anyone else should the

Having the capacity to ramp up 6 million tonnes of production as little cost is a huge advantage. To show the value of that we can compare it to BHP's Jansen project, a $5.7 billion investment, where $3 billion already went down the drain, that could produce 4 million tonnes. There is no point for BHP to proceed when Nutrien can just increase production if necessary and make the whole BHP project worthless. That is why BHP will decide the fate of the project by the end of 2021.

BHP thinks the potash market could double by 2040, if that happens Jansen would be profitable but then Nutrien would be off the charts.

Returning cash to shareholders is also a priority for the company. We allocated $5.7 billion to shareholders through dividends and share buybacks since the inception of Nutrien at the beginning of 2018, which is unmatched in our industry. The stability of our Retail earnings supports a steady and growing dividend. We also repurchased over 11 percent of our initial outstanding shares and will evaluate future share buybacks on a compete-for-capital basis.

$5.7 billion returned to shareholders is almost 33% of

Nutrien's Global Profile

We will provide industry-leading Ag Solutions to Feed the Future.

We have operations and investments in 14 countries, with over 22,000 employees and more than 500,000 grower accounts worldwide. We operate the world's premier Ag Retail network, supplying growers with the latest products, services and technology. As the world's largest producer of fertilizers, we have some of the highest-quality and lowest-cost production assets. Our extensive supply chain allows us to deliver products to the market with improved efficiency.

the current market capitalization.


Africa/Asia
MOPCO,
Damietta, Egypt
Point Lisas
Trinidad and Tobago
South
America
Agrichem, Ribeirão
Preto, Brazil
SÃO PAULO,
BRAZIL
Australia
LAS CONDES, CHILE
Casilda, Argentina
MARTÍNEZ,
ARGENTINA
Profertil S.A.,
Bahía Blanca, Argentina
EIGHT MILE PLAINS, AUSTRALIA
FREMANTLE,
AUSTRALIA
Kwinana, Australia
MACQUARIE PARK, AUSTRALIA
MELBOURNE, AUSTRALIA
Melbourne, Australia
Dandenong, Australia

Building a unique relationship with the grower

We are the leading retailer of crop inputs and services across key Ag markets where we operate with an award-winning digital platform and over 3,400 agronomists serving growers from more than 2,000 retail locations across North America, South America and Australia. We enrich our relationships by offering our customers a full suite of solutions to meet their needs. Technology, innovation and data are integral to providing Ag Solutions to Feed the Future, which is why we have a clear vision for developing the leading digital agricultural platform supported by our people, products, extensive distribution network and systems.

Create the best channel to the customer

We unlock value through integration and innovation across our supply chain and our approach to market. The types of products and services we offer require significant supply chain investments, particularly given the seasonal nature of our industry. In North America alone, we have more than 1,800 distribution points with approximately 6.3 million tonnes of storage capacity. We are further solidifying our leading position in the marketplace and expanding our reach to customers through a tuck-in acquisition and consolidation strategy in North America, a growth strategy in Brazil and integrating Ruralco into our business in Australia.

Own the leading production assets and proprietary offerings

We own and operate the world's leading fertilizer assets with 25 million tonnes of sales in 2019, which have significant cost and/or market advantaged positions. We have approximately 6 million tonnes of additional available potash capacity which we expect to draw upon in the coming years. We are optimizing our production assets to lower costs, investing in high-return nitrogen brownfield capacity expansions and implementing technologies across our business to reduce carbon emissions. We also develop value-enhancing offerings that help growers optimize yields and address challenges.

>2,000 RETAIL LOCATIONS WORLDWIDE

>1,800 NORTH AMERICAN DISTRIBUTION POINTS

>500,000 GROWER ACCOUNTS

>1,850 PROPRIETARY PRODUCTS

~25Mmt NUTRIENT SALES

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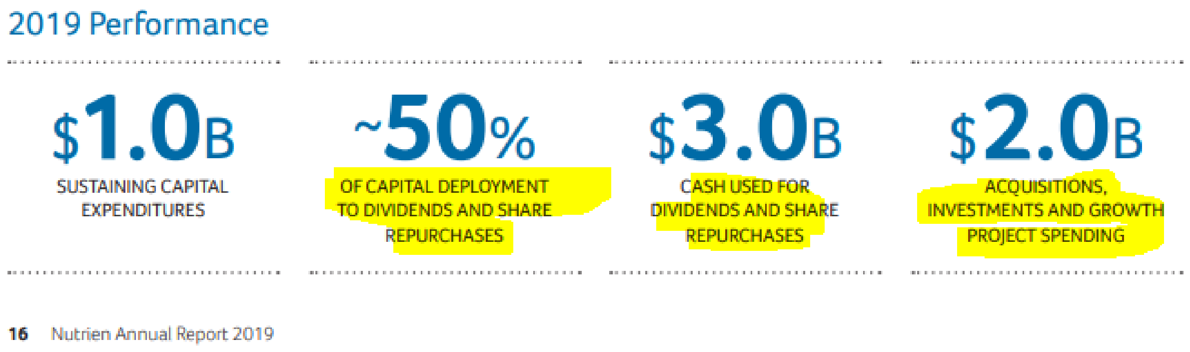
As investors, we are very interested in the growth and capital allocation.

Growth & Capital Allocation Initiatives

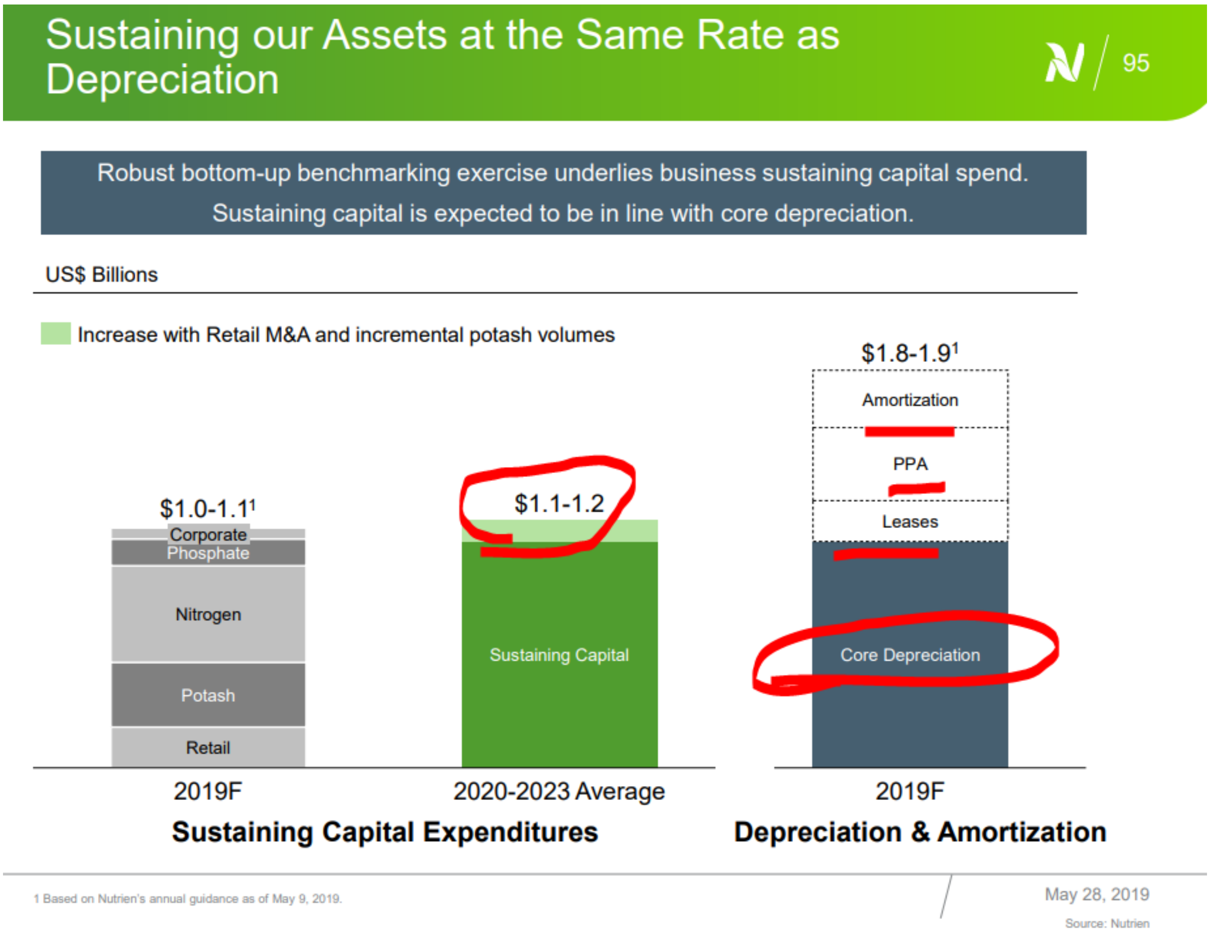
SAFE AND RELIABLE ASSETS
Efficiently maintaining our assets and managing associated costs to provide safe and reliable production to optimize returns.

GROW
Expanding our footprint and optimizing our business to provide stable and growing financial returns while minimizing risk and protecting our balance sheet.

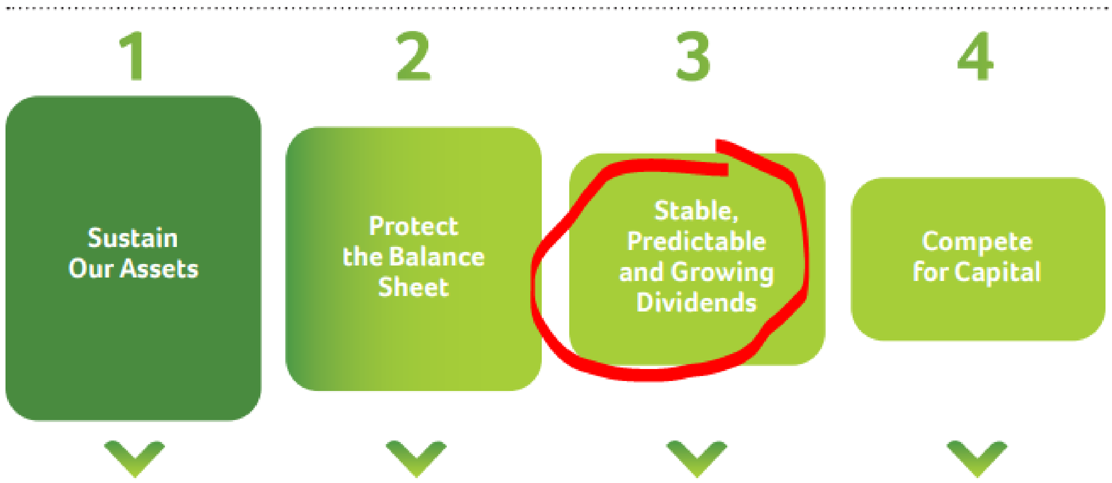
COMPETE FOR CAPITAL
Prudently allocating capital to the best risk adjusted opportunities to lead future growth and increase cash returns to shareholders.



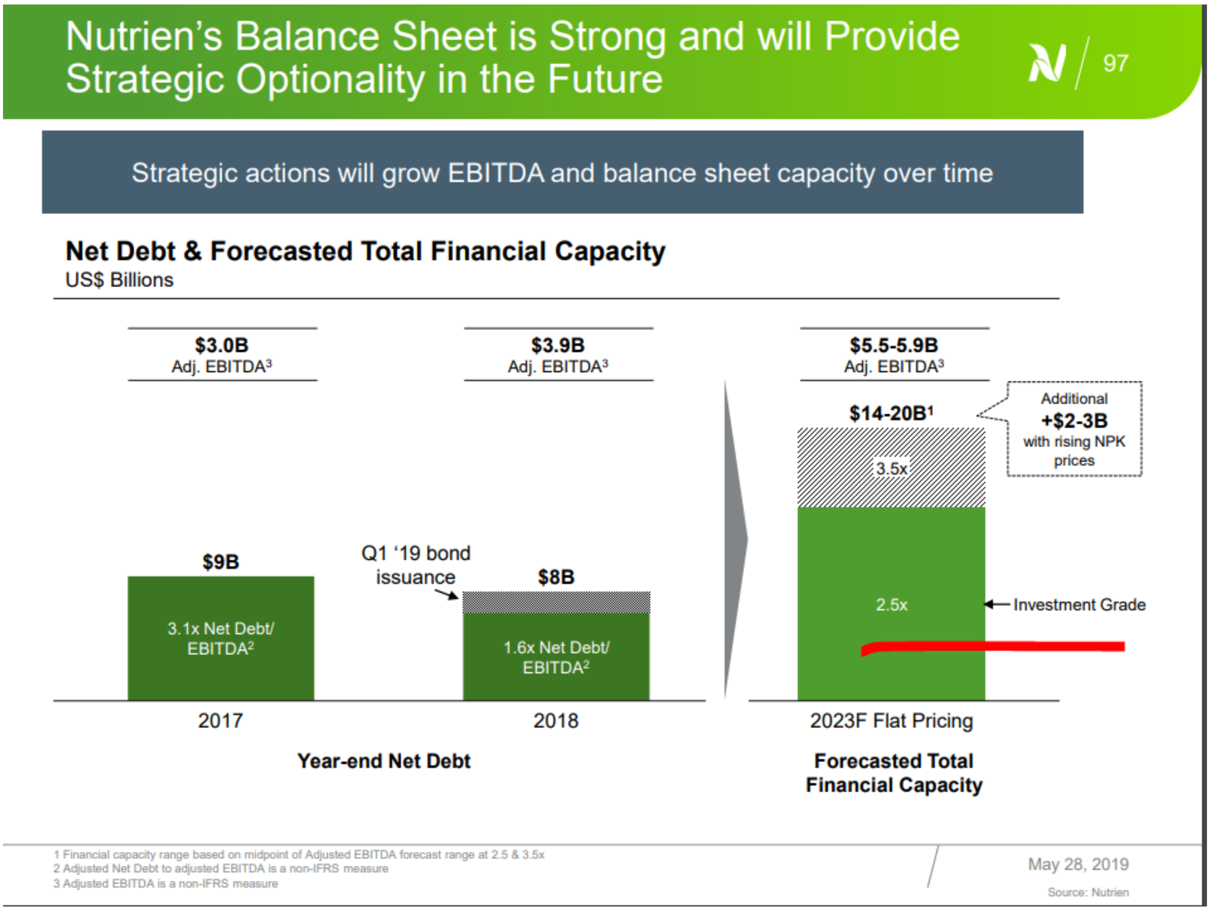
$1 billion sustaining capital is in line with depreciation.



The target is to have investment grade credit rating all the time.



EBITDA should have to fall to $3.2 to be below investment grade. That could happen in a short period of time, but then others would be hammered to bankrupt due to their higher debt levels.

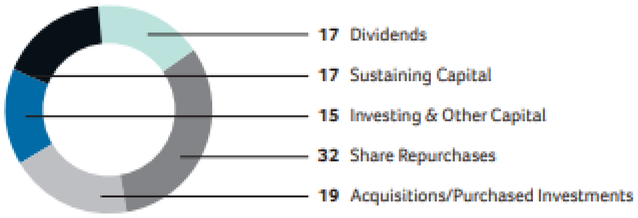


Plus, their capital allocation strategy seems smart:

During low points of the cycle, we expect to focus on growing our crop nutrient production, distributions to shareholders and transformational opportunities. At the high points of the cycle, we expect to focus on organic growth opportunities and reducing leverage. The stability of Retail

In 2019, we allocated approximately $1.0 billion to grow our Retail footprint and product offering in the US and Australia. We also returned $3.0 billion to shareholders through share repurchases and dividends.

2019 Capital Allocation
(percent)



Source: Nutrien

and depreciation of right-of-use assets recognized upon adoption of IFRS 16 "Leases".

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Retail business

This is interesting because they don't only sell it to you, they also have more than 3,000 agronomists to help sell the products. An interesting benefit from merging with Agrium.

They have acquired Ruralco, the third largest retailer in Australia, Actagro and are building a network in Brazil. It is all being improved with tech, to give advice to customers so we can say they are tech users. Plus, 11.6% of North American sales goes through their digital platform already.

Competitive Landscape

The retail landscape in most developed agricultural markets is comprised of numerous competitors of differing size and ownership structure.

Most markets are fragmented and we believe scale and size are required in order to meet evolving grower needs. Growers want a full suite of products, services and solutions, rooted in sound unbiased agronomic advice and analytics, stressing the importance of timely delivery and reliability of supply.

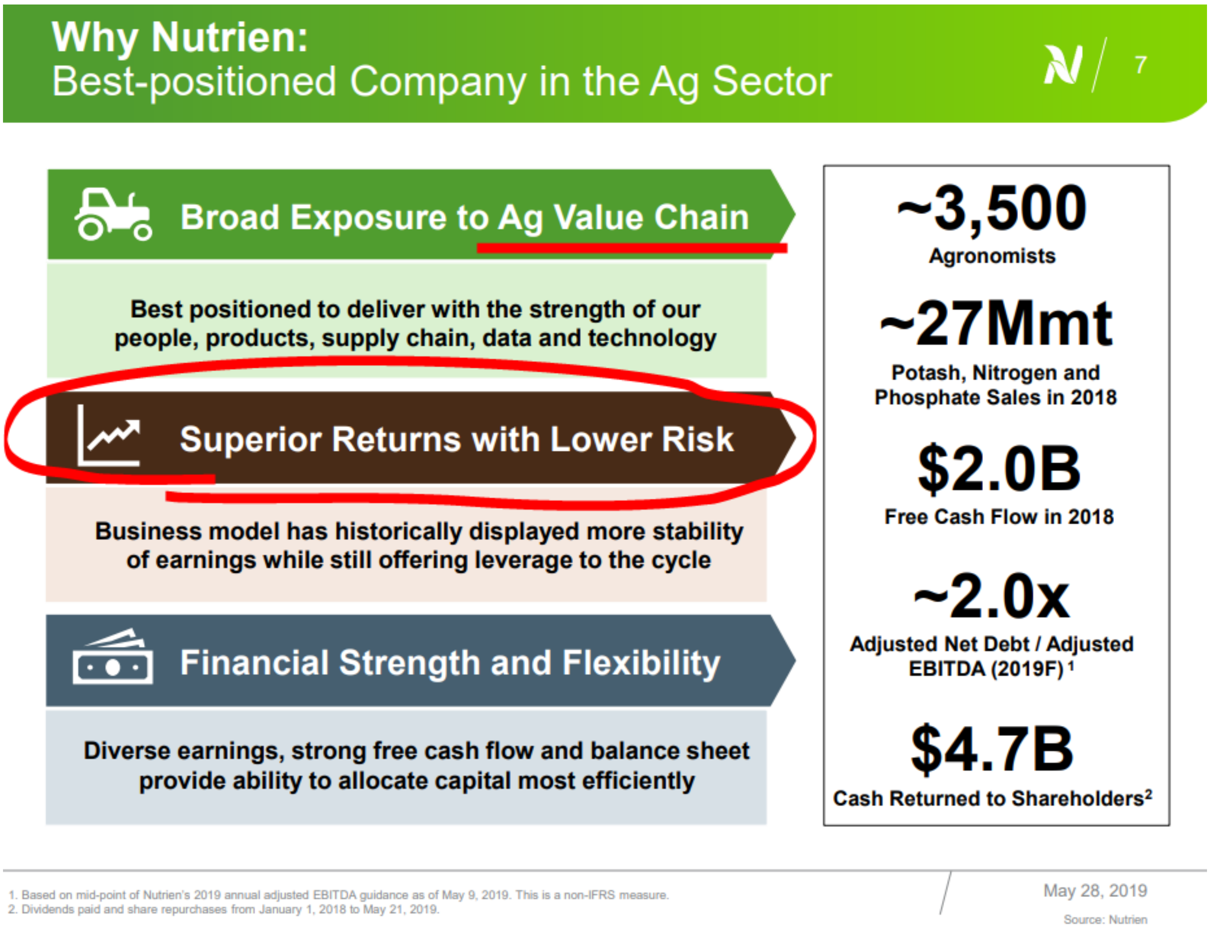
In North America and Australia, we compete with mid-sized national retailers, co-operatives and smaller independent operations. In Brazil, the market is characterized by smaller independent owners and represents an opportunity for larger retailers, including Nutrien, to enhance the product, service and solution offerings to growers.

The opportunity in the retail business is very interesting as the market is segmented. Scale could add stability to the business and cash flows.

The short term and long-term business outlook

When it comes to fertilizers, the short term is difficult to predict as it depends on rainfall, pricing, oil prices that put pressure or vice versa on ethanol and many other moving factors.

In the long-term, it all depends on whether there will be more global demand for food but Nutrien looks like a real investment, not a bet on higher prices. At any level, it is likely to make money.

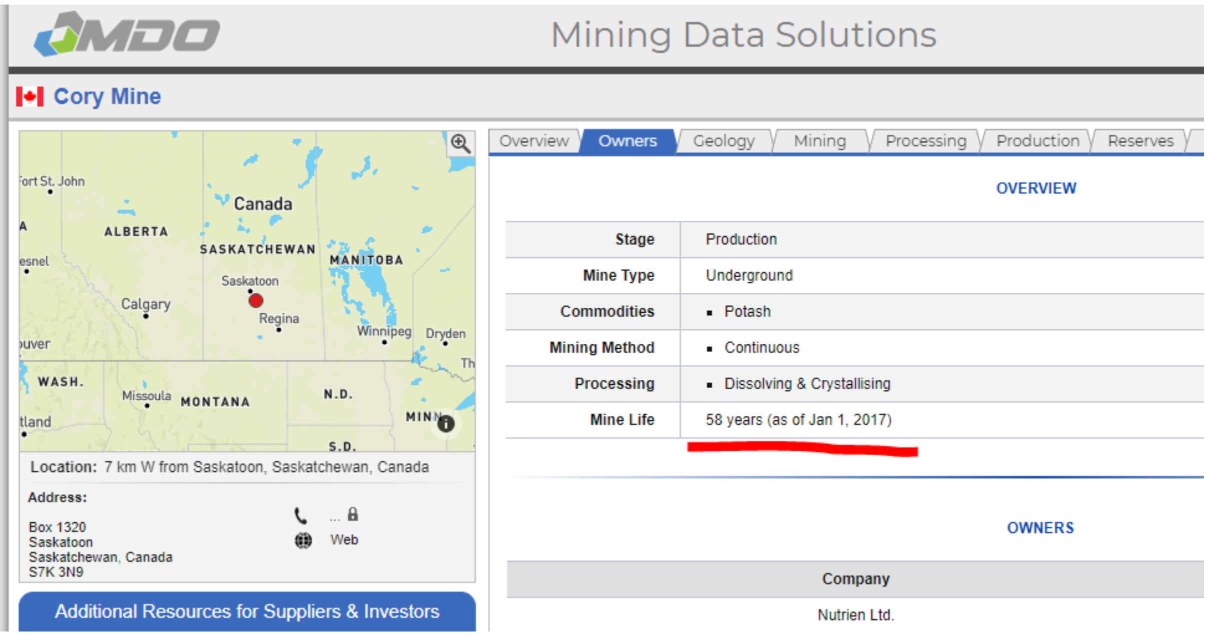


Source: 2019 Capital Markets Day

Potash

The company has 21% of global potash capacity with access to decades of mining thanks to their 6 mines in Saskatchewan.

Cory mine example:



More than 70 percent of the world's potash capacity is held by the six largest producers. Our primary competitors are located in Belarus, Canada, Germany, Israel, Jordan and Russia.

The production cash cost is $63 per potash ton.

Potash Cash Cost of Product Manufactured ("COPM")

Most directly comparable IFRS financial measure: Cost of goods sold ("COGS") for the Potash segment.

Definition: Potash COGS for the period excluding depreciation and amortization expense and inventory and other adjustments divided by the production tonnes for the period.

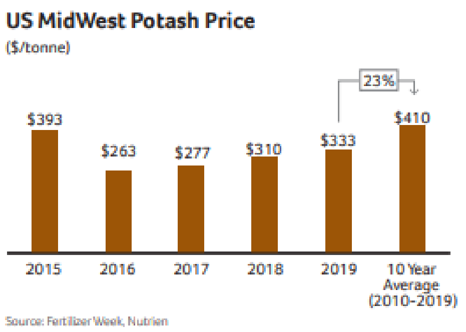
Why we use the measure and why it is useful to investors: To assess operational performance. Potash cash COPM excludes the effects of production from other periods and long-term investment decisions, supporting a focus on the performance of our day-to-day operations.

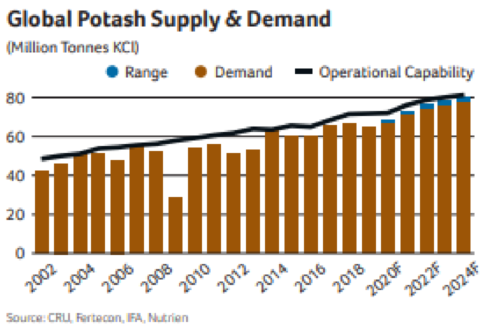
	Three Months Ended March 31	
(millions of US dollars, except as otherwise noted)	**2020**	**2019**
Total COGS - Potash	**265**	272
Change in inventory	**8**	44
Other adjustments	**(2)**	(7)
COPM	**271**	309
Depreciation and amortization included in COPM	**(89)**	(105)
Cash COPM	**182**	204
Production tonnes (tonnes - thousands)	**3,035**	3,499
Potash cash COPM per tonne	**60**	58

Source: Q1 2020 Report

Demand for potash has been growing at 2.5% per year since 2000. There has been a decline in 2019 of 3% due to lower palm oil prices, bad weather in the US and lower commodity prices in general.

The forecast is for growth in the long-term.





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Here is BHP's video about future potash demand. Future demand is based mostly on population growth and middle-class growth.

https://www.youtube.com/watch?v=RmaGh4g1JtY

But, all of that doesn't impact Nutrien much as the gross margins are high on a cash cost basis. When it comes to fertilizer production, the initial investment is a huge chuck of costs and with the company, that is mostly a sunk cost already.

Potash Financial Performance

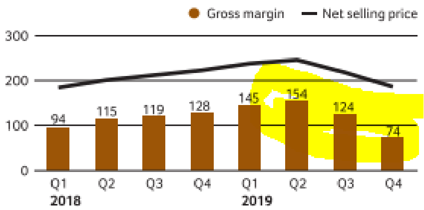
(millions of US dollars, except as otherwise noted)	Dollars 2019	Dollars 2018	Dollars % Change	Tonnes (thousands) 2019	Tonnes (thousands) 2018	Tonnes (thousands) % Change	Average per Tonne 2019	Average per Tonne 2018	Average per Tonne % Change
Manufactured product [1]									
Net sales									
North America	978	1,007	(3)	4,040	4,693	(14)	242	214	13
Offshore	1,625	1,657	(2)	7,481	8,326	(10)	217	199	9
	2,603	2,664	(2)	11,521	13,019	(12)	226	205	10
Cost of goods sold	1,103	1,182	(7)				96	91	5
Gross margin – manufactured	1,500	1,482	1				130	114	14
Gross margin – other [2]	1	2	(50)						
Gross margin – total	1,501	1,484	1						
Impairment of assets	–	1,809	(100)						
Expenses [3]	298	282	6						
EBIT	1,203	(607)	n/m						
Depreciation and amortization	390	404	(3)						
EBITDA	1,593	(203)	n/m						
Adjusted EBITDA	1,593	1,606	(1)						

	Average per Tonne 2019	Average per Tonne 2018	Average per Tonne % Change
Depreciation and amortization	34	31	10
Gross margin excluding depreciation and amortization – manufactured	164	145	13
Potash cash cost of product manufactured	63	60	5

[1] Includes intersegment sales. See Note 3 to the financial statements.
[2] Includes other potash and purchased products and is comprised of net sales of $1 million (2018 – $3 million) less cost of goods sold of $Nil (2018 – $1 million).
[3] Includes provincial mining and other taxes of $287 million (2018 – $244 million).

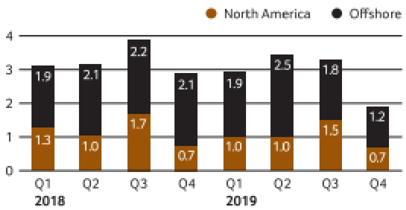
With a cost of $63 per ton and a price of $300, you do the math. In an average year, then make $1 billion just from potash, in a good year, if those years come back again, they will make two billion or more. In a bad year, they will make a few hundred million of free cash flow, but the risk of going under is likely low.

Potash Gross Margin and Net Selling Price
($ per tonne)



Source: Nutrien

Potash Sales Volumes
(million tonnes)



Source: Nutrien

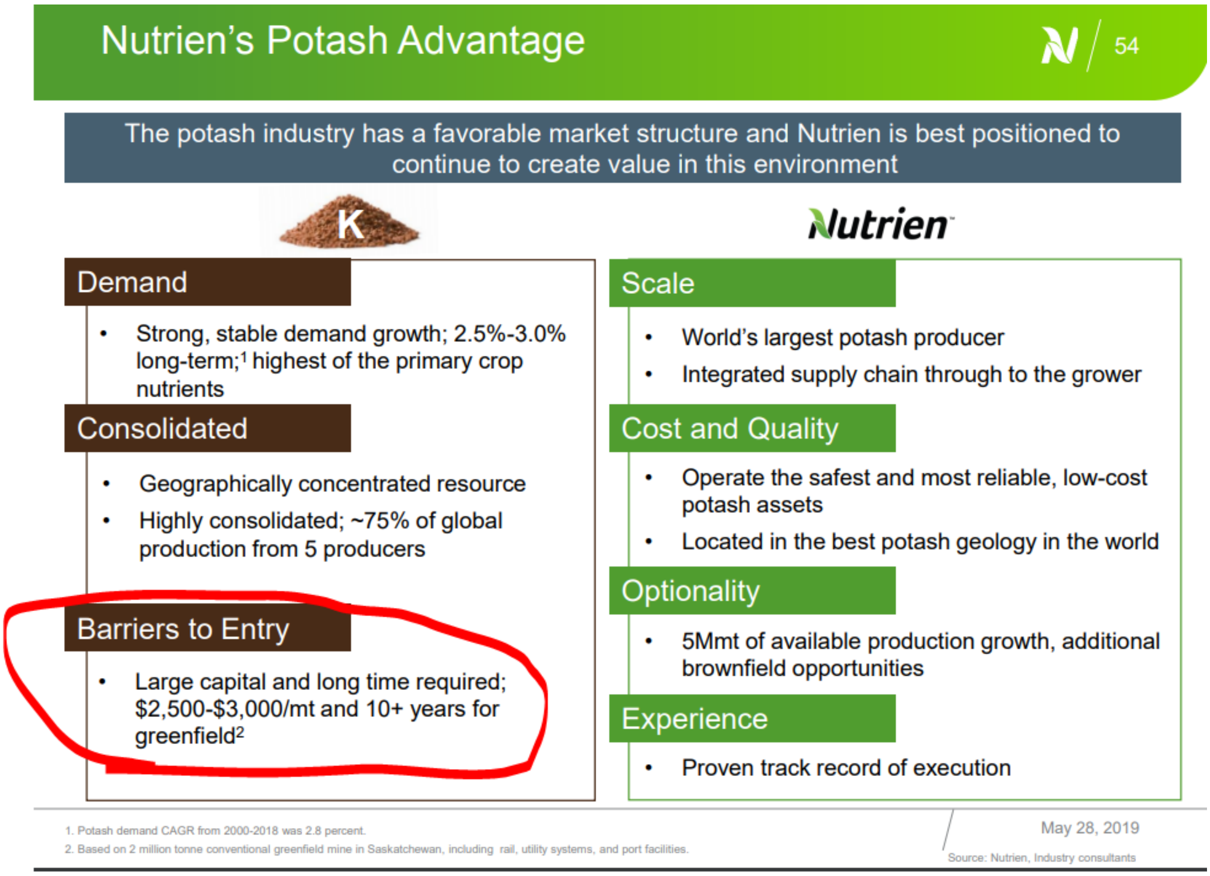
Potash Production

(million tonnes KCl)	Nameplate Capacity [1]	Operational Capability [2] 2020	Operational Capability [2] 2019	Production 2019	Production 2018
Rocanville Potash	6.5	5.4	5.4	5.14	5.22
Allan Potash	4.0	2.8	2.8	2.18	2.41
Vanscoy Potash	3.0	1.7	2.2	1.42	2.24
Lanigan Potash	3.8	2.3	2.1	1.75	1.96
Cory Potash	3.0	1.0	1.0	0.97	0.81
Patience Lake Potash	0.3	0.3	0.3	0.24	0.20
Total	20.6	13.5	13.8	11.70	12.84
Shutdown weeks [3]				55	39

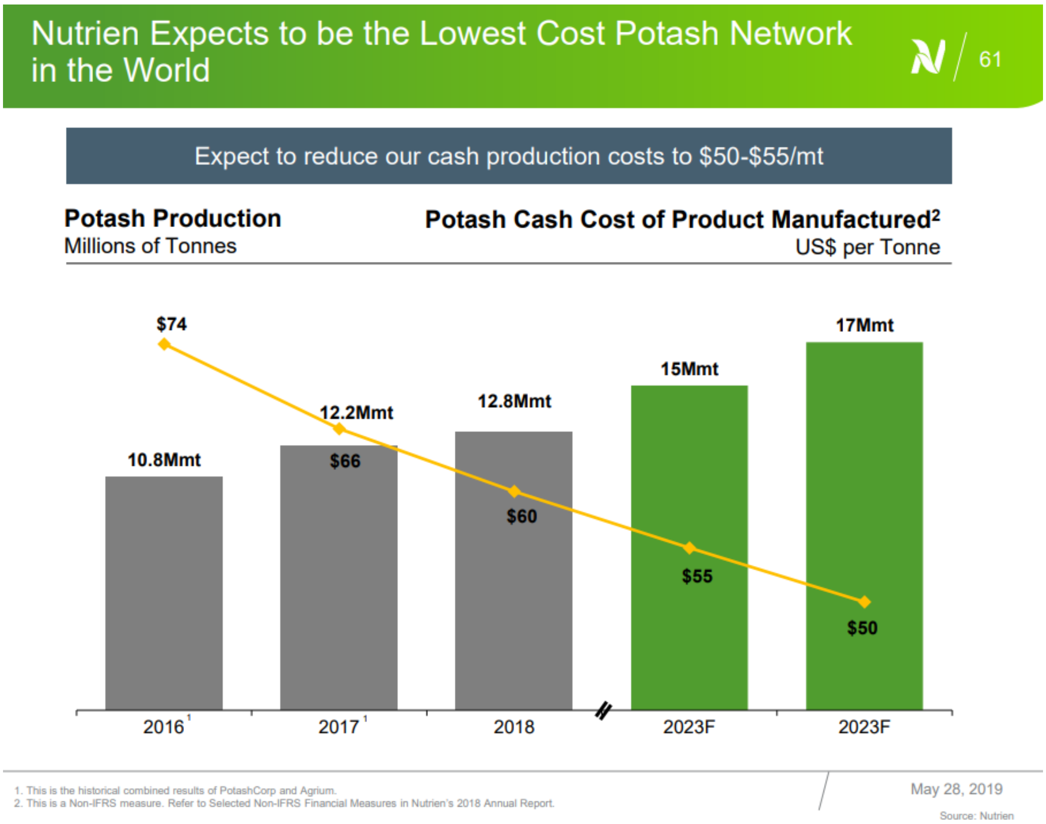
[1] Represents estimates of capacity as at December 31, 2019. Estimates based on capacity as per design specifications or Canpotex entitlements once determined. In the case of Patience Lake, estimate reflects current operational capability. Estimates for all other facilities do not necessarily represent operational capability.
[2] Estimated annual achievable production level at current staffing and operational readiness (estimated at beginning of year). Estimate does not include inventory-related shutdowns and unplanned downtime.
[3] Represents weeks of full production shutdown, excluding the impact of any periods of reduced operating rates and planned routine annual maintenance shutdowns and announced workforce reductions.

In 2018, they impaired their Brunswick mine as it is more profitable to mine just in Saskatchewan. That was a non cash cost of $1.8 billion. Another indication of how expensive it is to develop those mines.

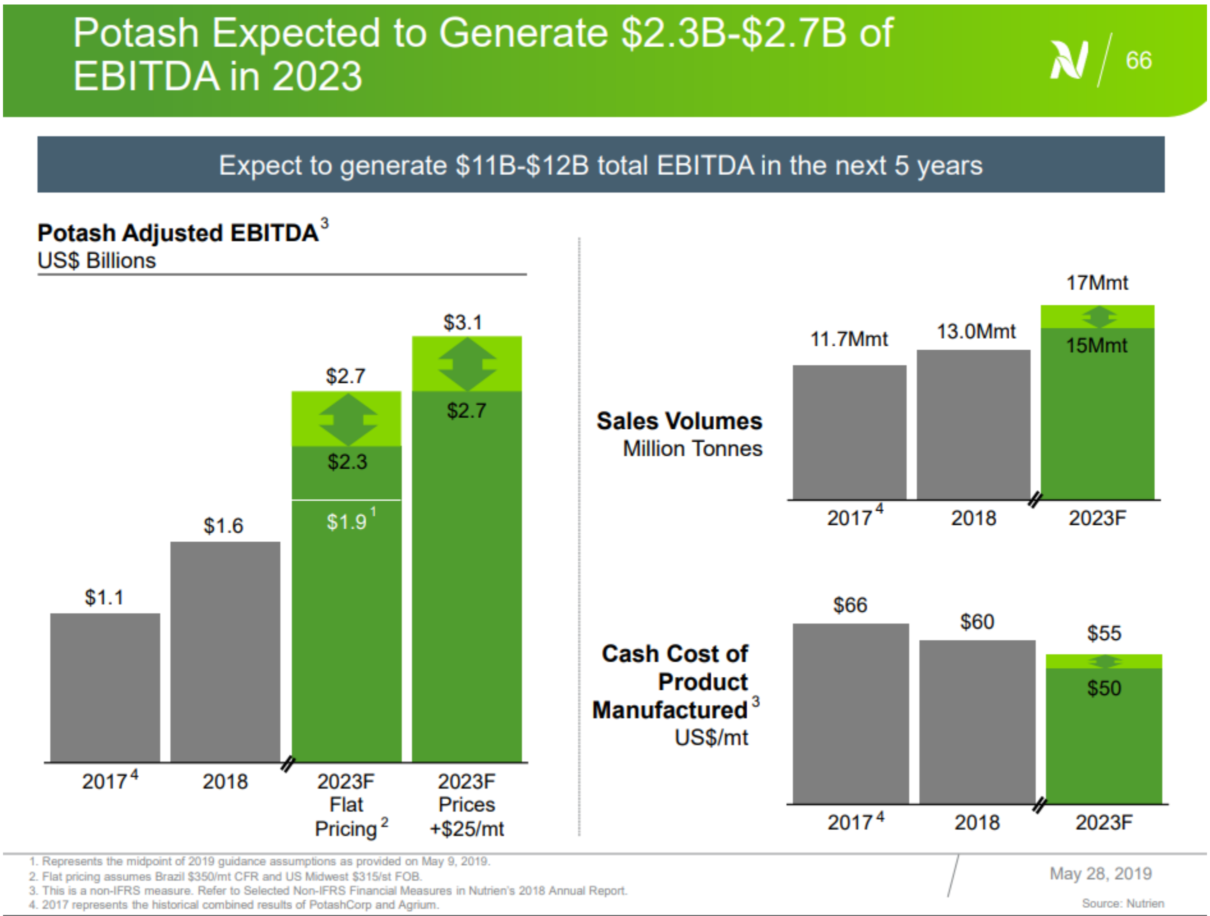
All in all, it is costly do develop new mines and you need a good incentive price to do that. Long-term, we might see another cycle boom, but you never know that.



Plus, the company expects to further reduce production costs and even beat the White Russians.

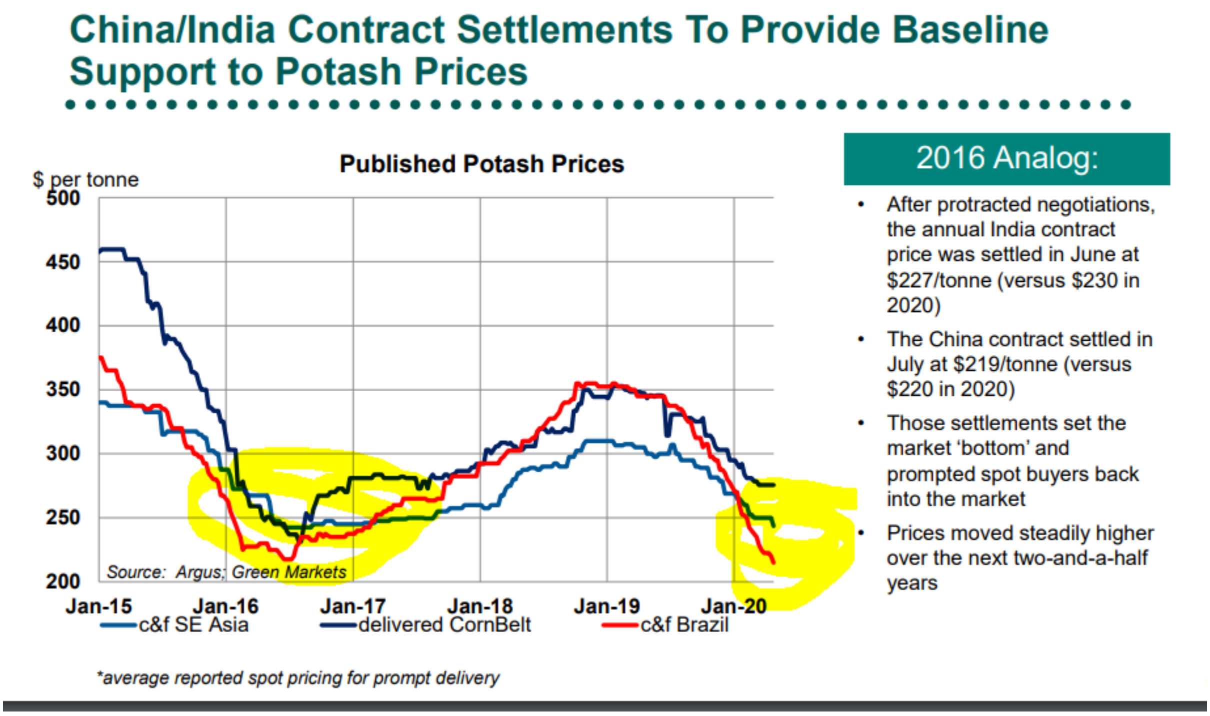


Long-term, they expect to lower costs and increase production. Plus, if there is a benefit of higher prices, even better.



But, what if we don't see higher prices for longer and the Wall Street expected scenario of lower for longer materializes? Well, the company is likely to still be profitable due to the low cost position that others hardly can compete with. As an investor, am I happy with EBITDA of $1.5 billion or just $1 billion coming from potash in a bad case scenario? That depends on the price I need to pay to own one of the lowest cost global producers.

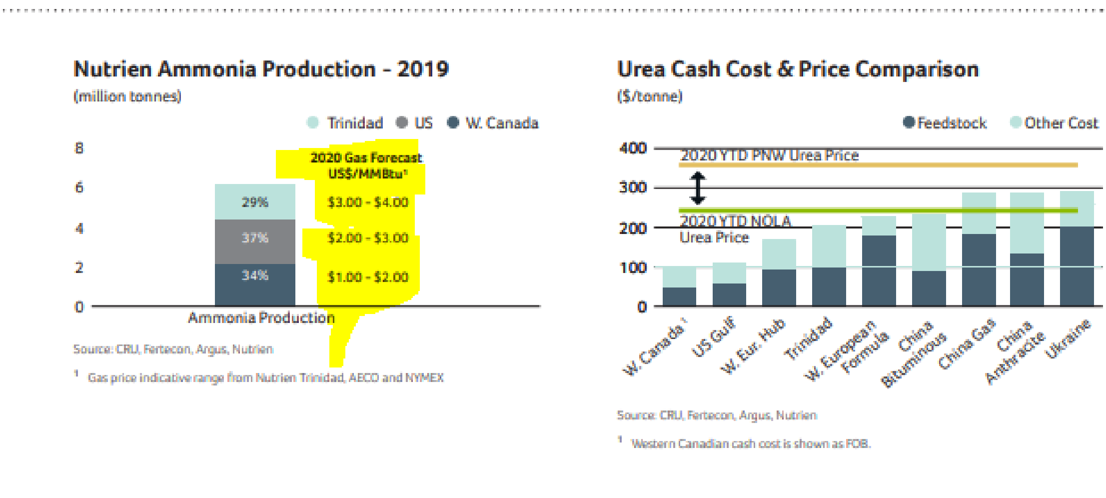
Potash prices:



Source: [Mosaic]()

Nitrogen

Nitrogen is a highly competitive business where the bonus for Nutrien are low North American natural gas prices.



In any case, Nutrien's cash costs are also low but actually not that special in North America.

Ammonia Controllable Cash COPM

Most directly comparable IFRS financial measure: COGS for the Nitrogen segment.

Definition: The total of COGS for the Nitrogen segment excluding depreciation and amortization expense included in COGS, cash COGS for products other than ammonia, other adjustments, and natural gas and steam costs, divided by net ammonia production tonnes.

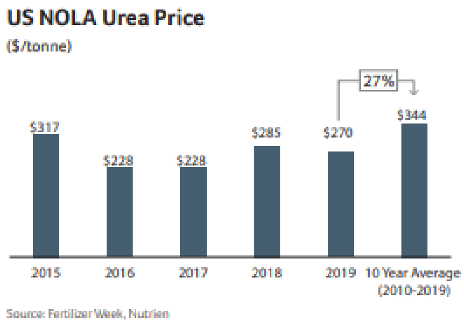
Why we use the measure and why it is useful to investors: To assess operational performance. Ammonia controllable cash COPM excludes the effects of production from other periods, the costs of natural gas and steam, and long-term investment decisions, supporting a focus on the performance of our day-to-day operations.

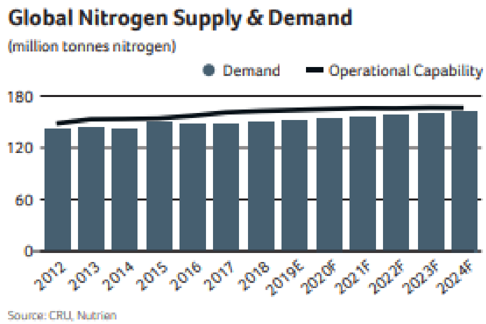
	Three Months Ended March 31	
(millions of US dollars, except as otherwise noted)	**2020**	**2019**
Total COGS - Nitrogen	**581**	511
Depreciation and amortization in COGS	**(130)**	(95)
Cash COGS for products other than ammonia	**(361)**	(307)
Ammonia		
Total cash COGS before other adjustments	**90**	109
Other adjustments [1]	**11**	17
Total cash COPM	**101**	126
Natural gas and steam costs	**(66)**	(91)
Controllable cash COPM	**35**	35
Production tonnes (net tonnes [2] - thousands)	**744**	804
Ammonia controllable cash COPM per tonne	**47**	43

1 Includes changes in inventory balances and other adjustments.
2 Ammonia tonnes available for sale, as not upgraded to other Nitrogen products.

Source: Q1 2020 Report

Their forecast is for a tighter market over time. But, as long as input prices remain low, nitrogen will remain a difficult market.





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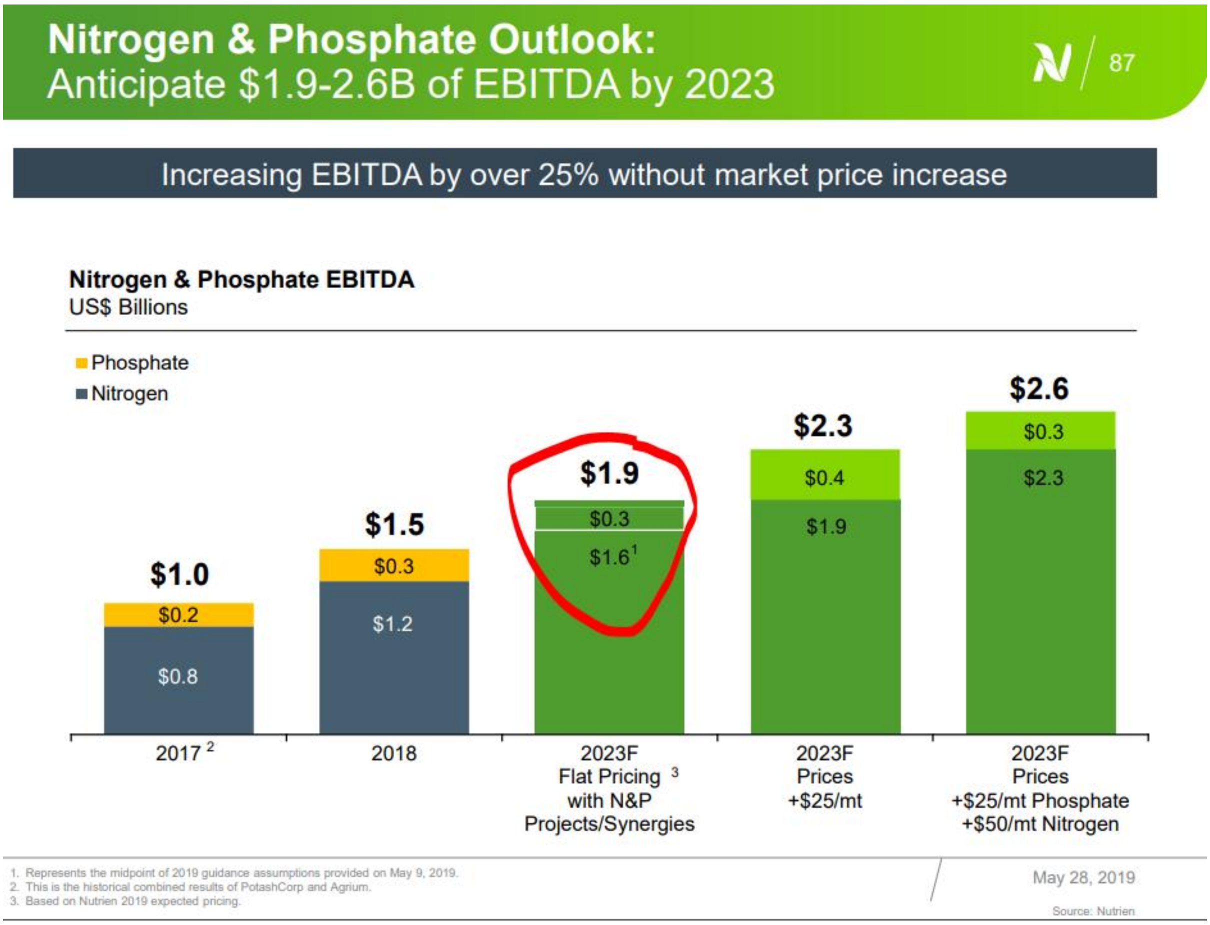
The question is whether we have reached bottom prices or not?



Phosphate

Competitive Landscape

Phosphate rock is found in significant quantity and quality in only a handful of geographic locations, and few with a progressive ethical and sustainability record.

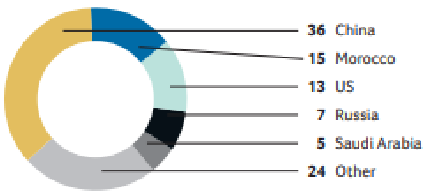
Many factors impact the viability of developing a rock deposit for mining. These include the quality of the phosphate rock deposit, government stability, access to financing, environmental requirements and proximity to target markets. Given the concentration of deposits in North Africa and the Middle East, government stability is a major consideration when evaluating potential phosphate project developments.

We compete with producers primarily from China, Morocco, Russia, Saudi Arabia and the US. For the production of finished phosphate products (DAP, MAP), access to low cost ammonia and sulfur is also a consideration.

Significant low-cost capacity has been commissioned over the past few years, including most notably in Morocco and Saudi Arabia.

The ramping up of production in Saudi Arabia and Morocco puts pressure on the market, alongside the other issues that are hitting fertilizers in general. But, by the end of 2019, production margins were at unsustainably low levels, which led to further production reductions and provided some support to prices entering 2020.

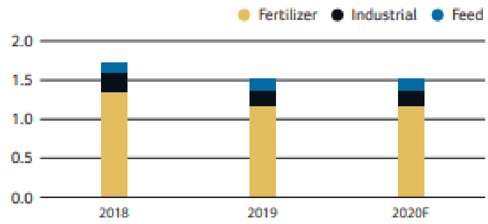
Global Phosphate Capability[1] (2019)
(percent share)



Source: CRU, Fertecon, IFA, Nutrien

[1] Based on operational capability.

Phosphate Sales Tonnes
(million tonnes P_2O_5)



Source: Nutrien

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The outlook and potash market

Let's start with the guidance. This is a cyclical business, so when prices are low, you can't do miracles. But prices are not going to stay low forever as few will invest with low prices and demand is still growing and expected to grow more long-term.

Overview | **Management's Discussion & Analysis** | Two Year Highlights | Financial Statements | Other Information

2020 Guidance

Dollars (billions) unless otherwise noted	2020 Guidance Ranges[1] Low	High
Adjusted net earnings per share ("Adjusted EPS")[2]	1.90	2.60
Adjusted EBITDA	3.8	4.3
Retail EBITDA	1.4	1.5
Potash EBITDA	1.3	1.5
Nitrogen EBITDA	1.2	1.4
Phosphate EBITDA (millions)	180	250
Potash sales tonnes (millions)[3]	12.3	12.7
Nitrogen sales tonnes (millions)[3]	11.0	11.6
Depreciation and amortization	1.80	1.90
Effective tax rate on continuing operations (%)	23	25
Sustaining capital expenditures	1.0	1.1

[1] See the "Forward-Looking Statements" section.
[2] Assumes 574 million shares outstanding for all EPS guidance and sensitivities.
[3] Manufactured product only. Nitrogen sales tonnes excludes ESN® and Rainbow products.

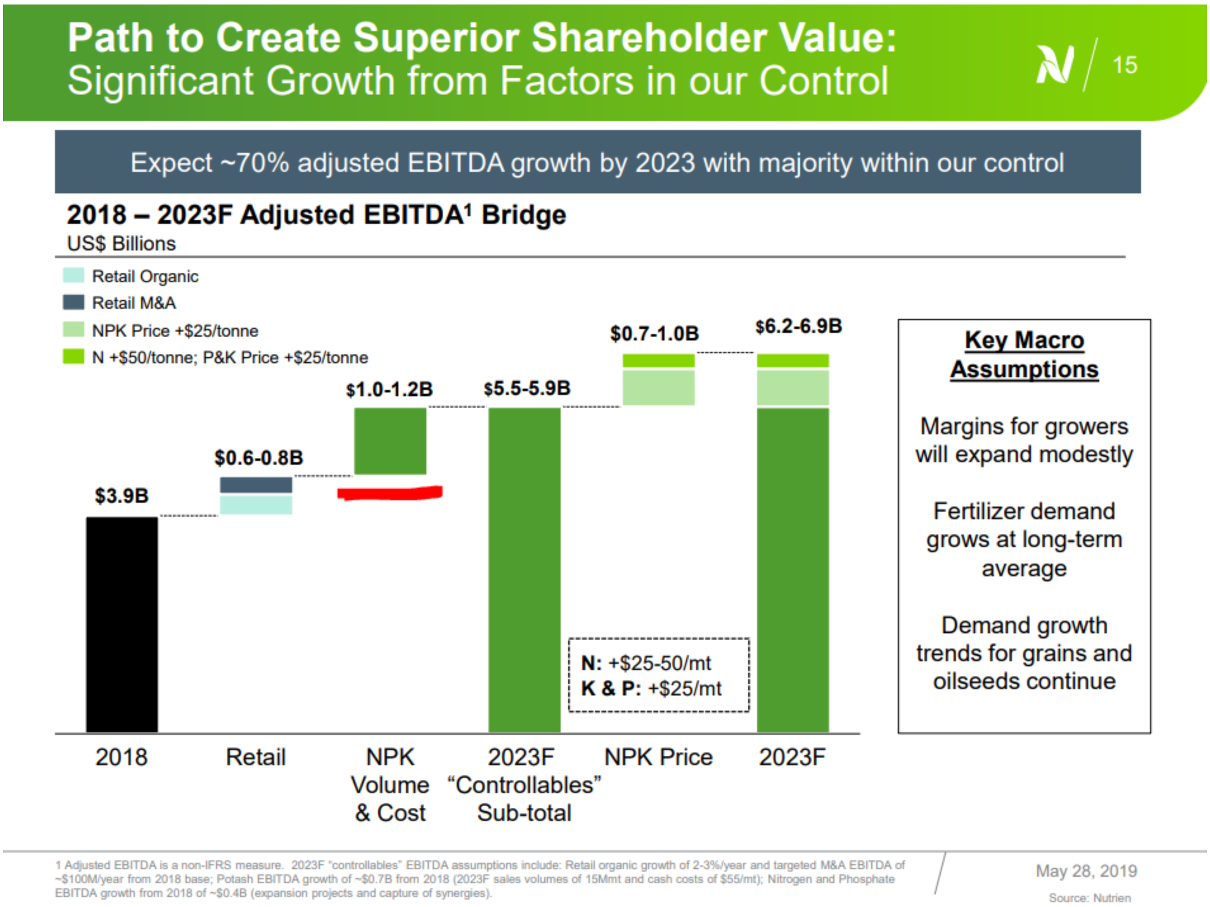
Q1 new guidance:

2020 Guidance Ranges [1]	Low	High
Adjusted net earnings per share [2]	$1.50	$2.10
Adjusted EBITDA (billions) [2]	$ 3.5	$ 3.9
Retail EBITDA (billions)	$ 1.4	$ 1.5
Potash EBITDA (billions)	$ 1.0	$ 1.2
Nitrogen EBITDA (billions)	$ 1.1	$ 1.3
Phosphate EBITDA (millions)	$ 150	$ 200
Potash sales tonnes (millions) [3]	12.1	12.5
Nitrogen sales tonnes (millions) [3]	10.9	11.5
Depreciation and amortization (billions)	$ 1.8	$ 1.9
Effective tax rate	22%	24%
Sustaining capital expenditures (billions)	$ 0.9	$ 1.0

1 See the "Forward-Looking Statements" section.
2 See the "Non-IFRS Financial Measures" section.
3 Manufactured products only. Nitrogen excludes ESN® and Rainbow products.

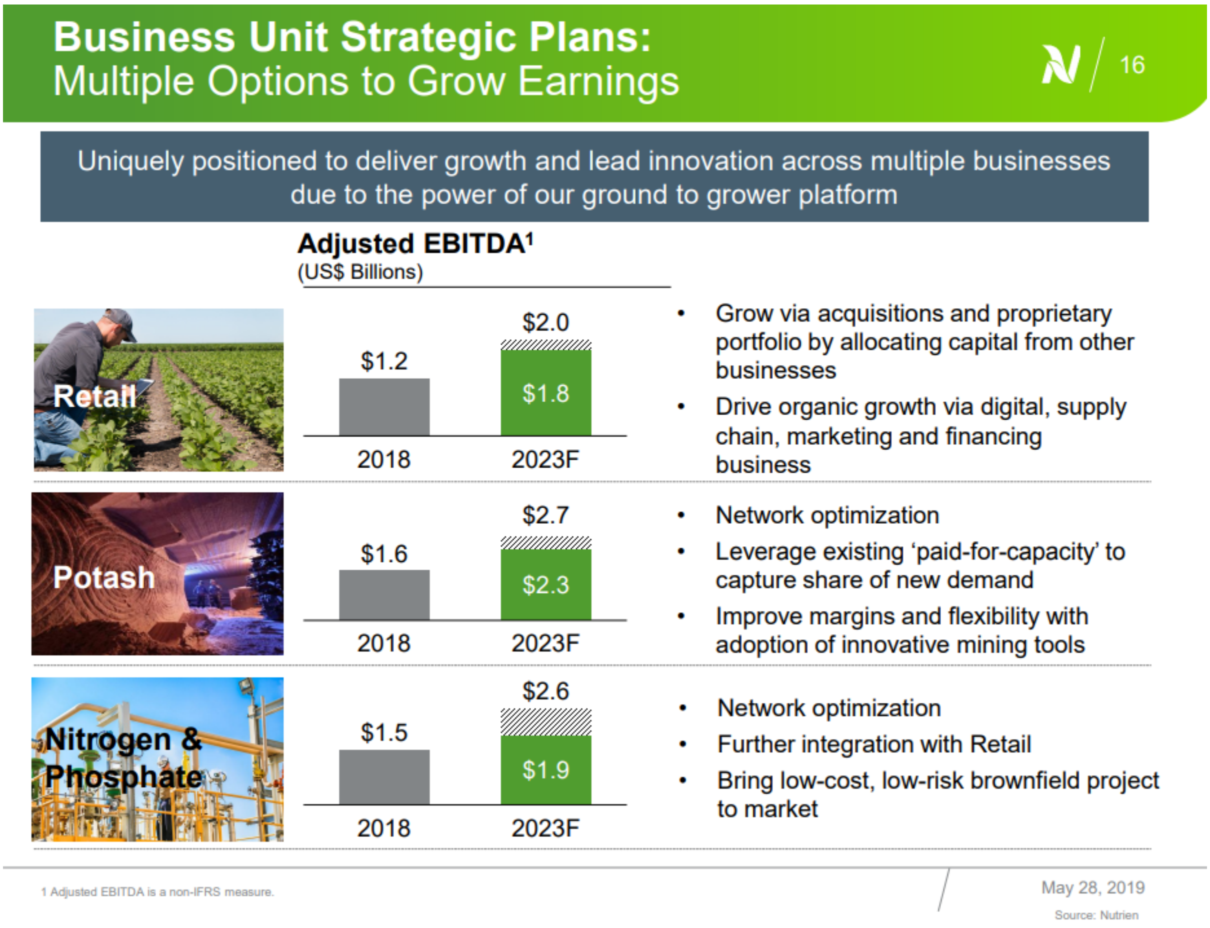
Consolidated Results

Their long-term outlook is also very interesting. They plan to add to profitability with things they can control. If prices help long-term even better. The below chart suggests a potential for EBITDA doubling from the current situation and possibly reaching $7 billion in a good year.

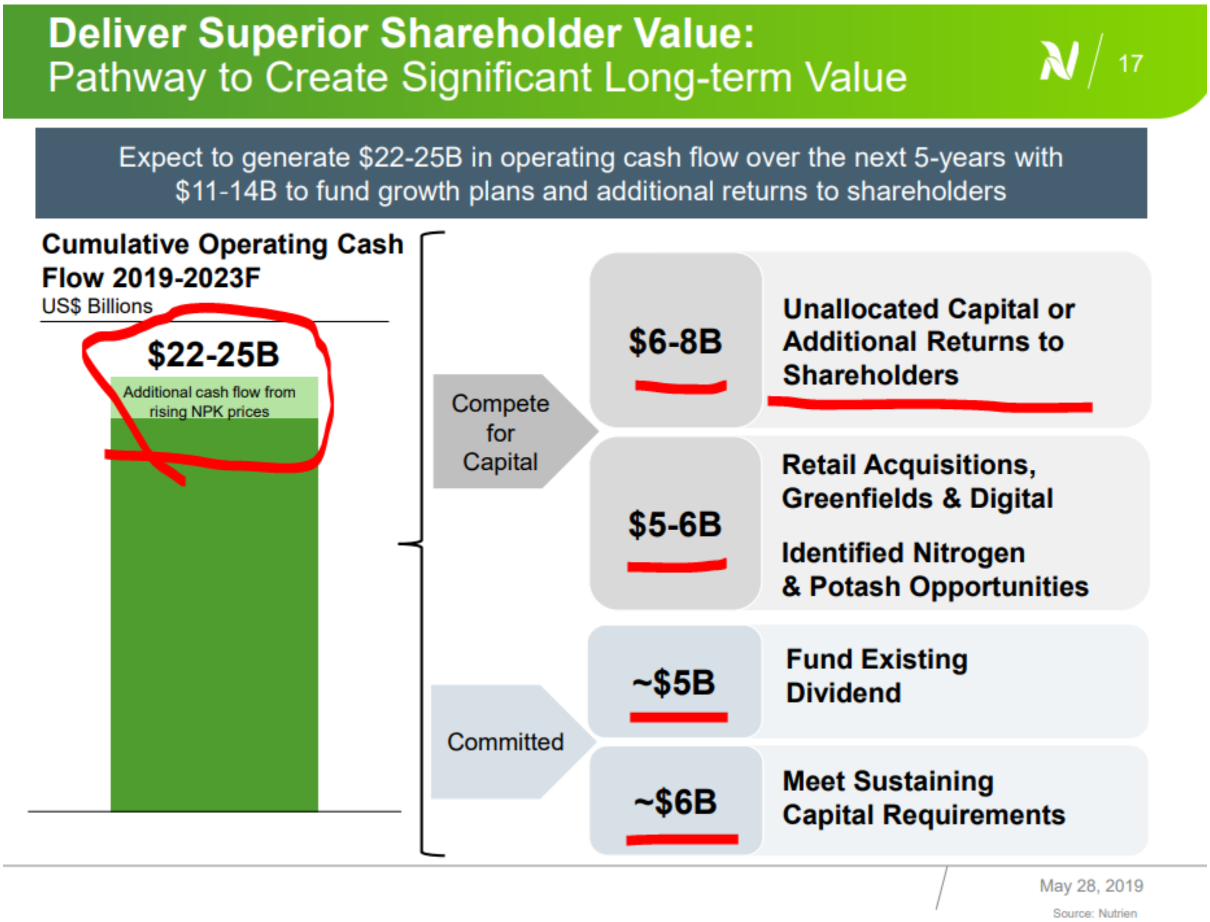


Source: Capital Markets Day 2019

Per segment:



Given the current situation they might not reach their 2019 target, but they might reach it from 2023 to 2028. Their target is higher than the current market cap.



However, potash and retail don't have a great moat. There is plenty of potash ore in the earth. So, we have to calculate what could be the lower for longer price bottom.

Explaining the potash market

BHP's Jansen project is likely to cost $5.7 billion and produce 4.5 million tonnes. This means that the cost of setting a ton in production is about $1,266. Let's say that you want to get your money back in 10years, then you have to add $126 to your cash cost of production. If the cash cost of production comes in close to $50 per year, your breakeven price is $176. So, the deal China recently signed for a price of $230 shows we are closer to the bottom, but I would not exclude that in a bad year or two, we see prices below the above breakeven. This also indicates that capital costs and investment burdens are key within this sector, production costs are secondary.

Q1 2020 highlights and conference call notes

Highlights:

- Retail EBITDA increased in the first quarter of 2020 compared to the same period in 2019 due to strong business performance in the US and Australia including organic and acquisition related growth, as well as, solid contributions from our proprietary products lines.

  Our leading digital platform experienced a significant lift in engagement, providing a more convenient, efficient and safe way for our customers and agronomists to conduct business. It remains the only national and full-service agriculture ecommerce platform in North America. Total on-line sales surpassed $170 million in the US this quarter, up from about $3 million over the same period last year and accounted for approximately 40 percent of US sales of products that are currently available for purchase online.

- Potash EBITDA in the first quarter was 38 percent lower than the same period in 2019 due to lower net realized selling prices and lower offshore sales volumes. Lower offshore sales volumes were associated with short-term cautious spot purchasing in some key international markets.

- Nitrogen EBITDA was 14 percent lower in the first quarter of 2020 compared to the same period last year due to lower net realized selling prices which more than offset higher sales volumes and lower per tonne costs.

- Today, Nutrien declared its second quarterly dividend in 2020 maintaining a payout rate of $0.45 per share ($1.80 annualized). The strength of our dividend is underpinned by the stability of our Retail earnings and our competitive advantages in Potash and Nitrogen. We expect this to be in line with our target range of returning 40 to 60 percent of annual free cash flow to our shareholders.

- We enhanced our liquidity position by increasing short-term debt facilities and drawing upon available credit lines to bolster our cash position, providing additional resources to operate efficiently through times of increased market volatility.

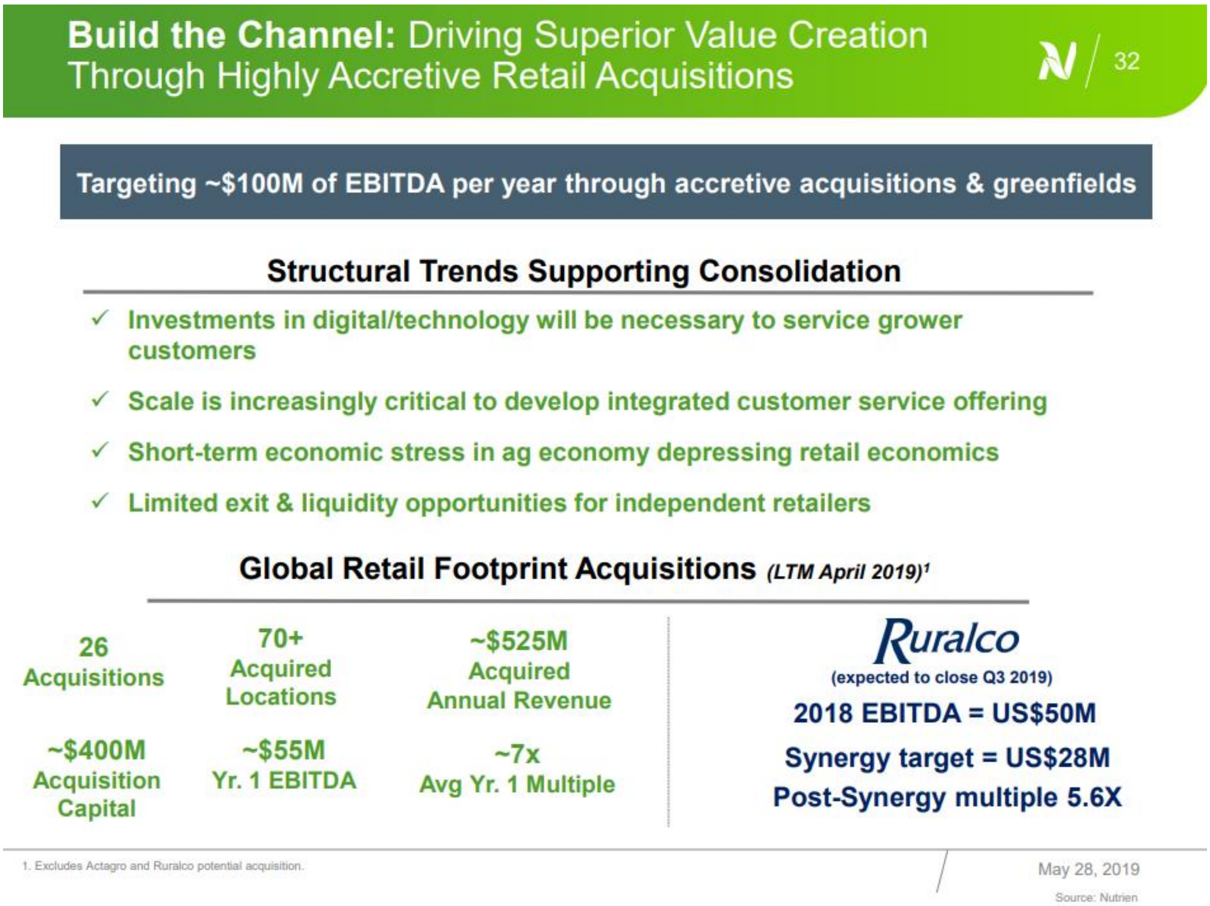
- The health and safety of our employees, customers and communities is our top priority and no layoffs have been required. In this regard, our COVID response team has been working with world-class medical advisors to develop policies, practices and business continuity plans to help safeguard our stakeholders. We have also expanded our donations program to the communities in which we operate in this time of need.

- Nutrien full-year 2020 adjusted net earnings per share and adjusted EBITDA guidance was lowered to $1.50 to $2.10 per share and $3.5 billion to $3.9 billion, respectively. First-half 2020 guidance is provided at $1.20 to $1.40 adjusted net earnings per share.

Notes from the Q1 2020 conference call

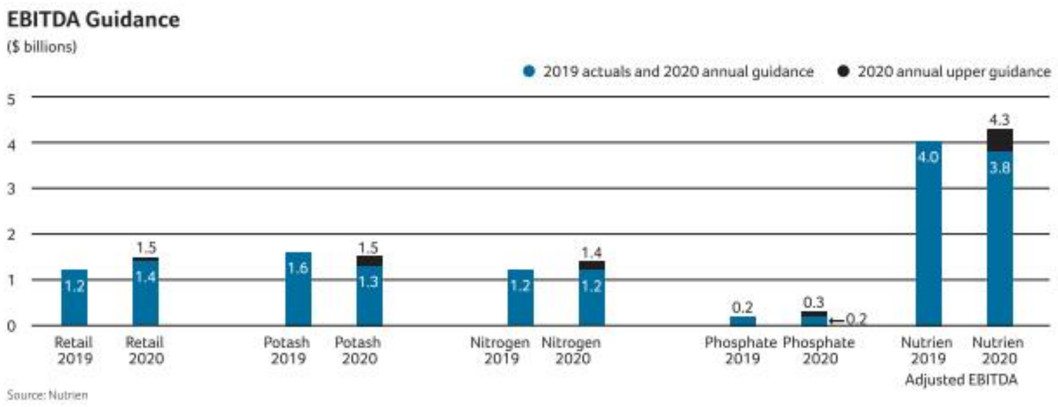
- On M&A, they are doing due diligence and waiting for the situation to pass.

They actually do interesting acquisitions. If you have the scale to complement the additions, then those are smart, even at normal prices. If you buy something, the price is fixed at that point in time, but the upside is infinite long-term.



- "Also the fact that, and this is no surprise to anyone on the call, that there's excess capacity of potash in the market right now."
- Biofuel is the main short term unknown because with lower oil prices, you don't need corn to make more of it.
- On long term potash prices, there is the temporary impact of new supply, low biofuel and lower corn prices, but demand has been growing steadily up till now.
- "And we would expect that if potash demand continues to grow globally at that 2.5% per year level, once we see the COVID situation and the oil prices stabilize a little bit, you're going to see the supply demand for potash tighten quite readily. And as the market supply demand starts to tighten, I think you're going to see prices follow."

It is always good to look at sensitivities when it comes to analysing a business.



2020 Sensitivities

Price and Volume Sensitivities

Dollars (millions), except EPS amounts		Effect on Adjusted EPS	Effect on Adjusted EBITDA
Price	Potash changes by $20/tonne	± 0.25	± 205
	Ammonia changes by $20/tonne	± 0.05	± 40
	Urea changes by $20/tonne	± 0.09	± 65
Volume	Potash changes by 100,000 tonnes	± 0.01	± 10
	Nitrogen changes by 50,000 N tonnes	± 0.02	± 15
Retail	Crop nutrients changes by 1% [1]	± 0.07	± 55
	Crop protection changes by 1% [1]	± 0.08	± 60
	Seed changes by 1% [1]	± 0.03	± 20

[1] Gross margin as a percentage of sales.

Input Cost Sensitivities

Dollars (millions), except EPS amounts		Effect on Adjusted EPS	Effect on Adjusted EBITDA
NYMEX natural gas price changes by $1/MMBTu	Nitrogen	± 0.21	± 165
Canadian to US dollar changes by $0.02	Canadian operating expenses included in net earnings, excluding provincial taxes	± 0.02	± 15

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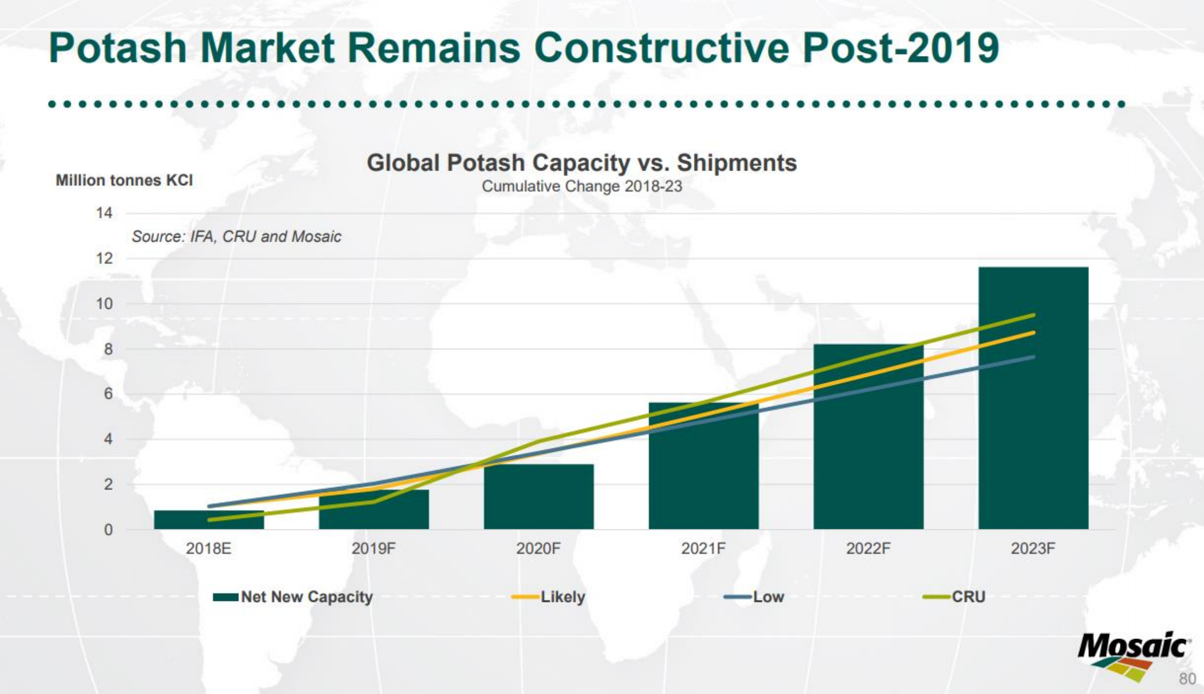
A $20 change in potash price by tonne, would add $205 million to EBITDA, or better to say to EBT (earnings before taxes) as interest costs, depreciation and amortization wouldn’t change much.

However, one can’t simply expect potash prices to be much higher in the future because those were higher in the past. Mining costs have declined as a lot of money was invested in big operations when potash prices were much higher between 2008 to 2014. As it takes almost a decade to develop a big mine, here we are with oversupply now. For higher prices, we will have to wait for more balance in the market.

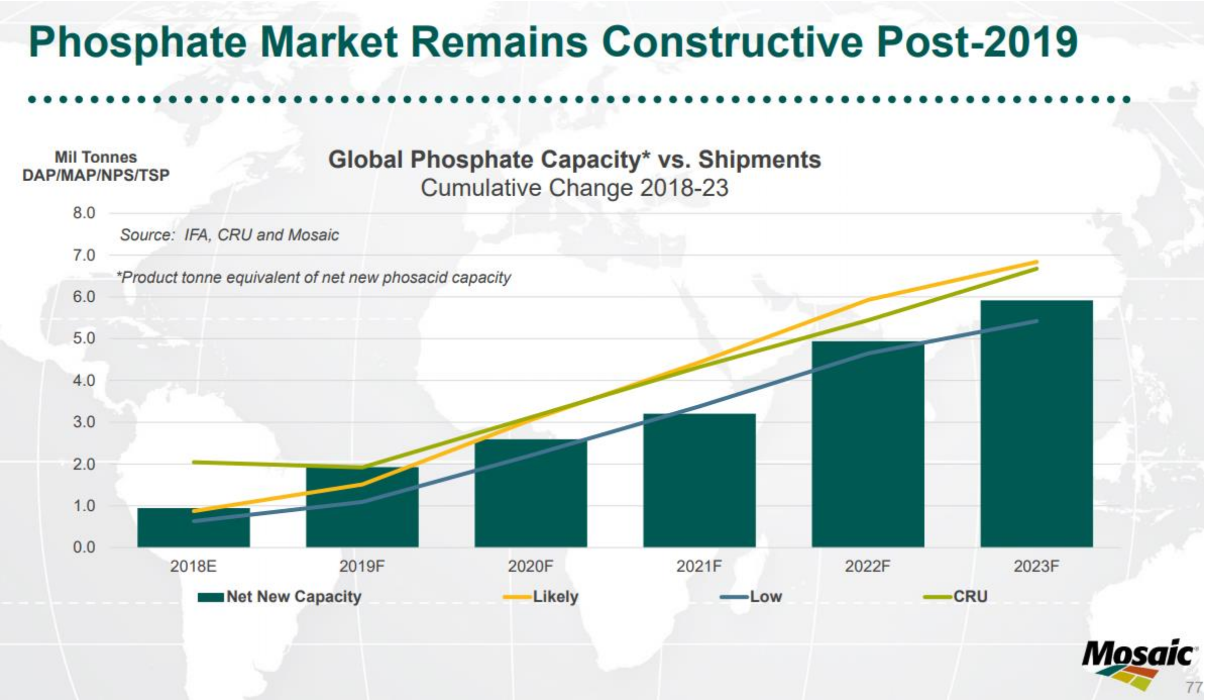
Potash mining costs have been going down, thus prices will likely follow:

Source: [Mosaic]

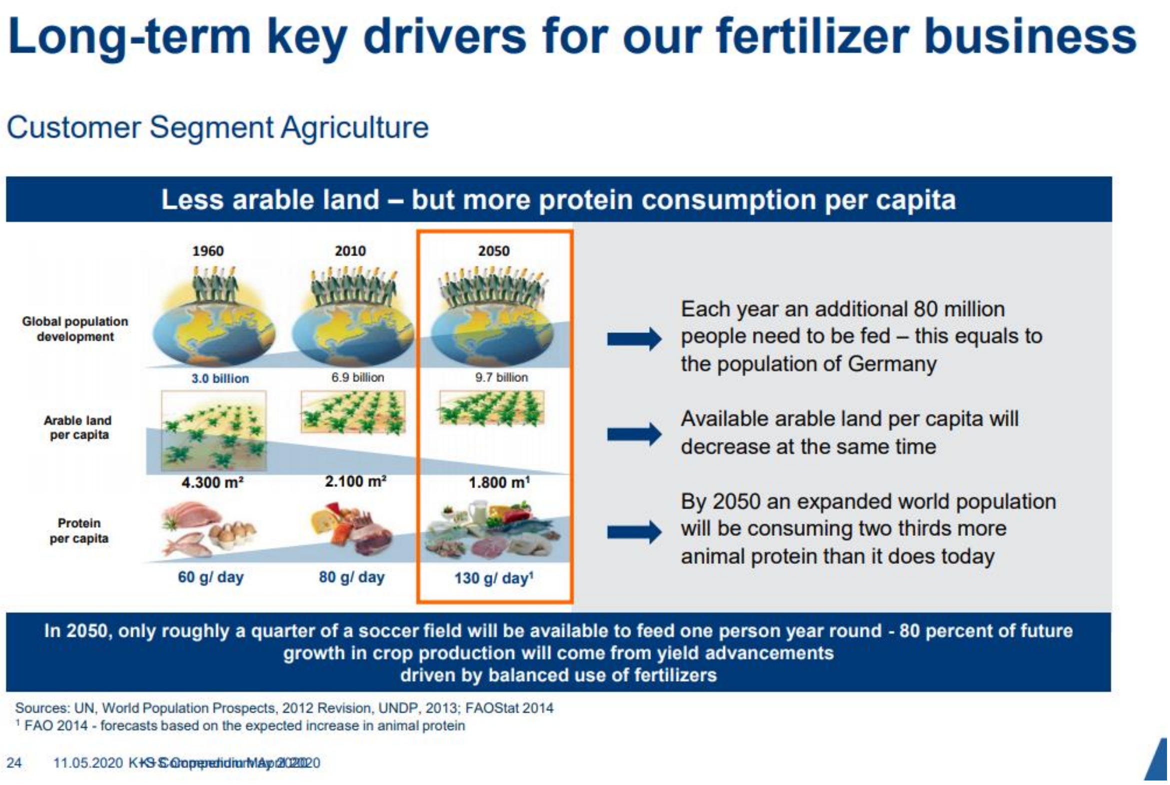
Given the situation in the markets, the increased production ramping up, it is likely prices are going to remain subdued for a while.



The situation looks more positive for the phosphate markets where demand might grow faster than new capacity!

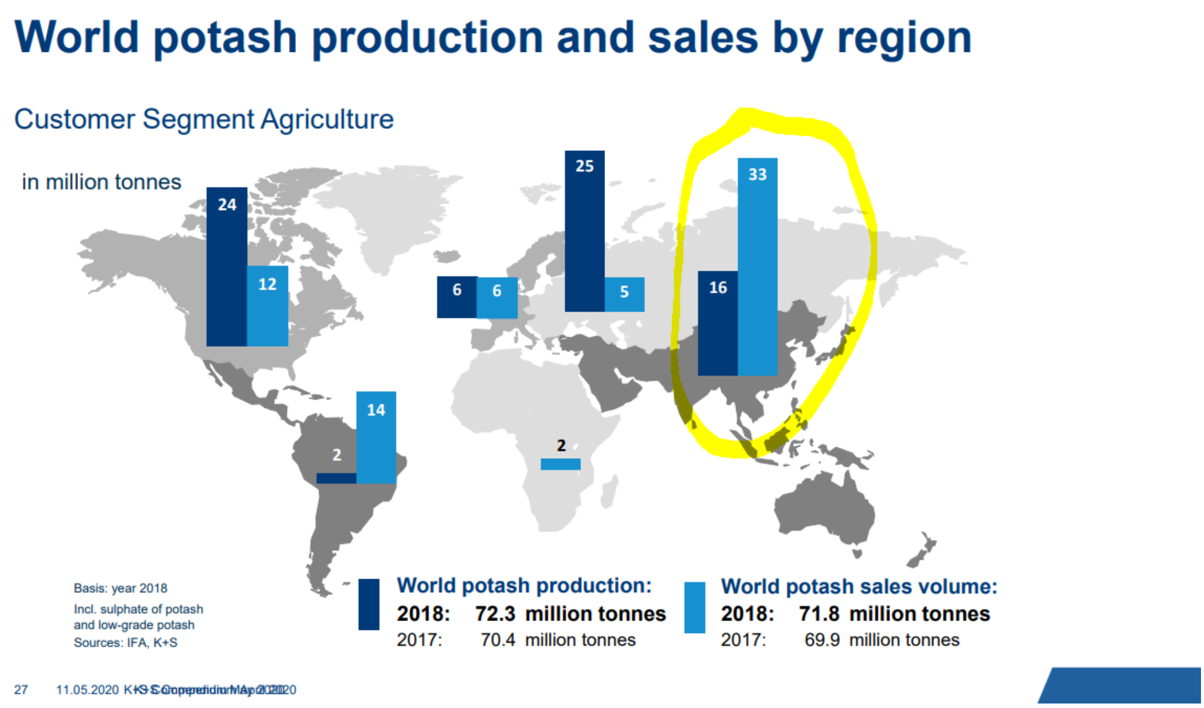


From another perspective, the outlook for fertilizers looks very good as the world's population grows.



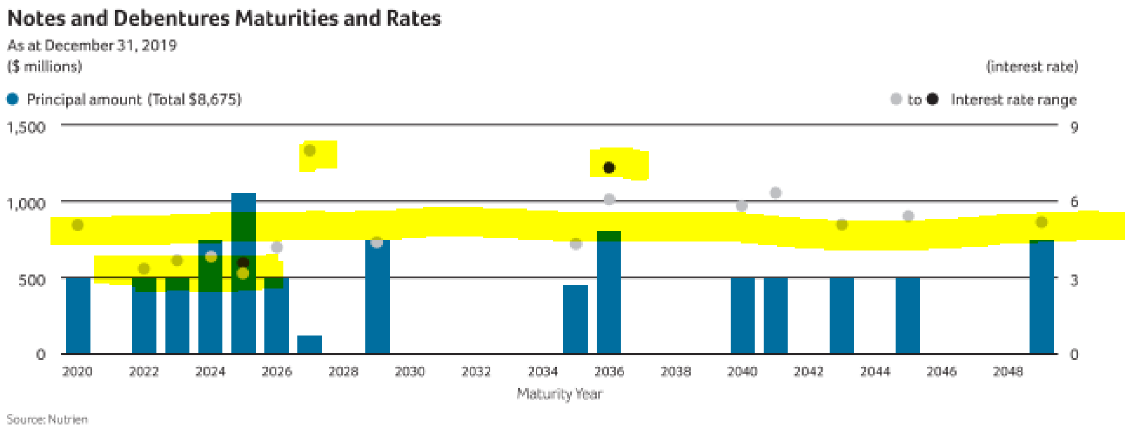
Source: K+S

Asia doesn't have much production, while Russia and the US have the advantages, but the Russians have lower costs.



The fundamentals

The company has $8.675 billion in debt, with an average interest rate around 5% and well distributed maturities.



We also have lease obligations totaling $1,073 million (including current portion) with a weighted average effective interest rate of 3 percent as at December 31, 2019.

The debt is not that big compared to the assets and long-term debt is just above a third of equity.

Consolidated Statements of Cash Flows

For the years ended December 31	Note	2019	2018
			Note 2
Operating Activities			
Net earnings		992	3,573
Adjustments for:			
Depreciation and amortization		1,799	1,592
Share-based compensation	6	104	116
Impairment of assets	15, 16	120	1,809
Provision for (recovery of) deferred income tax		177	(290)
Gain on sale of investments in Sociedad Quimica y Minera de Chile S.A. ("SQM") and Arab Potash Company ("APC")		–	(4,399)
Income tax related to the sale of the investment in SQM		–	977
Other long-term liabilities and miscellaneous		(17)	(188)
Cash from operations before working capital changes		3,175	3,190
Changes in non-cash operating working capital:			
Receivables		(64)	(153)
Inventories		190	(887)
Prepaid expenses and other current assets		(238)	561
Payables and accrued charges		602	(659)
Cash Provided by Operating Activities		3,665	2,052
Investing Activities			
Additions to property, plant and equipment	15	(1,728)	(1,405)
Additions to intangible assets	16	(163)	(102)
Business acquisitions, net of cash acquired	4	(911)	(433)
Proceeds from disposal of discontinued operations, net of tax	10	55	5,394
Purchase of investments		(198)	(135)
Cash acquired in Merger	4	–	466
Other		147	102
Cash (Used in) Provided by Investing Activities		(2,798)	3,887
Financing Activities			
Transaction costs on long-term debt		(29)	(21)
Proceeds from (repayment of) short-term debt, net	19	216	(927)
Proceeds from long-term debt	20	1,510	–
Repayment of long-term debt	20	(1,010)	(12)
Repayment of principal portion of lease liabilities	20	(234)	–
Dividends paid	25	(1,022)	(952)
Repurchase of common shares	25	(1,930)	(1,800)
Issuance of common shares	25	20	7
Cash Used in Financing Activities		(2,479)	(3,705)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(31)	(36)
(Decrease) Increase in Cash and Cash Equivalents		(1,643)	2,198
Cash and Cash Equivalents – Beginning of Year		2,314	116
Cash and Cash Equivalents – End of Year		671	2,314
Cash and cash equivalents [1] comprised of:			
Cash		532	1,506
Short-term investments		139	808
		671	2,314
Supplemental Cash Flows Information			
Interest paid		505	507
Income taxes paid		29	1,155
Total cash outflow for leases		345	–

[1] Highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalents.

Consolidated Balance Sheets

As at December 31	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents		671	2,314
Receivables	13	3,542	3,342
Inventories	14	4,975	4,917
Prepaid expenses and other current assets		1,477	1,089
		10,665	11,662
Non-current assets			
Property, plant and equipment	15	20,335	18,796
Goodwill	16	11,986	11,431
Other intangible assets	16	2,428	2,210
Investments	17	821	878
Other assets	18	564	525
Total Assets		46,799	45,502
Liabilities			
Current liabilities			
Short-term debt	19	976	629
Current portion of long-term debt	20	502	995
Current portion of lease liabilities	21	214	8
Payables and accrued charges	22	7,437	6,703
		9,129	8,335
Non-current liabilities			
Long-term debt	20	8,553	7,579
Lease liabilities	21	859	12
Deferred income tax liabilities	9	3,145	2,907
Pension and other post-retirement benefit liabilities	23	433	395
Asset retirement obligations and accrued environmental costs	24	1,650	1,673
Other non-current liabilities		161	176
Total Liabilities		23,930	21,077
Shareholders' Equity			
Share capital	25	15,771	16,740
Contributed surplus		248	231
Accumulated other comprehensive loss		(251)	(291)
Retained earnings		7,101	7,745
Total Shareholders' Equity		22,869	24,425
Total Liabilities and Shareholders' Equity		46,799	45,502

(See Notes to the Consolidated Financial Statements)

A quick earnings and cash flow/dividend model

Overview Management's Discussion & Analysis Two Year Highlights Financial Statements Other Information

2020 Guidance

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	Low	High
Adjusted net earnings per share ("Adjusted EPS") [2]	1.90	2.60
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Phosphate EBITDA (millions)	180	250
Potash sales tonnes (millions) [3]	12.3	12.7
Nitrogen sales tonnes (millions) [3]	11.0	11.6
Depreciation and amortization	1.80	1.90
Effective tax rate on continuing operations (%)	23	25
Sustaining capital expenditures	1.0	1.1

[1] See the "Forward-Looking Statements" section.
[2] Assumes 574 million shares outstanding for all EPS guidance and sensitivities.
[3] Manufactured product only. Nitrogen sales tonnes excludes ESN® and Rainbow products.

Guidance for 2020 is $3.8 billion in EBITDA – so, we can deduct $0.6 for interest payments, $0.2 for tax and there is $1 billion for CAPEX. There is $1.8 billion of depreciation and earnings should be at $1.1 billion or around that, thus we come to around $2 in EPS.

On cash flows, I add the $1.8 billion in depreciation and deduct the $1 billion in capex to arrive at almost $2 billion in cash flows. That is $3.5 in cash flow per share at current market prices. If they pay out 50% of that, we are at the dividend of $1.8 per share or about 5.2%. Perhaps they do some buybacks or reinvest that money into growth, and you get additional future returns.

The risks

Jansen BHP + unused capacity

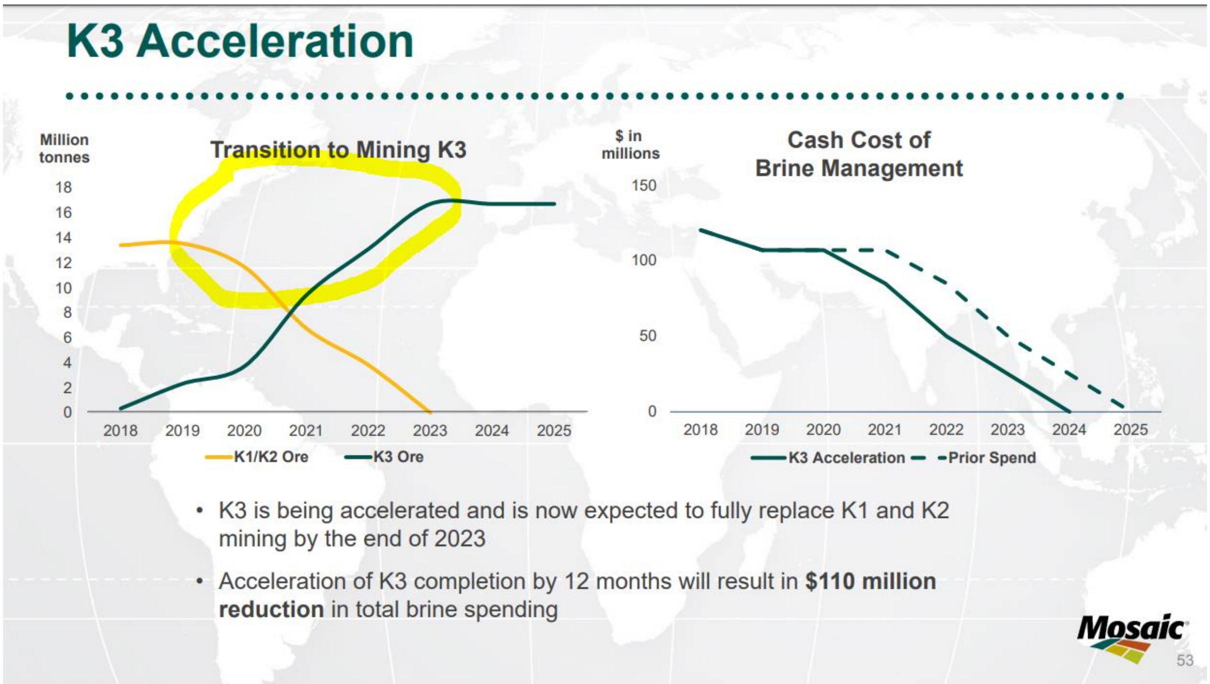
The big elephant in the room is BHP's Jansen project, but also the big positive. If the trend stays, there will me much more need for potash, thus all would benefit but it is always a market timing issue – I mean a supply and demand issue for the potash market! Plus, Nutrien is just part potash.

BHP can invest up to [$17 billion in Jansen] and could make it a 100 year project. For starts, $3 billion have already been invested, the shafts are completed and another $2.7 billion have to be invested to ramp up 4.5 million tonnes of production. Nutrien says how greenfield potash projects are not profitable, but that could be only politics and BHP has already spent quite a few bucks when pries were much higher. It is likely that BHP will go on with the project as $3 billion is already a sunk cost and they see it as an environmental diversificator. At this point they can chose to throw away the $3 billion invested or invest another $2.7 billion to produce 4.5 million tons. At a cash cost of $50, that would return about $600 million in cash flows per year, so they are most likely going forward to it as it is a great return on what is the remaining investment.

On top of the above project in North America, there is plenty of unused capacity and also idled mines. As soon as prices would go up, many projects would soon become profitable and over time, push production up and prices down. The typical cycle of a commodity, especially of one where the ore is easy to find and there is plenty of it.

However, it is about how much can production go up, and if it does, who makes money and how much does Nutrien make?

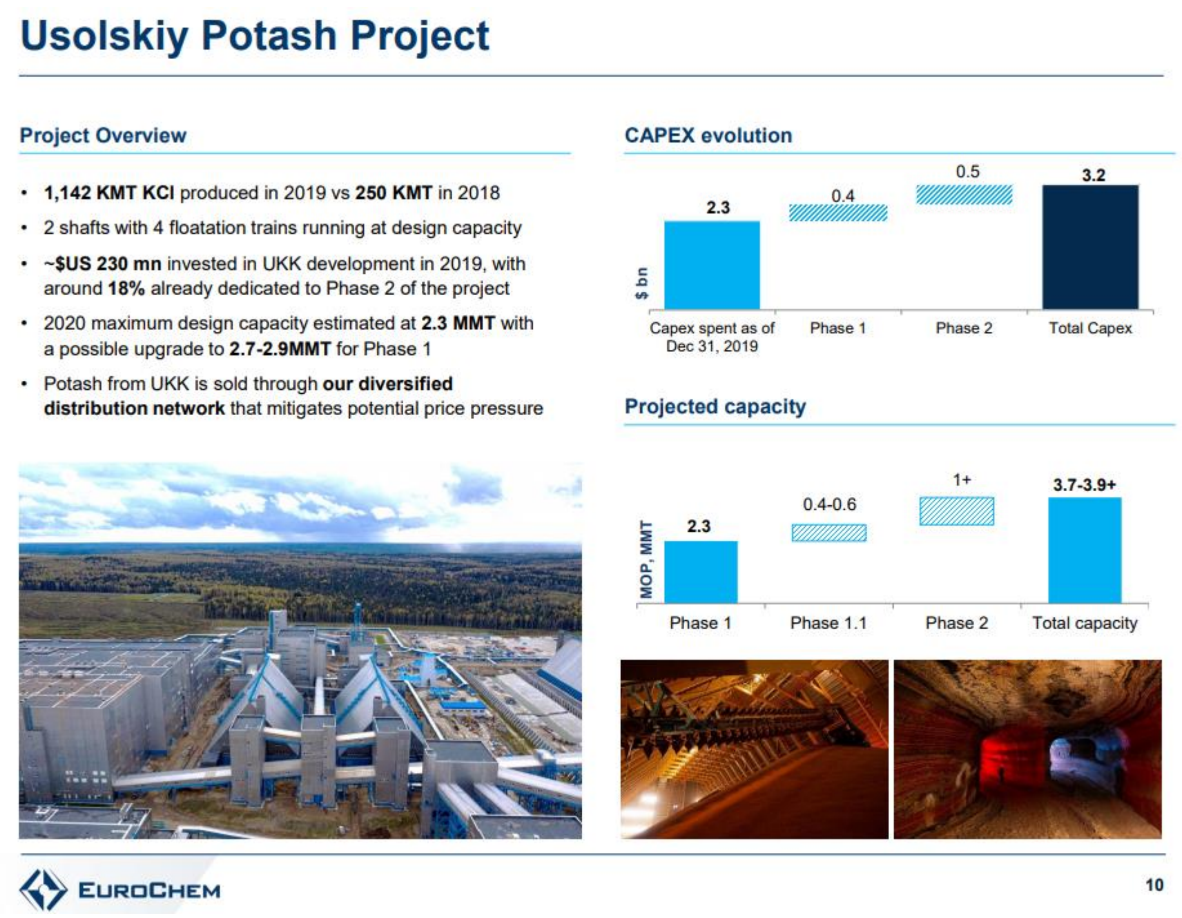
Mosaic has been promising Esterhazy for years now that should lead to higher production with lower cost. So, there is 2 million tonnes.



Source: Mosaic

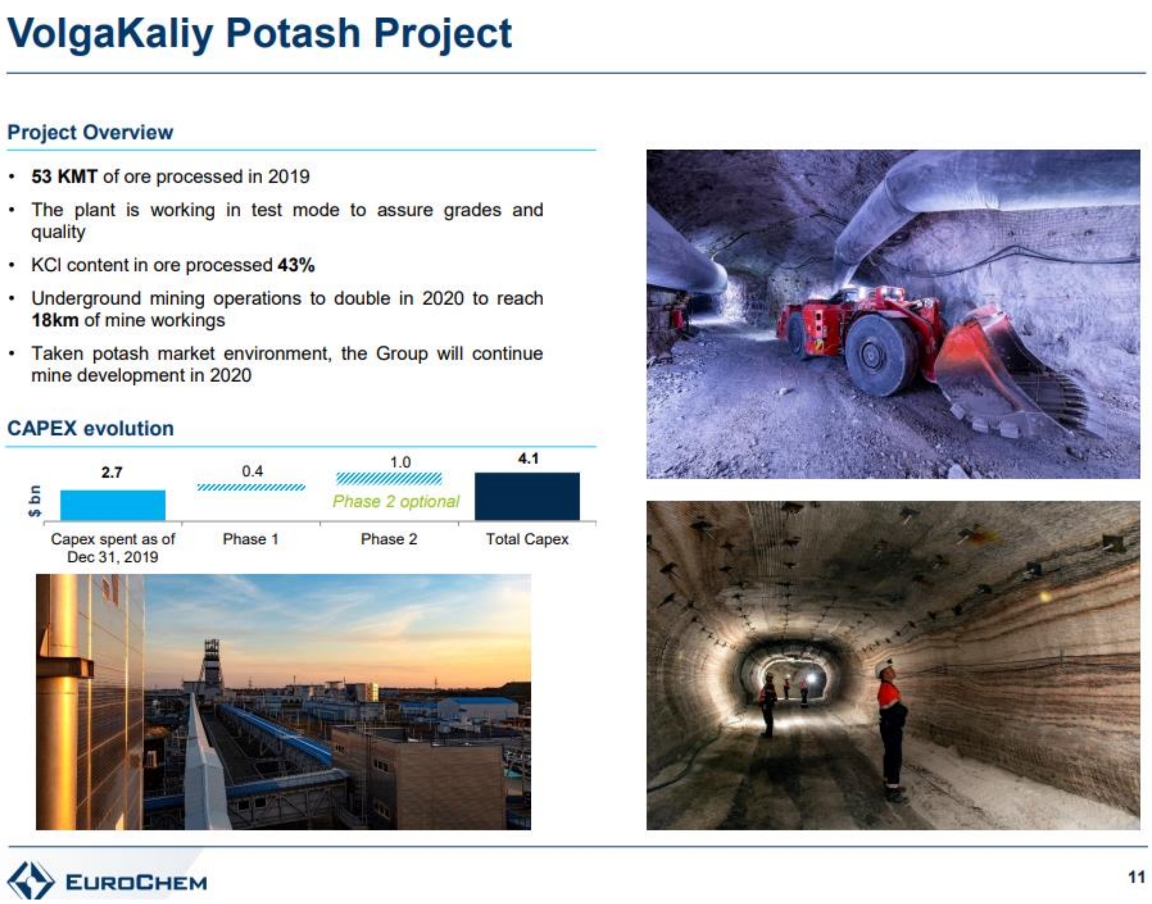
K+S managed to practically destroy itself with the Bethune mine but they keep going now. On the other hand, the company has to idle production in Germany due to environmental reasons etc. So, the market is not as easy as it looks with production additions, but it will be an interesting game to follow.

Eurochem is the big contributor to the market with two projects adding potentially 4 million tonnes to the market.



Source: [Eurochem]

The Garlyk mine in Turkmenistan is also full with [issues].

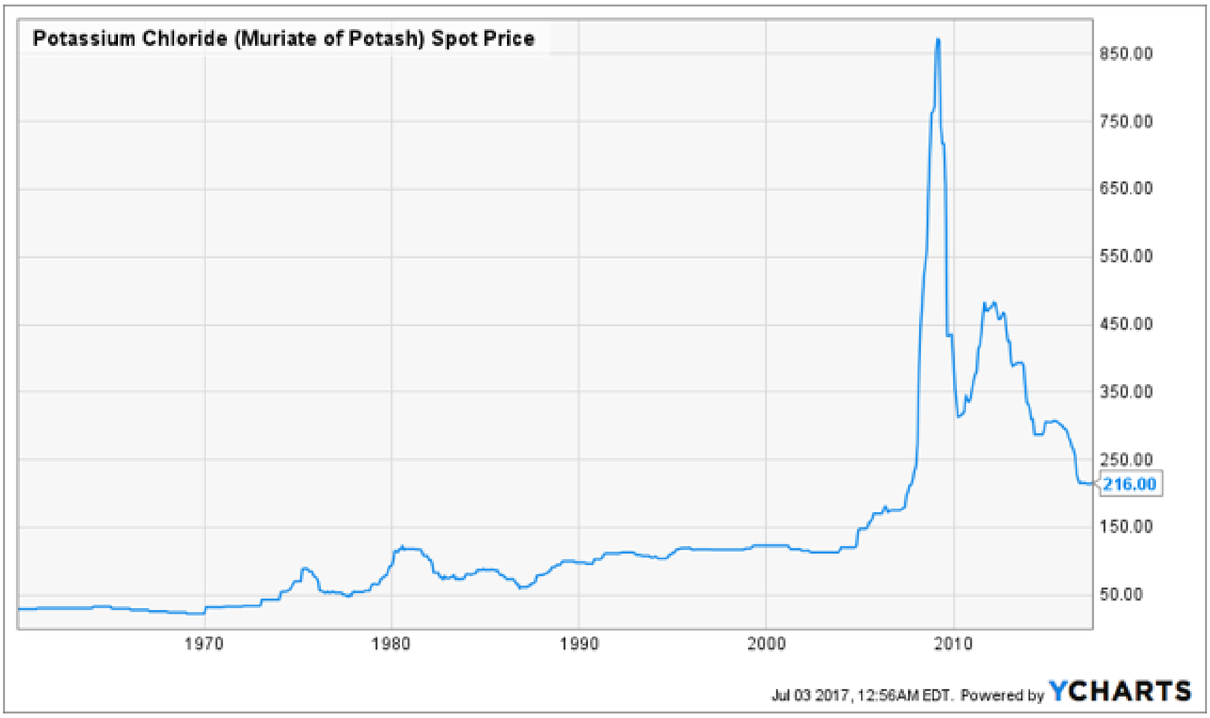


Sirius minerals could not find an investor and was acquired by Anglo for pennies on the dollar. We will see whether Anglo will develop the mine in the UK.

Potash market

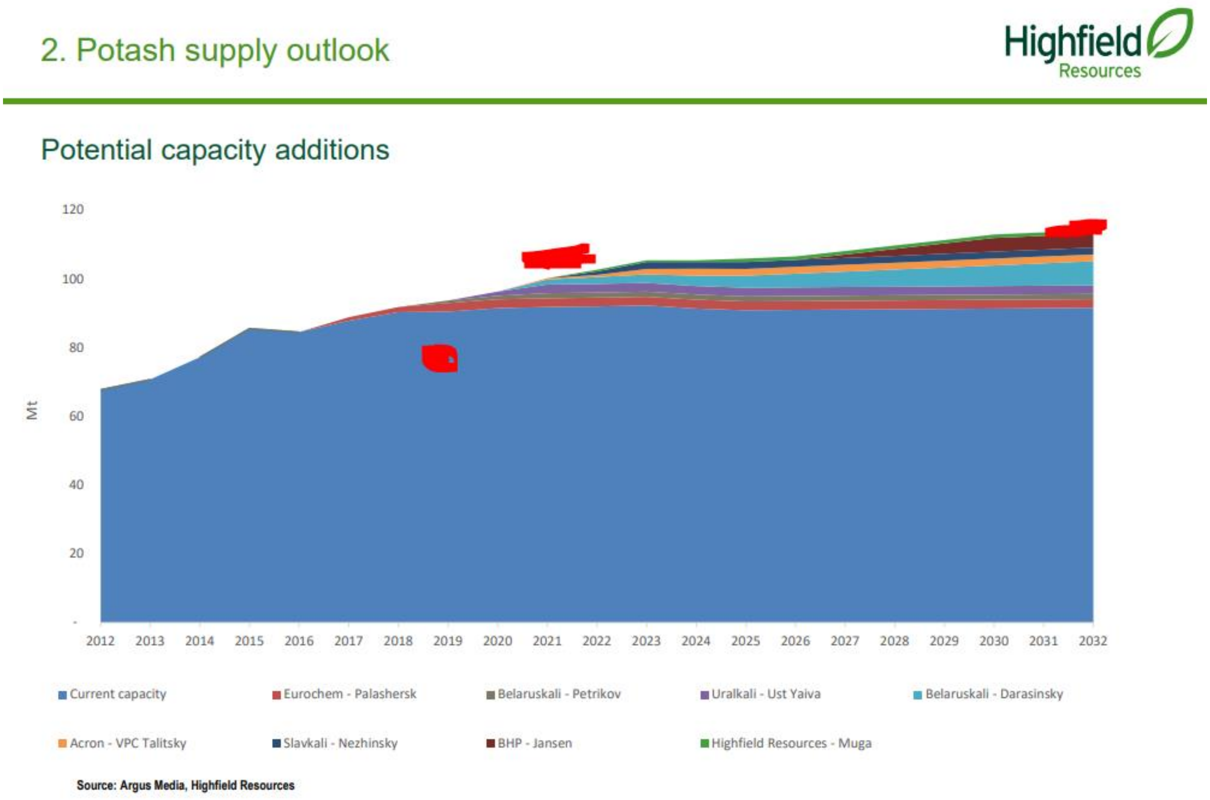
On that topic, I was listening to Phosagros's capital markets day in September of 2019 and when asked about acquisitions from a typical Wall Street perspective as you have to do something so that investment banks can earn fees, the CEO practically got mad at first for such a stupid question but then explained how Potash will likely be worth less than iron ore. Apart from Jansen, another risk long-term investors should keep in mind. So, there is the possibility for lower for longer prices.

Plus, we can say that the spike in prices over the last 15 years was all due to the agreement for potash, a cartlel between Belaruskali and Uralkali, alongside Canpotex. Given that the Belorussians are increasing production, it is not said that the Canadians will cover for global demand growth. However, an agreement between the White Russians, would easily increase prices but then Nutrien could increase production and make the money – so it is a prisoner's dilemma with a dozen players.

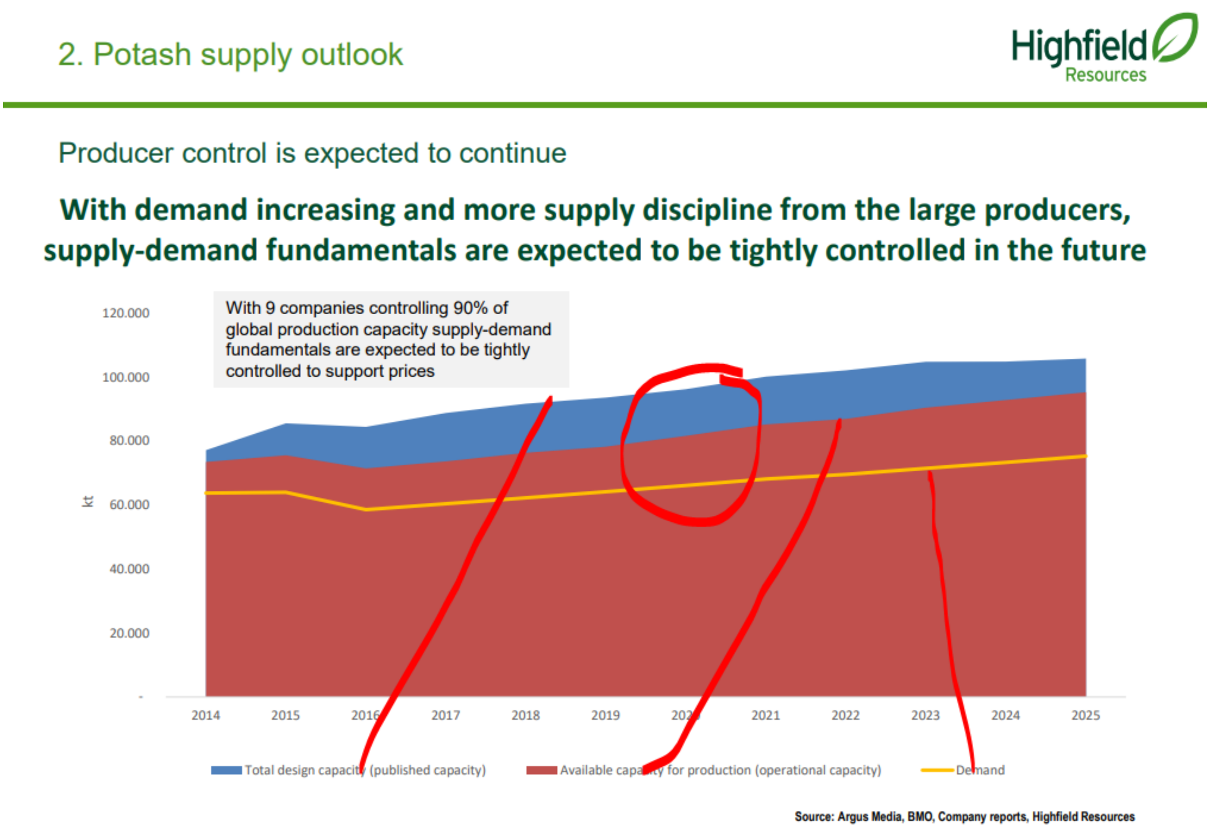


Source: Ycharts

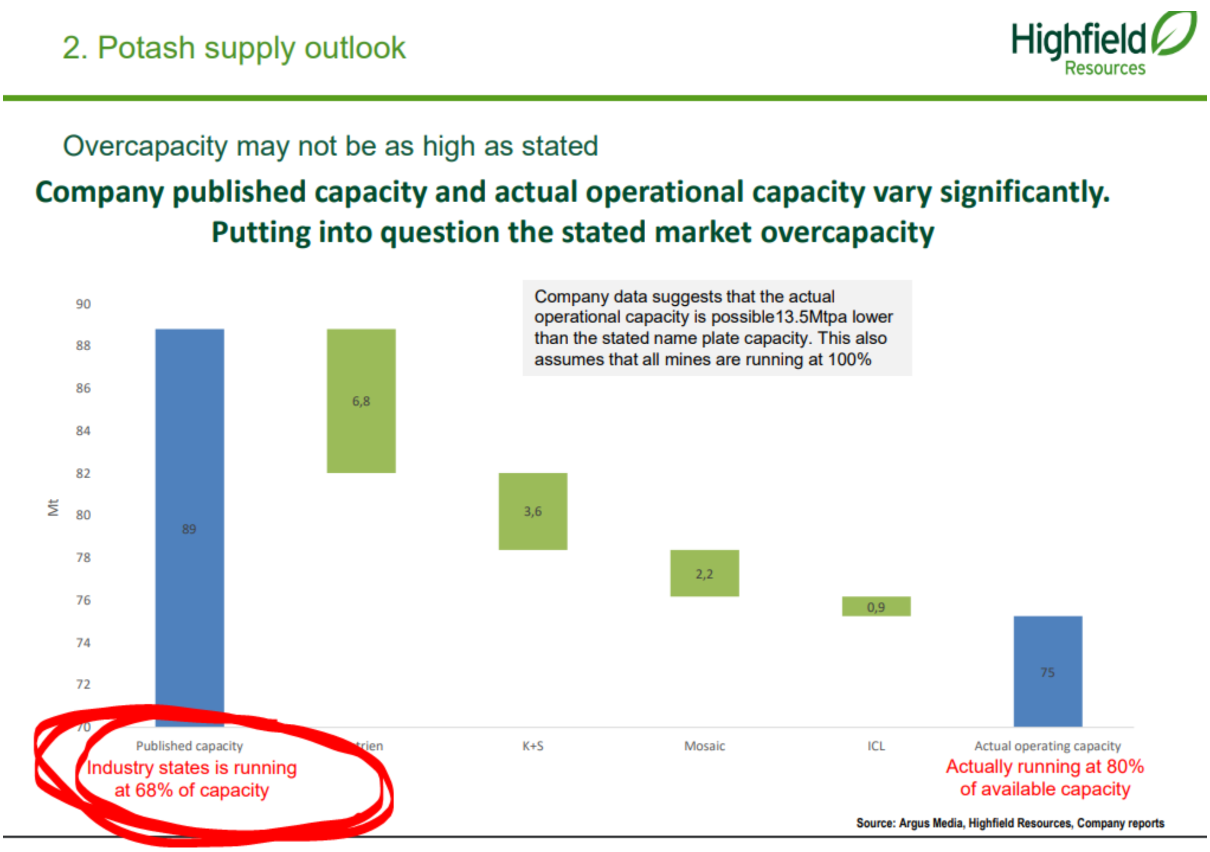
The current market is 66 million tonnes, but capacity will likely be much higher in 2032 and I don't know whether demand will reach that.



Source: [Highfield resources]()



There is so much that they can produce, incredible!.



Priced out of Asia

Uralkali, Belaruskali have incredibly low production costs, even lower than the $60 per tonne by Potash corp. The recent price agreement with China has set the floor at $220.

Mosaic, Nutrien see China potash contract creating price stability

May 13, 2020 2:57 PM ET | About: The Mosaic Company (MOS) | By: Carl Surran, SA News Editor

- The latest China potash supply contracts "represent a bottom" and solidify a price that can be built on, Mosaic (MOS -5.2%) CFO Clint Freeland tells a BMO mining conference.
- China's recently signed potash contract with Belarus was for $220/metric ton, a $70 decline from the previous contract signed in 2018.
- Global fertilizer demand is strong, and COVID-19 has not hurt the company's ability to produce and ship fertilizer, Freeland says.
- The China contract is "at a lower price than we would've liked" but will set a floor, Nutrien (NTR -4.6%) CFO Pedro Farah tells the same conference.
- Demand has started to flow because of the China contracts, and the company already is seeing higher prices in Brazil, Farah says.
- **See all stocks on the move »**

Source; SA

Other risks

Changes in agricultural trends, tariffs, regulations etc.

CONCLUSION

It is a tough game, like a 9 player poker game with a few additional players in the form of customers. Timing is a crucial factor as it impacts debt, profits of others. Then market share, can you push others around etc.

In the current situation, we have a low cartel situation, thus there is fight for market share. Projects launched 10 years ago based on high prices are still coming online (from Jansen to others). But prices are low. There won't be many projects as large as in the past, where demand grows at a stable rate.

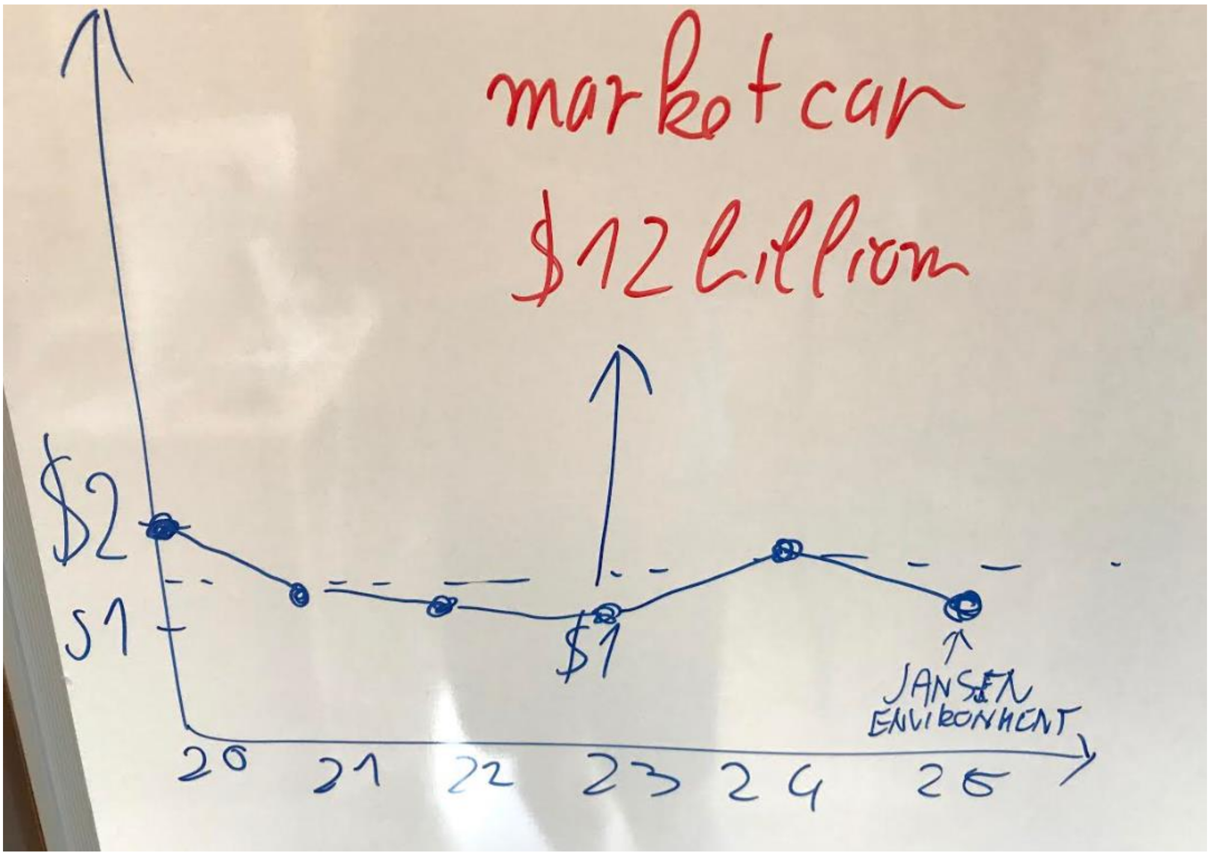
There is a possibility for a cycle boom somewhere in the next 10 years as the sector looks ugly at the moment and for the foreseeable future. "lower prices for longer" is what the market is pricing in. However, it can also get uglier and that is what investment banks are forecasting.

On the other hand, I am looking at the business as it is now – it looks good! If it does reach its targets, that would be great, if it doesn't it will still be good.

Investment perspective - $1 billion for dividends – that is 5.5% minus taxes is what I'll likely get as relatively certain. On top of that there are investments, acquisitions, growth and capacity additions with potential cartel agreements etc. On top of everything there is the likelihood there will be 9 billion people on the planet and their calories requirements might continue to grow.

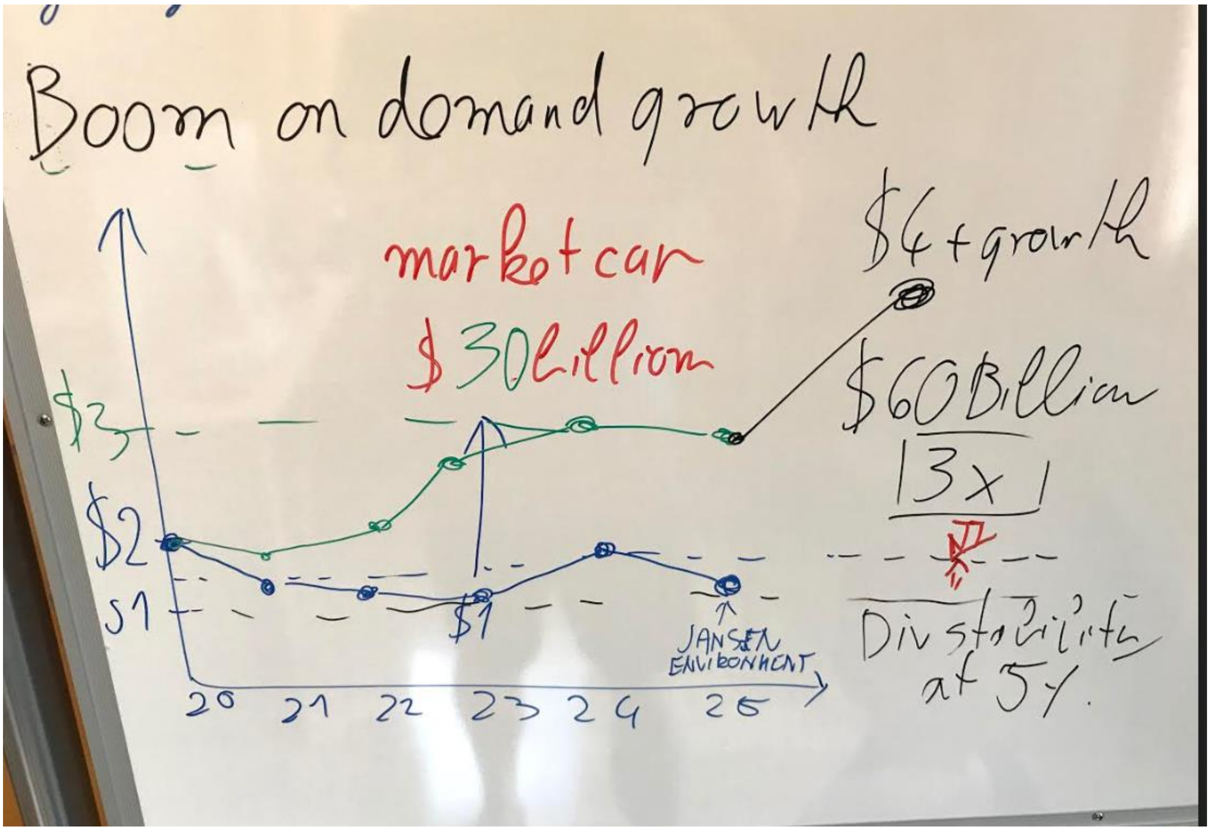
The stock can fall another 30 to 50% in a lower for longer prices scenario and, as we have seen, rare scenarios happen more often than not. I have made a small sketch of what what is going on could mean for the investment. It is likely the dividend wills stay in all scenarios but the market cap might suffer because, as you have seen, Wall Street is focused on the short term outlook.

Lower for longer prices:



But, the above bottom might be a great entry if afterwards we enter into a strength scenario:

That might create a situation for a 3x cyclical return alongside the safety of the dividend and the good business Nutrien is. Further, if we ever get a new cycle boom, the returns could be much higher.



This is the risk and reward of investing in Nutrien at the moment. I'll keep following and waiting for the perfect pitch in comparison with other opportunities because after all, Nutrien is a good business.