

Agrium Equity Research Report

November
30th 2011



Independent

Macic 2011/2012



Agrium Equity Research Report

Date: 11/30/2011
 Fund Manager: Ralph Conforti Email: conforr@mcmaster.ca
 Associate: Nathan Manicom
 Associate: Will Van Nest
 Associate: Alex Pogacean

Stock Rating:

Buy

Sector Weighting:

Underweight

November 30th, 2011
 Price Target: \$85.00
 Target Price Date: March 2011

COMPANY MARKET STATISTICS

Ticker:	AGU
Exchange:	Toronto
Fiscal Year End	December 31st
52-week range (Low/High)	\$63.93/\$98.02
Shares Outstanding	158 Million
Avg. Daily Trading Vol.	908,098
Market Capitalization	\$10.97 Billion
Annual Dividend	\$0.11
Dividend Yield	0.20%
Price/Earnings	8.31
Price to Book	1.76
BETA	1.24
EV/EBITDA	5.75

REVENUE BREAKDOWN

Retail: 63%
 Wholesale: 34%
 Advanced Technologies: 3%

ANNUAL EARNINGS PER SHARE (EPS)

Current Year	Report on Feb 8th
2010	\$4.77
2009	\$2.96
2008	\$10.27

HIGHLIGHTS

- World Population is growing and incomes are growing worldwide. Arable land is in decline meaning fertilizers will be demanded to achieve adequate yields
- Reported record revenues and earnings last quarter on weak harvest

OVERVIEW

Agrium Inc., together with its subsidiaries, produces and markets agricultural nutrients, industrial products, and specialty products worldwide, as well as involves in the retail supply of agricultural products and services in North and South Americas and Australia. The company's Retail segment markets crop nutrient products, including nitrogen, phosphate, potash, sulphur, and micronutrients; crop protection products, such as herbicides, fungicides, adjuvants, and insecticides; and seeds. This segment also offers agronomic services, as well as product application, soil and leaf tissue testing and analysis, and crop scouting services. This segment operates 1,192 outlets in the United States, Canada, Australia, Argentina, Chile, and Uruguay. The company's Wholesale segment produces, markets, and distributes nitrogen, phosphate, potash, sulphate, and other crop nutrient products for agricultural and industrial customers. This segment also owns and operates facilities that upgrade ammonia to other nitrogen products, such as urea, nitric acid, and ammonium nitrate, as well as provides Rainbow plant food products. Agrium's Advanced Technologies segment produces and markets controlled-release crop nutrients and micronutrients for the agriculture, specialty agriculture, professional turf, horticulture, and consumer lawn and garden markets. The company was formerly known as Cominco Fertilizers Ltd. and changed its name to Agrium Inc. in 1995. Agrium Inc. was founded in 1931 and is headquartered in Calgary, Canada.

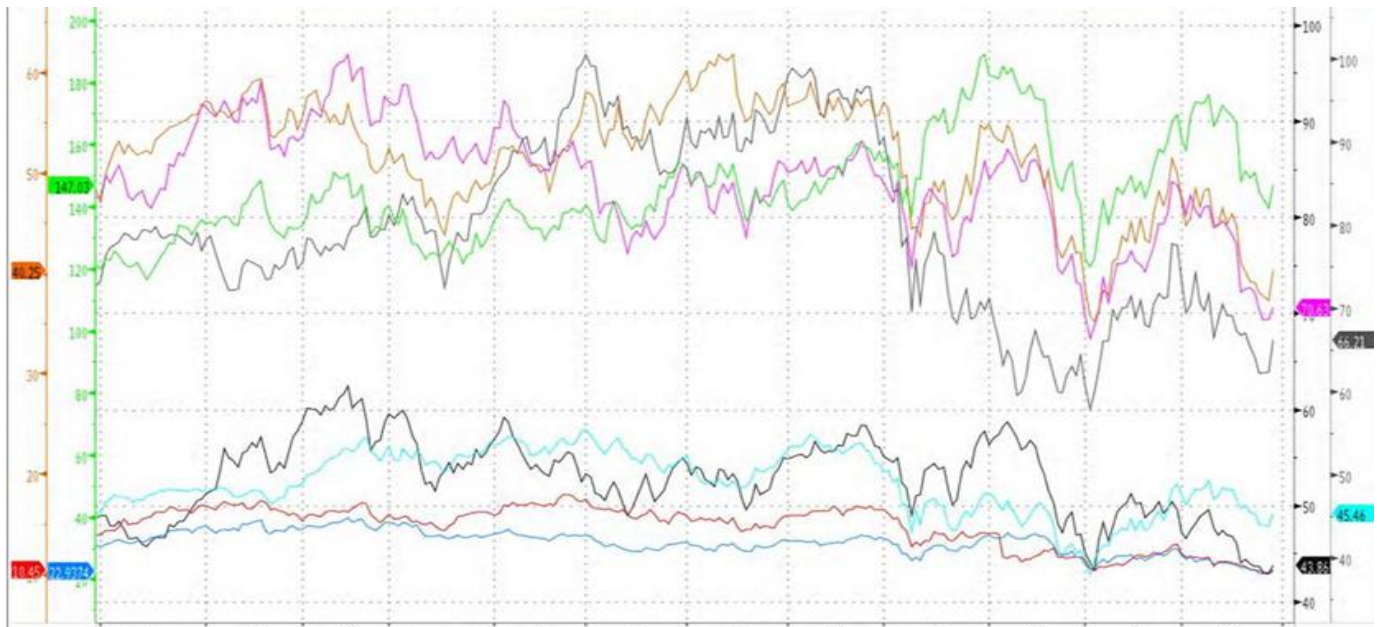
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PRICE CHARTS



As demonstrated above, Agrium touched its 52 week low in early October. Following this, the price rebounded up to the 85 level but the recent chaos in the European markets has sent the company tumbling downward. Agrium reported record 2nd quarter profits on November 3rd but saw a slight market decline.



Agrium is denoted with the purple line and moves in line relative to its peers.

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The chart above displays Agrium vs its benchmark index, the TSX. This shows that Agrium follows the movements of the market closely.

NEWS AND EVENTS

Agrium reported a more than threefold increase in its Q3 profit, with huge gains in its retail business. Its shares though, had fallen 2% as sales volumes at its wholesale fertilizer business were weaker than expected. The company said volumes were lower because strong sales in June resulted in a drop in inventory at the start of the quarter. Volumes were also hit by subdued buying by some distributors and retailers, and by lower nitrogen production volumes in the period.

Agrium stated that its retail business was lifted in Q3 by higher sales and gains from acquisitions. At its wholesale business, sales rose on higher prices for nitrogen, phosphate and potash based nutrients, but overall sales volumes were weaker than some analysts had expected.

Its EPS in Q3 was \$1.85 in comparison to \$0.39 in the previous year. The company forecasts that Q4 earnings will be between \$1.80 to \$2.30 a share, while analysts, on average, are expecting earnings of \$2.07 (according to Thomson Reuters). Overall, EPS is expected to rise in the next quarter.

After Q3 releases, Mike Wilson, Agrium President and CEO stated: "We expect the strength in our business to extend through the fall application season and into 2012, due to the continuation of tight agricultural fundamentals providing economic incentive for growers to optimize crop acreage, yields and crop inputs 1."

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Agrium is facing some slight setbacks in Egypt at the moment. MOPCO management has temporarily suspended construction on the expansion project at the MOPCO nitrogen facility in Damietta, Egypt due to local demonstrations. One person has been killed in the demonstrations. They are protesting over the operations of the nitrogen plant which is partially owned by Agrium (26% equity position). The protestors are saying that the plant is causing heavy pollution.

Despite the global market uncertainties and volatility, Agrium believes that the strong fundamental drivers supporting demand in agricultural and crop input markets remain firmly in place. Wilson expects to witness continuous growth in fertilizer demand in 2012.

COMPANY RISK

Agrium is a stable company as demonstrated through its credit rating. All three of the major rating services provide a similar outlook for the company. The price moves are relatively volatile but the implied volatility suggests this will come down slightly as we move forward. The volatility is likely a symptom of the market movements.

With Beta of 1.24, Agrium's movements are much more pronounced than the overall market. Every 1% percent move in the market results in Agrium price movements of 1.24%

Operationally, Agrium is stable with a majority of its revenues derived from North America (>80%). This means that political risk is minimal at best.

Credit Rating

Baa2

Moody's Recommendation

STABLE

Volatility

40.68%

Implied Volatility

37.52%

WACC

13.29%

BETA

1.24

PEER COMPARISON

Ticker	Market Cap	Div. Yield	Trailing P/E	Forward P/E	Annual Revenue	ROA	ROE	Operating Margin
AGU.TO	11.08B	0.15%	8.35	8.13	14.74B	10.43%	23.53%	12.86%
POT.TO	37.45B	N/A	13.19	10.39	8.14B	15.55%	38.35%	46.40%
MOS	22.44B	0.40%	8.21	N/A	10.83B	12.75%	25.74%	27.53%
MON	37.61B	1.80%	23.7	17.45	11.82B	8.31%	15.18%	21.19%
DD	41.79B	3.70%	12.28	10.38	37.59B	6.92%	32.40%	12.91%
IPI	1.70B	N/A	16.63	12.56	392.24M	11.29%	12.96%	39.71%
DOW	30.63B	4.10%	10.61	8.97	59.66B	4.23%	13.46%	7.55%

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REVENUE AND EARNINGS

Revenues at Agrium tend to be highly cyclical due to the nature of operations. With a large retail segment that sells fertilizer products this is expected. Revenues are strongest in Q2 in anticipation of the coming season as farmers ready their land and crops. Q3 follows closely as farmers try to enhance the yield on their crops. Overall, revenues have been rising for the past 10 years. In 2008, Agrium saw record revenues due to price appreciation in fertilizers. Revenues today are based upon strong pricing but also strong demand. This is a trend that many consider to continue moving forward. With the growing world population and middle income class, food consumption will rise. This growing population will also eliminate more arable land and subsequently lead to further demand increases as farmers will have to feed their land more to generate better yields. For 2011, Agrium is expected to report record revenues and has already seen a record second quarter in this year.

Net income and EPS are expected to follow the same trend as revenue. Agrium has demonstrated an ability to control its costs even with rising input prices and demand. They are able to translate this to the consumer quite well.

For Q4, demand has been strong while pricing has also remained at or near record levels. With production costs and inputs like natural gas staying low, it can be expected that Agrium will see a significant rise in profits and margins.

	Net Income					
	Q1	Q2	Q3	Q4	Annual Total	
Current	\$ 169.57	\$ 694.12	\$ 287.21	Feb 8th	Feb 8th	
2010	-\$ 2.08	\$ 532.51	\$ 63.41	\$ 159.99	\$ 735.43	
2009	-\$ 74.71	\$ 432.15	\$ 28.55	\$ 31.68	\$ 417.58	
2008	\$ 195.87	\$ 642.36	\$ 382.21	\$ 150.17	\$ 1,410.84	

	EPS					
	Q1	Q2	Q3	Q4	Total	
2011	\$ 0.97	\$ 4.40	\$ 1.80	Feb 8th	Feb 8th	
2010	\$ (0.35)	\$ 3.25	\$ 0.33	\$ 1.11	\$ 4.77	
2009	\$ (0.37)	\$ 2.75	\$ 0.22	\$ 0.22	\$ 2.96	
2008	\$ 1.23	\$ 4.04	\$ 2.41	\$ 2.93	\$ 10.27	

	Revenue					
	Q1	Q2	Q3	Q4	Total	
2011	\$ 2,912.25	\$ 6,000.26	\$ 3,078.90	Feb 8th	Feb 8th	
2010	\$ 1,922.43	\$ 4,555.10	\$ 2,147.46	\$ 2,375.61	\$ 10,835.74	
2009	\$ 2,182.51	\$ 4,777.04	\$ 2,025.16	\$ 1,522.75	\$ 10,415.44	
2008	\$ 1,111.95	\$ 3,908.67	\$ 3,242.05	\$ 2,350.67	\$ 10,705.09	

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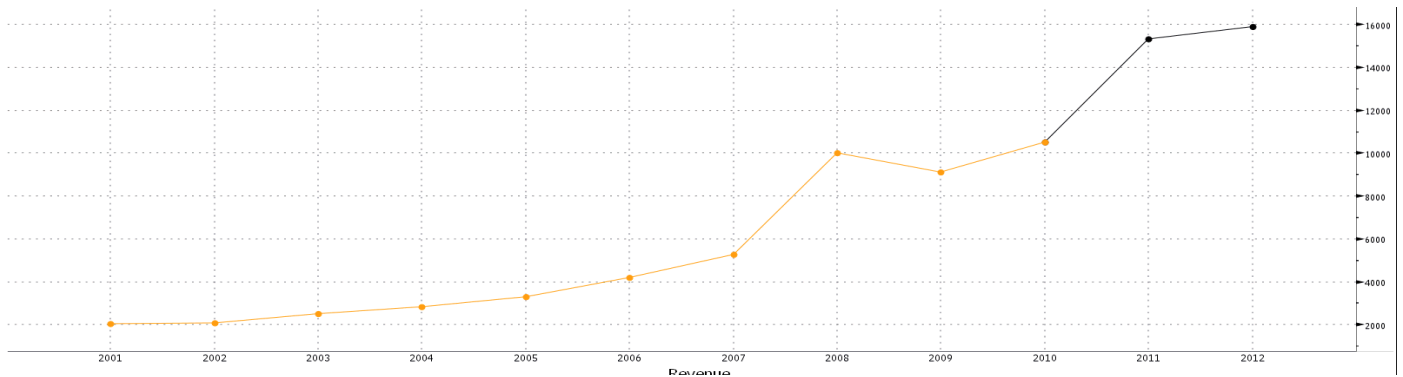
HORIZONS
EXCHANGE TRADED FUNDS



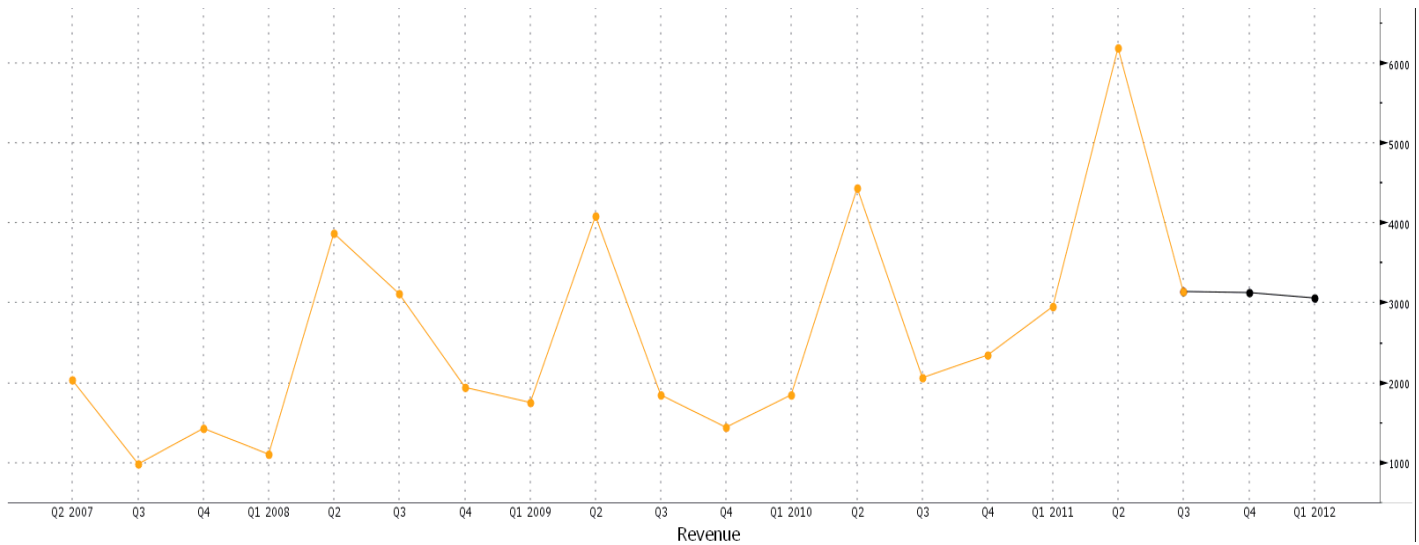
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Annual Revenue Graph



Quarterly Revenue Graph



Income Annually



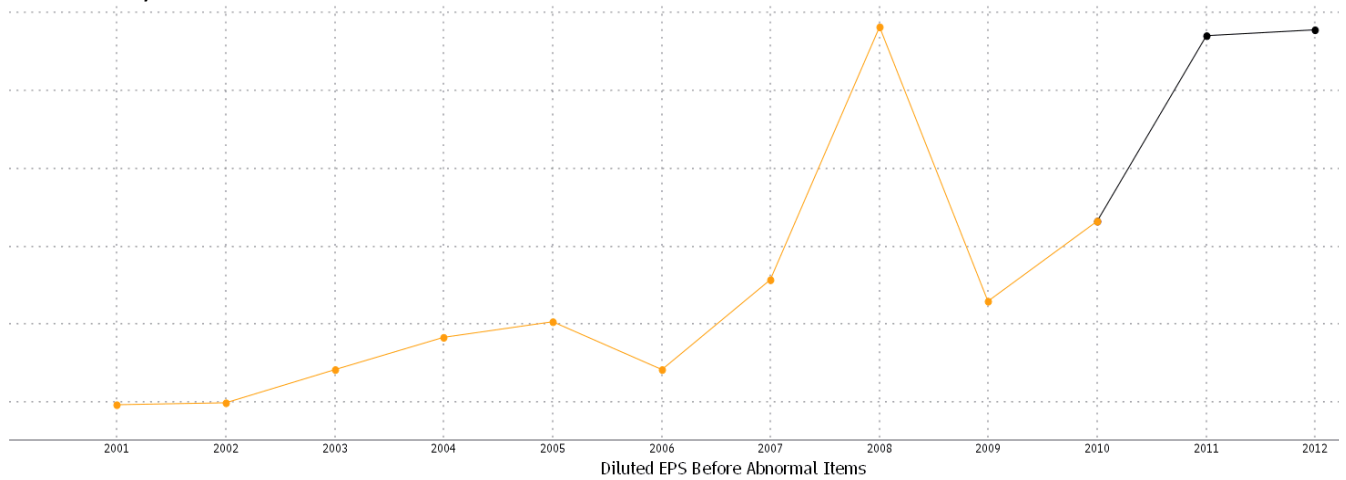
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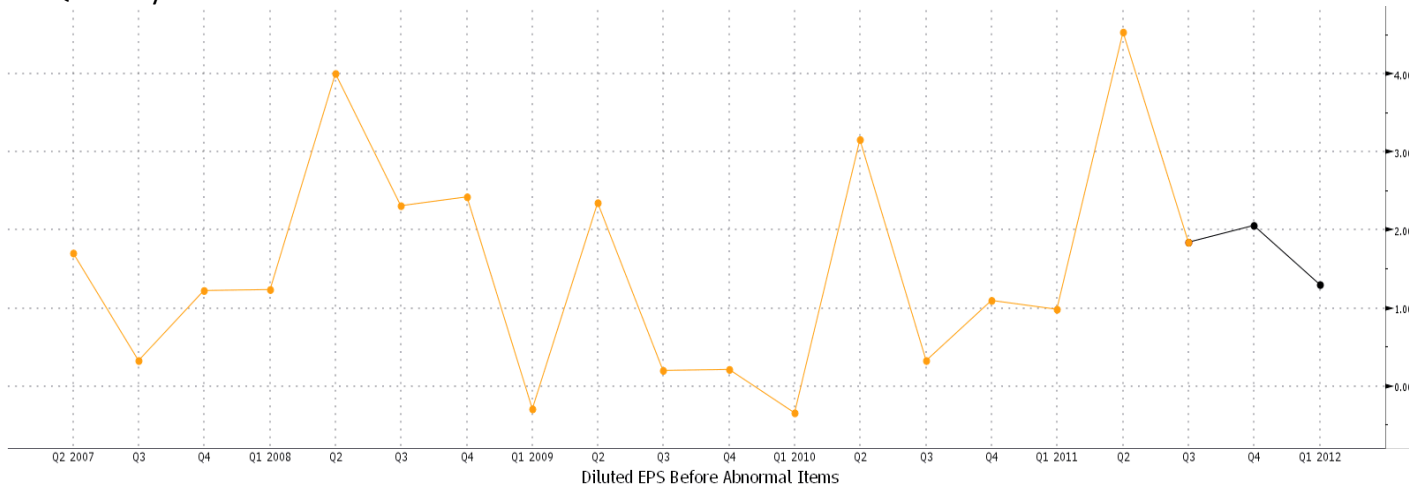
Income Quarterly



EPS Annually



EPS Quarterly



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FUNDAMENTAL RATIO ANALYSIS

The ratios below are measured based on the last year period. Agrium has demonstrated fairly strong revenue growth and is showing a lot of promise. Their returns on equity and assets are greater than the industry average, demonstrating that they are utilizing their resources effectively to generate net income. These figures are comparable to the industry giants Potash Corp. Their price earnings ratio is far below the industry average, revealing that the company is highly undervalued. Their price to book ratio is slightly above the industry average of 1.76, signalling great future growth potential. Its current ratio is above one, revealing that it is able to meet its short-term obligations. All in all, the fundamental ratios indicate that Agrium is fundamentally strong and is currently undervalued in the struggling economy.

Revenue Growth	ROE	Current Ratio	Price to Book
15.24%	24.16%	2.16	1.954
Gross Margin	ROA	Quick Ratio	
23.97%	12.18%	1.34	
Profit Margin	P/E	Debt/Capital	
6.79%	7.828	32.17%	

CASH FLOW ANALYSIS

Agrium has been consistent with its dividend policy over the last decade by paying semi-annual dividends of 5.5 cents. Cash flow from operations has continued to grow and was reported at \$620 million for 2010. Non-cash working capital increased 405 million over the last nine months. The \$405 million dollar increase was primarily driven higher by A/R and inventories. The company had proceeds of \$721 million from the disposal of subsidiaries and paid \$145 million for acquisitions over the last quarter. Cash flow from investment activities is consistently negative with over \$1.5 billion last year due to asset purchases and acquisitions. Cash flow from financing was positive \$518 million in 2010 due to the issuance of new debt although the company in Q3 of 2011 paid off \$125 million in outstanding debt. The company's capital expenditures for 2012 are estimated at \$520 million. The company has enough cash on hand to fund operations and their CAPEX program looking forward.

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HORIZONS
EXCHANGE TRADED FUNDS



Russell
Investments



Net Cash Position \$755	Dividend \$.11	Div. Growth Rate none	Price/Cash Flow 17.6
FCF Per Share \$1.13	Dividend Yield <1%	Cash from Operation 620m	
FCF Yield 1.63%	Dividend Payout 0.02%		

TECHNICAL ANALYSIS

MACD



The recent downwards cross indicates that we may want to wait until there looks to be more of a reversal, however the signal and MACD are quite low and there is potential for a crossover in the near future and a large swing upwards.

Looking at the support and resistance levels we see a support develop around \$68.50 while a resistance seems to have formed at just below \$90.

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RSI



The RSI currently indicates a massive overselling of the stock which is consistent with views. A level of 30 would indicate overselling; Agrium is currently situated under 10.

SELECTION METHODOLOGY

The stock was picked on the basis of irrational price depreciation over the last six months mostly related to poor economic conditions. Agrium is a highly profitable company with minimal short interest that should see strong growth in both pricing and volume. Agrium is well aligned with conditions across the globe that will lead it to further prosperity.

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