

# Nutrien

## Company update

- Nutrien reported phosphate segment EBITDA loss in 3Q20 but market prospects are brighter for 4Q20.** The company reported a 7% YoY decline in phosphate sales to \$292mn and EBITDA loss of \$723mn due to \$823mn non-cash impairments associated with phosphate assets in 3Q20. The potash segment revenue reached \$591mn, down 16.6% YoY due to a 29% decline in average price compensated partially by higher YoY volumes. Nitrogen revenues fell 10.3% YoY to \$540mn due to lower nitrogen prices, while retail revenues were up 8.8% YoY to \$2,720mn because of double-digit growth in sales volumes. Total sales through the company's digital retail platform were \$1,003mn in 3Q20, exceeding the planned level. Nutrien reported retail EBITDA of \$162mn, down 14.7% YoY, potash EBITDA of \$328mn, down 23.7% YoY, and nitrogen EBITDA of \$168mn, down 32% YoY in 3Q20. The consolidated revenue was down 14% YoY to \$2,899mn in 9M20. The company said it has fully committed offshore potash volumes for 4Q20 and reported high ammonia operating rate at 93% in 3Q20. The recovery of energy prices in 4Q20 is supportive for nitrogen prices in 4Q20-1Q21. Soft commodity prices stay rather steady in 3Q-4Q20, up 26% YtD for soybean, up 3% YtD for cotton, up 7.9% YtD for raw sugar as of 20 Nov 2020. The US Department of Commerce set preliminary duties on phosphate fertilizer imports from Russia (20.94% on PhosAgro, 72.5% on EuroChem, 32.92% on all other Russian producers) and 23.46% on imports from Morocco (OCP Group and other producers). The imports of phosphate fertilizers from Morocco were valued at \$729mn and from Russia at \$299mn. The final decision will be approved in February 2021, protecting the US market from excess supply. Nutrien confirmed its full-year 2020 adjusted EPS at \$1.60-1.85 per share and adjusted EBITDA at \$3.5-3.7bn.
- We expect the fertilizer price environment stronger in 2021, supported by higher energy and crop prices.** The economics of farmers is improving on the back of increased key crop prices, and some regional factors, including weak FX in Brazil, good monsoon in India, and higher acreage in China. Both producer and customer inventories of phosphate and potash reported low in 2H2020. Phosphate prices for Indian DAP are up by \$111/mt and up by \$139/mt for Brazil MAP since the low in May. Granular MOP prices have rebounded in Brazil and the US more than \$30/MT from its lowest levels. Phosphate shipments are expected to increase 11% YoY in Brazil in 2020, while total fertilizer shipments in Brazil may be up 4% YoY. Global phosphate shipments are estimated at 72mt in 2020, up from 71mt a year ago and compared to a 72-74mt forecast for 2021. Global potash demand has been strong at 64-66mt in 2020 and consumption will raise by 2mt to 66-68mt in FY2021.
- We review our forecasts for Nutrien.** Improving supply/demand balance on the phosphate market, low inventories, favourable farmer economics create a positive outlook for fertilizer prices in 2021. Nutrien demonstrated good resilience over the corrected market prices, delivering an EBITDA margin of 11.8% in 9M20 compared to 19.1% in 9M19. The Ag sector was in a good shape during the pandemic and will likely recover fast in terms of consumption volumes in 2021. We review our forecasts for Nutrien based on the 3Q2020 report. Our 12-month target market capitalization range for Nutrien based on DCF is \$25.3-35.8bn, which translates to \$44.4-62.9 per share. The stock is valued at 9.3-10.0x EV/EBITDA'21-22 and trades with a 12-14% premium to sector average, based on Refinitiv consensus.

<b>Report date:</b>	<b>2 December 2020</b>
Main exchange	NYSE
Rating	NR
Price, \$	49.2
Target price, \$	NR
MCap, \$ mn	28,019
EV, \$mn	37,147

**Description:**

Nutrien is the largest by capacity world fertilizer producer. The company is a result of the merger of Agrium and PotashCorp.

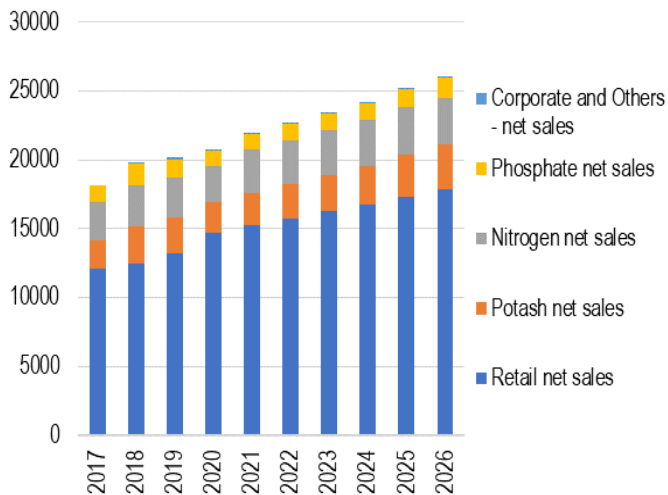
\*as of 02/12/2020

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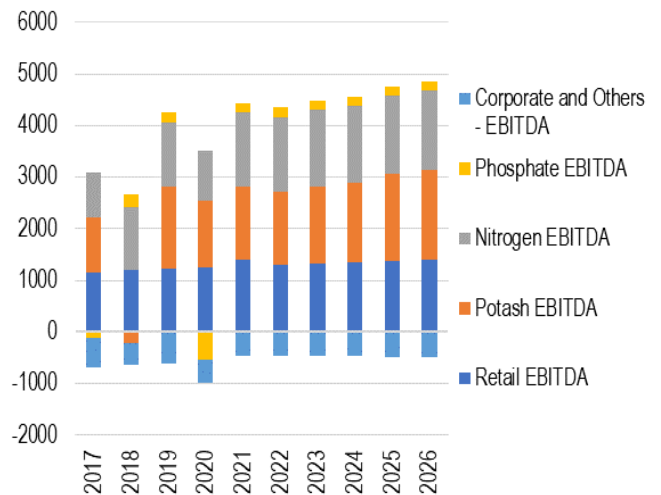
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**Figure 1. Nutrien revenue dynamics by segment, \$mn**



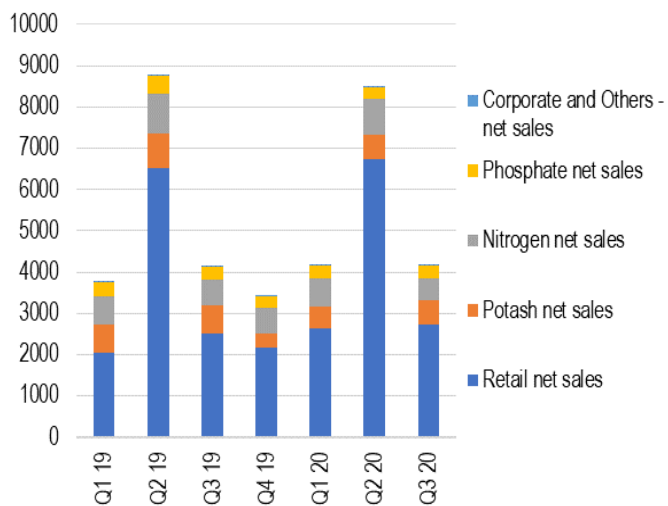
Source: company data, Hypothesis Research

**Figure 2. Nutrien EBITDA dynamics by segment, \$mn**



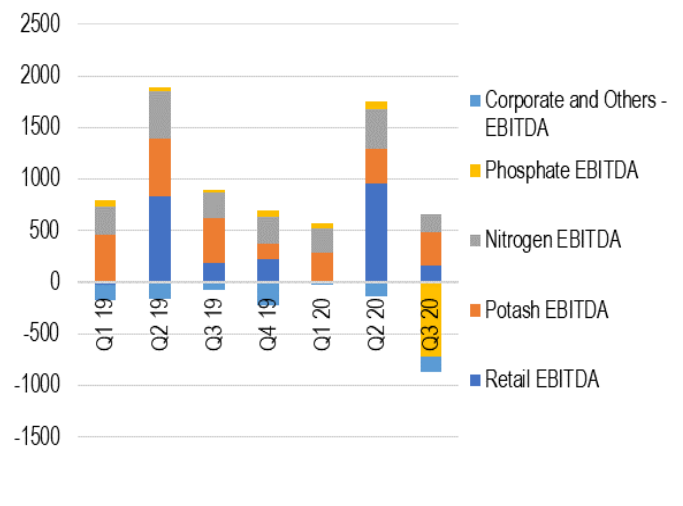
Source: company data, Hypothesis Research

**Figure 3. Nutrien revenue dynamics quarterly, \$mn**



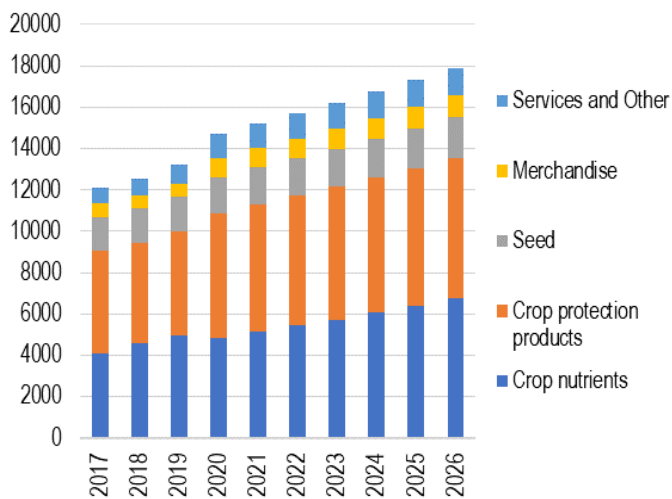
Source: company data

**Figure 4. Nutrien EBITDA dynamics quarterly, \$mn**



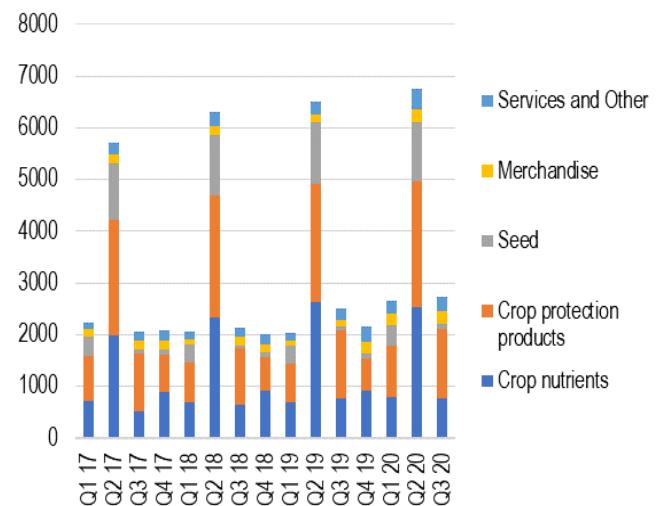
Source: company data

**Figure 5. Nutrien retail sales dynamics, \$mn**



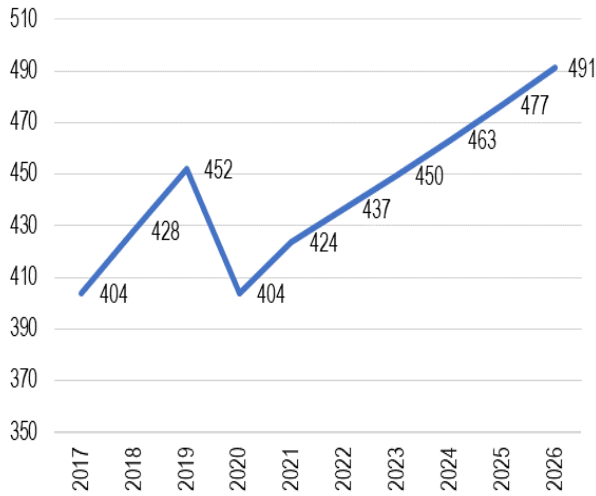
Source: company data, Hypothesis Research

**Figure 6. Nutrien retail sales dynamics quarterly, \$mn**



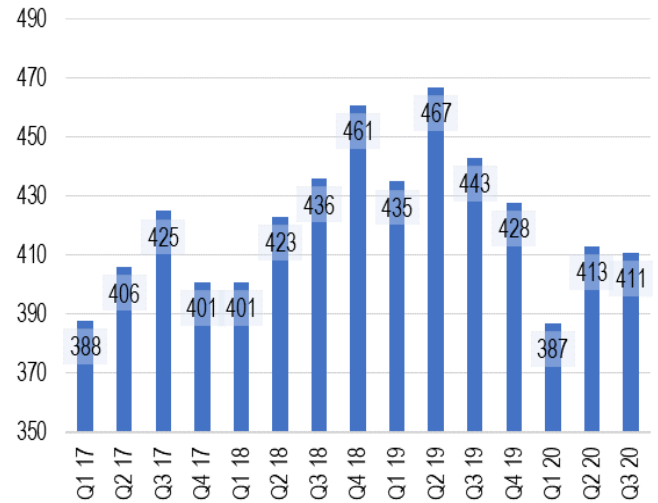
Source: company data

**Figure 7. Crop nutrients selling price, \$/t**



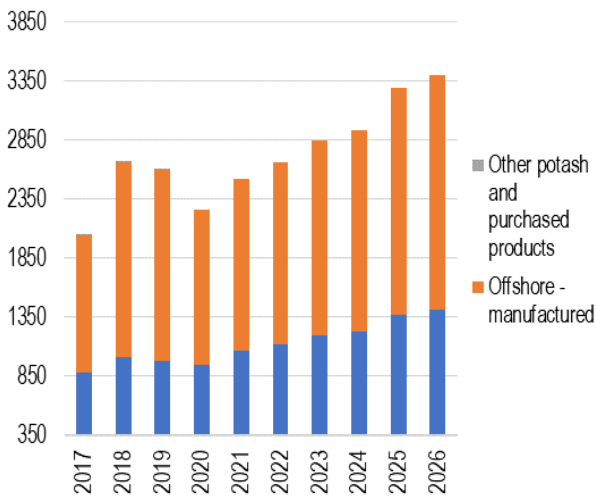
Source: company data, Hypothesis Research

**Figure 8. Crop nutrients selling price, \$/t**



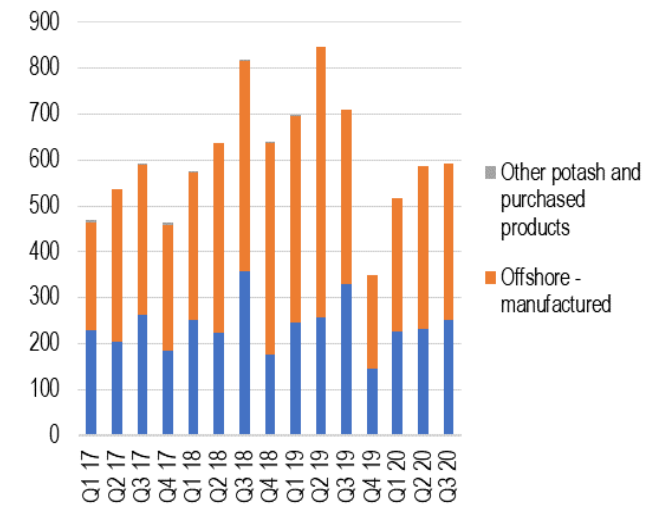
Source: company data

**Figures 9. Potash net sales dynamics, \$mn**



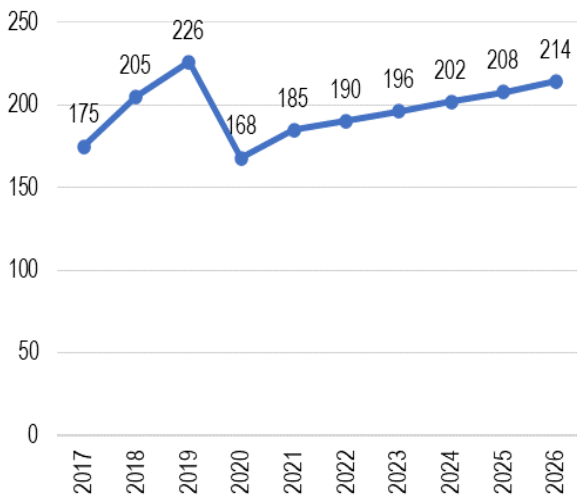
Source: company data, Hypothesis Research

**Figures 10. Potash net sales dynamics quarterly, \$mn**



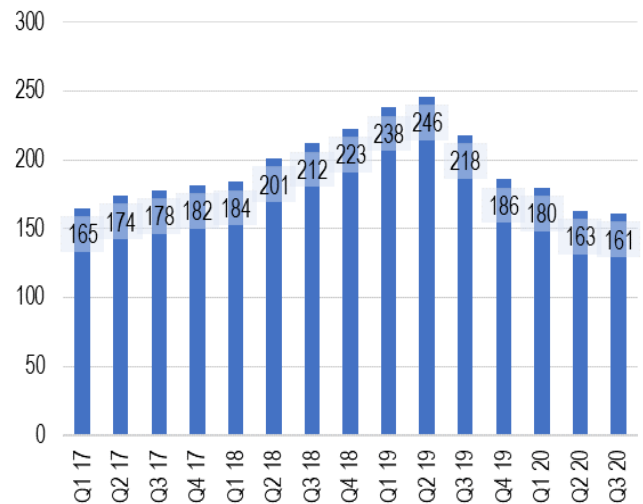
Source: company data

**Figure 11. Potash selling price, \$/t**



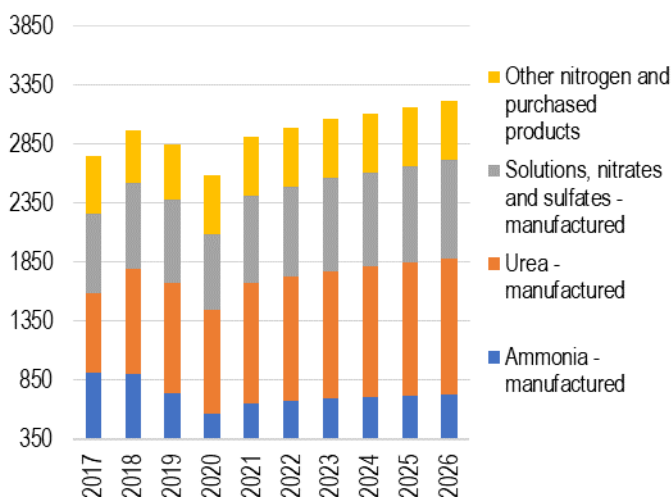
Source: company data, Hypothesis Research

**Figure 12. Potash selling price, \$/t**



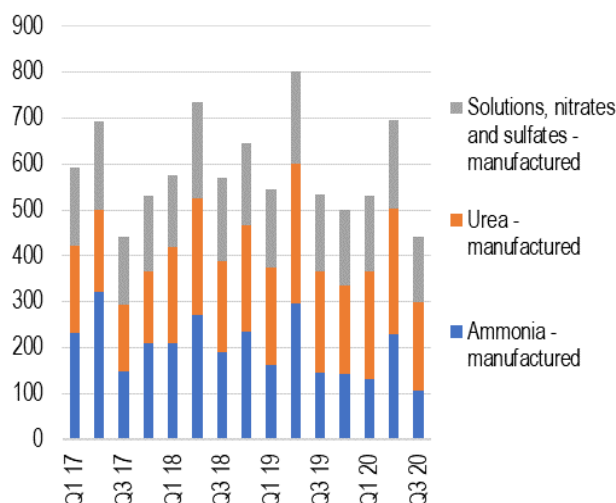
Source: company data

**Figure 13. Nitrogen sales dynamics, \$mn**



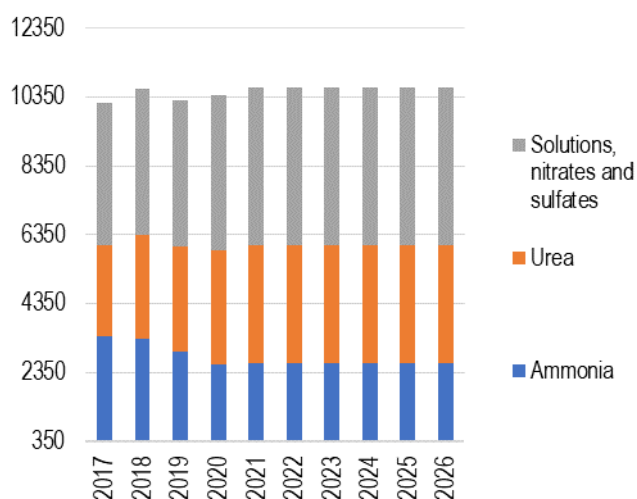
Source: company data, Hypothesis Research

**Figure 14. Nitrogen sales dynamics quarterly, \$mn**



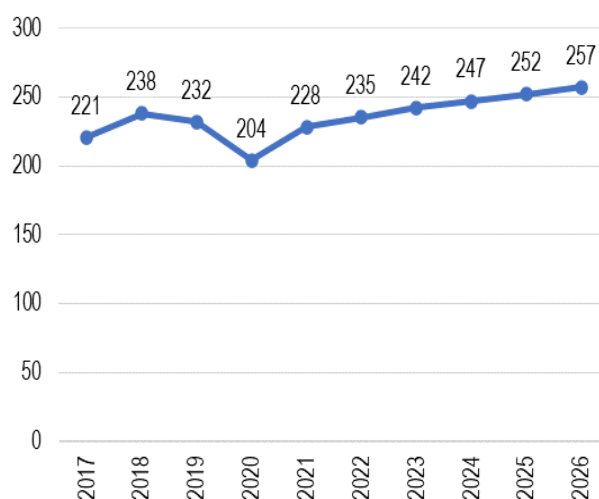
Source: company data

**Figure 15. Nitrogen sales volumes by product, 000 t**



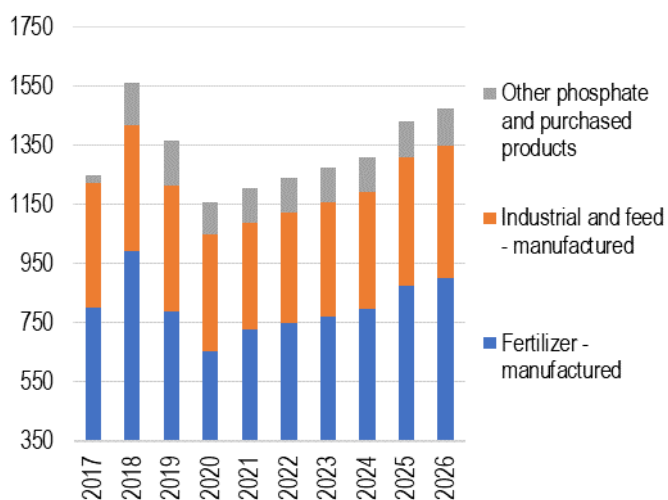
Source: company data, Hypothesis Research

**Figure 16. Nitrogen average selling price, \$/t**



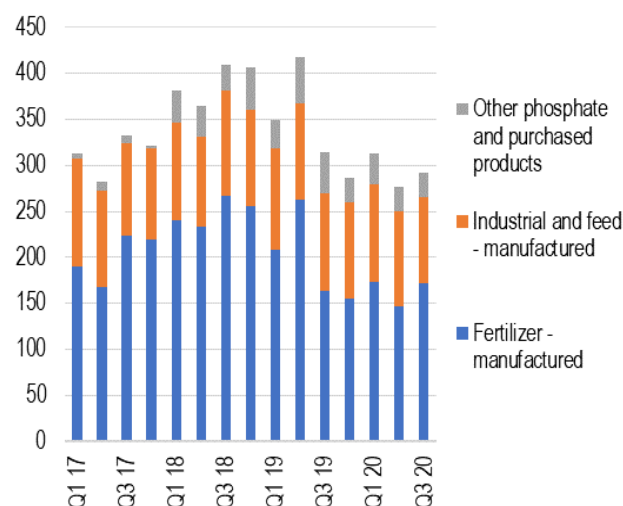
Source: company data, Hypothesis Research

**Figure 17. Phosphate net sales dynamics, \$mn**



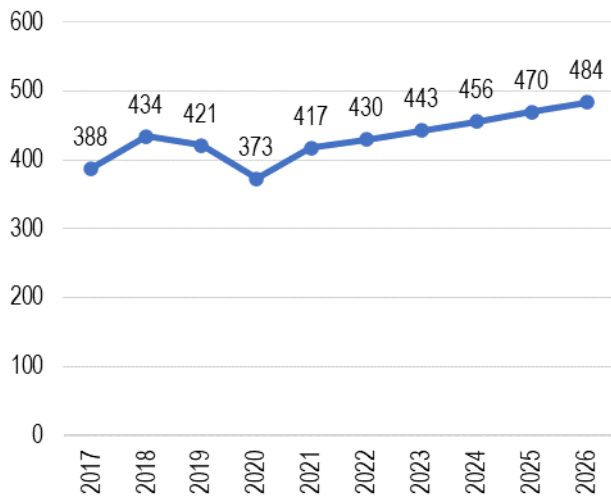
Source: company data, Hypothesis Research

**Figure 18. Phosphate net sales dynamics quarterly, \$mn**



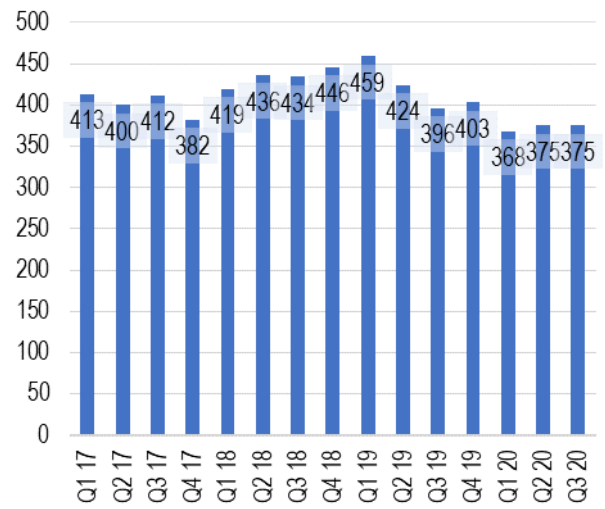
Source: company data

**Figure 19. Phosphate average selling price, \$/t**



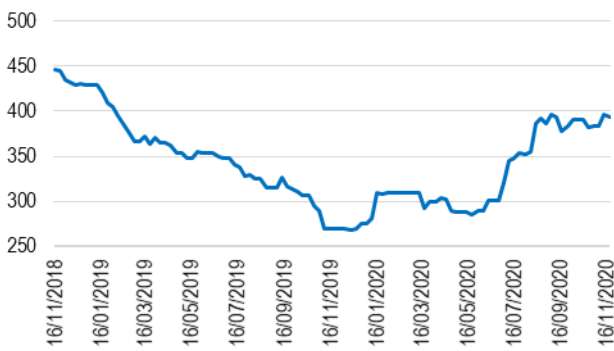
Source: company data, Hypothesis Research

**Figure 20. Phosphate average selling price, \$/t**



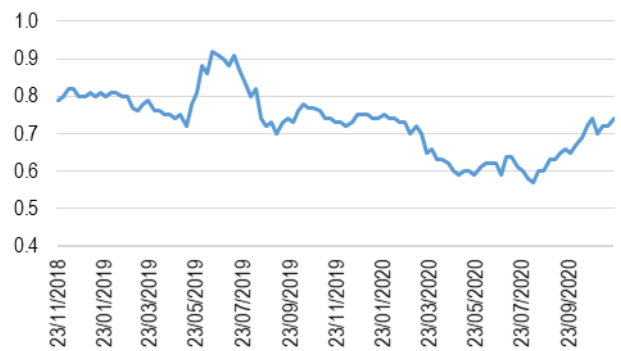
Source: company data

**Figure 21. DAP, New Orleans CFR Barge U\$/MT**



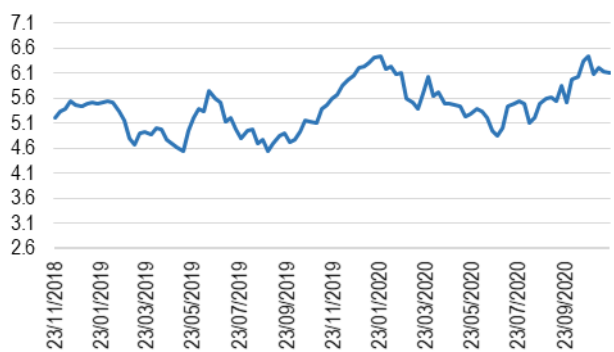
Source: Refinitiv - Datastream

**Figure 22. Corn Wisdomtree commodity securities ETC**



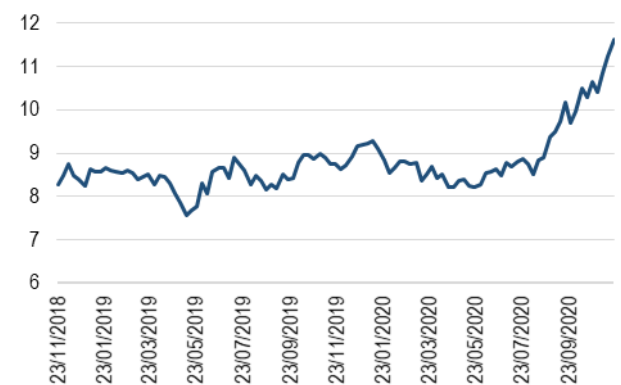
Source: Refinitiv - Datastream

**Figure 23. Wheat No.2,Soft Red U\$/Bu**



Source: Refinitiv - Datastream

**Figure 24. Soyabeans, No.1 Yellow \$/Bushel**



Source: Refinitiv - Datastream

**Figure 25. Nutrien Profit and Loss statement, \$mn**

\$mn	2017	2018	2019	2020	2021	2022	2023	2024	2025
Sales	18169	19636	20023	20802	21957	22694	23500	24214	25293
Freight , transportation and distribution	885	864	768	847	894	924	957	986	1030
Cost of goods sold	13133	13380	13814	14983	16116	16820	17375	17886	18616
Gross margin	4151	5392	5441	4972	4947	4951	5168	5342	5647
Expenses				0	0	0	0	0	0
Selling expenses	2043	2337	2505	2723	2830	2921	3017	3115	3220
General and administrative expenses	411	423	404	414	419	425	430	436	442
Provincial mining and other taxes	159	250	292	218	230	242	259	267	299
Share-based compensation	92	116	104	37	33	30	27	24	22
Impairment of assets	0	1809	120	823	0	0	0	0	10
Other expenses (income)	255	43	154	163	221	225	230	235	239
Earnings (loss) before finance costs and income taxes	1191	414	1862	595	1214	1108	1206	1265	1417
Finance costs	515	538	554	514	524	535	545	556	567
Earnings (loss) before income taxes	676	-124	1308	81	690	573	660	709	850
Income tax expense (recovery)	20	-93	316	20	167	138	160	171	205
Net earnings (loss) from continuing operations	656	-31	992	61	523	435	501	537	644

Source: company data, Hypothesis Research

**Figure 26. Nutrien Balance sheet, \$mn**

\$mn	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total current assets	10763	11662	10665	11782	12891	13768	15064	16784	18553
Property, plant and equipment	20062	18796	20335	20433	20632	20780	20428	19618	18890
Goodwill	2325	11431	11986	11387	10817	10276	9763	9275	8811
Other intangible assets	587	2210	2428	2428	2428	2428	2428	2428	2428
Investments	814	878	821	821	821	821	821	821	821
Other assets	389	525	564	564	564	564	564	564	564
<b>Total assets</b>	<b>34940</b>	<b>45502</b>	<b>46799</b>	<b>47415</b>	<b>48152</b>	<b>48637</b>	<b>49068</b>	<b>49490</b>	<b>50067</b>
Total current liabilities	7776	8335	9129	9731	10318	10677	10960	11222	11604
Long-term debt	8108	7579	8553	8553	8553	8553	8553	8553	8553
Lease liabilities	0	12	859	859	859	859	859	859	859
Deferred income tax liabilities	2678	2907	3145	3145	3145	3145	3145	3145	3145
Pension and other post-retirement benefit liabilities	582	395	433	455	477	501	526	553	580
Asset retirement obligation and accrued environmental costs	1173	1673	1650	1617	1585	1553	1522	1491	1462
Other non-current liabilities	199	176	161	164	168	171	174	178	181
<b>Total liabilities</b>	<b>20516</b>	<b>21077</b>	<b>23930</b>	<b>24524</b>	<b>25105</b>	<b>25459</b>	<b>25739</b>	<b>26001</b>	<b>26384</b>
Share capital	3582	16740	15771	15771	15771	15771	15771	15771	15771
Contributed surplus	230	231	248	248	248	248	248	248	248
Accumulated other comprehensive income (loss)	-1091	-291	-251	-251	-251	-251	-251	-251	-251
Retained earnings	11703	7745	7101	7123	7279	7410	7560	7721	7915
<b>Total shareholders' equity</b>	<b>14424</b>	<b>24425</b>	<b>22869</b>	<b>22891</b>	<b>23047</b>	<b>23178</b>	<b>23328</b>	<b>23489</b>	<b>23683</b>
<b>Total liabilities and shareholders' equity</b>	<b>34940</b>	<b>45502</b>	<b>46799</b>	<b>47415</b>	<b>48152</b>	<b>48637</b>	<b>49068</b>	<b>49490</b>	<b>50067</b>

Source: company data, Hypothesis Research

**Figure 27. Nutrien DCF sensitivity table, 12-month fair Market capitalization, \$mn**

	7.00%	8.00%	9.0%	10.00%	11.00%
0%	26571	22991	20184	17920	16052
0.5%	29005	24872	21688	19154	17086
1.5%	35198	29498	25292	22054	19477
2.5%	44135	35801	30001	25722	22428
3.5%	58170	44898	36416	30513	26160
4.5%	83428	59185	45674	37041	31035

Source: Hypothesis Research

**Figure 28. Fertiliser stocks comparable multiples**

Company Name	MktCap, \$ mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Revenues 1y fwd	EV/ Revenues 2y fwd	EV/ Revenues 3y fwd
Mosaic	8,325	12,367	52.0	18.2	15.8	8.4	6.8	6.2	1.5	1.4	1.3
Nutrien	28,063	40,360	28.4	23.0	19.4	11.2	10.0	9.3	2.0	1.9	1.9
CF Industries	7,979	14,035	31.4	31.8	19.6	10.8	10.8	9.8	3.5	3.3	3.1
Yara International	10,908	13,248	13.2	11.9	10.9	6.0	5.7	5.6	1.1	1.1	1.0
Israel Chemicals	6,002	8,576	22.8	13.0	12.8	9.5	7.1	7.1	1.7	1.6	1.5
PhosAgro	5,102	7,065	7.9	8.3	7.8	6.2	6.4	6.3	2.1	2.0	2.0
K&S	1,796	5,289	NaN	32.3	15.6	9.0	7.8	8.0	1.2	1.3	1.4
Sociedad Quimica y Minera de Chile	10,687	11,545	62.4	38.6	32.3	21.3	15.9	12.6	6.4	5.5	4.8
FMC Corp	15,053	18,002	17.6	15.6	13.9	13.8	12.6	11.8	3.8	3.6	3.4
Intrepid Potash	172	188	NaN	NaN	NaN	10.7	6.2	5.1	1.1	1.0	1.0
<b>Average</b>			<b>29.5</b>	<b>21.4</b>	<b>16.5</b>	<b>10.7</b>	<b>8.9</b>	<b>8.2</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>

Source: ThomsonReuters

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