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Are Fertilizer Companies Good Investments?

By: www.ProfitableInvestingTips.com

The world of agriculture is another part of the global economy negatively affected by the Covid-19 pandemic and the resulting supply chain nightmare. *The New York Times* published an article about [fertilizers like urea being in short supply](#). Farmers in India are desperate. China and Russia have cut off exports to make sure that their own farmers have enough supplies for domestic crops. And, if farmers and whole countries can get the necessary urea, potash, and more than twenty other fertilizers, prices are up substantially. This brings us to ask the question, are fertilizer companies good investments?

Fertilizers and Crop Yield

Why do farmers use fertilizers? According to Mosaic Crop Nutrition, fertilizers provide a substantial increase in [crop yield](#) on the same land with the same seeds and the same climate. Surveys of U.S. crop production indicate that corn yields would go down by forty percent without the use of nitrogen and by much more if phosphorus and potassium were not added to the soil. They note a study done in Oklahoma showing that yields of wheat go down by forty percent if nitrogen and phosphorus are not added regularly to the soil. A study from Missouri showed that across all grains, fifty-seven percent of yields came from the use of fertilizers and lime. And, a study from Kansas demonstrated that sixty percent of corn crop yield comes from adding phosphorus and nitrogen to the soil.

Fertilizer Company Business Model

The [intrinsic value](#) of a company is based on having a market over the long term and their projected ability to sell their products and services to that market. As the population of the world increases year by year we need more food. Fertilizers are a mainstay in keeping crop yields high enough to feed more and more hungry mouths. Thus, fertilizer companies will have a market for their products for as long as people need to eat. As we see this year with both China and Russia cutting exports of fertilizers, food security is becoming a national priority. As more and more foreign fertilizer companies limit themselves to selling within their national borders, US companies will have the field to themselves in selling to the US farmers. This is a big market as the USA produces a third of the corn in the world, forty-seven percent of all soybeans, seven percent of wheat, and sixteen percent of oats. The USDA provides information about [corn and other feed grains](#) showing that the US Corn Belt from Western Ohio to Eastern Nebraska, Southern Minnesota to Northern Missouri and centered on Iowa and Illinois will be a reliable buyer of fertilizers virtually forever.

Who in the USA Manufactures Fertilizers?

CF Industries is a major fertilizer producer headquartered in the USA and with operations in the EU, UK, and elsewhere. They operate 17 ammonia production facilities (nitrogen) with the largest located in Donaldsonville, Louisiana. The company's primary products are all nitrogen fertilizers including anhydrous

ammonia, granular urea, and ammonium nitrate solution as well as nitric acid, urea liquor, aqua ammonia, and diesel exhaust fluid. CF Industries sold its potash business to Mosaic in 2013 for \$1.3 Billion. Their stock went public in 2005 for \$3.31 a share. Today it sells for \$60.95 and the stock pays a 1.97% dividend yield.

The Mosaic Company is a Florida-based miner of potash and phosphate of which it is the largest US producer. The company has operations in six countries and is the leading integrated producer of phosphate and potash worldwide. Its stock sold for \$12.75 in 1988 and goes for \$36.33 today. Its dividend yield is 0.83% and the stock has a 7.81 P/E ratio. Within the last year the stock has ranged from \$22 to \$42 a share.

Intrepid Potash is a Colorado-based fertilizer company that leads in US production of potassium chloride (muriate of potash). Other products include sulfur and magnesium for fertilizers and animal feed as well as the oil and gas industry. Intrepid's stock rose from \$16.10 a share a year ago to \$42.46 today. It does not pay a dividend and has a 22 P/E ratio.

LSB Industries is an Oklahoma-based chemical company that provides urea ammonium nitrate solutions, ammonium nitrate, and ammonia for farmers. Their diversified company also serves the mining industry and various industries. As such, they are not strictly a fertilizer company. Their stock bottomed out in July of 2020 at \$0.81 a share and sells for \$9.58 today.

Investing in the Global Fertilizer Market

The Street looked at the [fertilizer industry](#) as a place to invest. Worldwide the market for fertilizers is expected to go from \$121 billion a year in 2020 to \$210 billion a year by 2027. Investments in this niche will not be homerun hitters but rather ships that rise with the tide as the world needs and produces more food by using more fertilizer.

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