

CF Industries (CF)

\$27.46 (As of 05/11/20)

Price Target (6-12 Months): **\$23.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/14/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

CF Industries' earnings and sales beat the respective Zacks Consensus Estimate in first-quarter 2020. The company is exposed to headwind from lower nitrogen prices. It expects pricing weakness to continue through the first half of 2020. Greater global supply availability due to increased operating rates and lower global energy prices are exerting pressure on nitrogen fertilizer prices. Lower nitrogen prices are expected to hurt margins in the second quarter. The company also has a debt-laden balance sheet. Moreover, it is exposed to challenging agriculture market fundamentals. The prevailing softness in agricultural commodity pricing is a concern. Lower expected demand in China due to the coronavirus pandemic is likely to put pressure on crop commodity pricing. It also underperformed the industry in the past year.

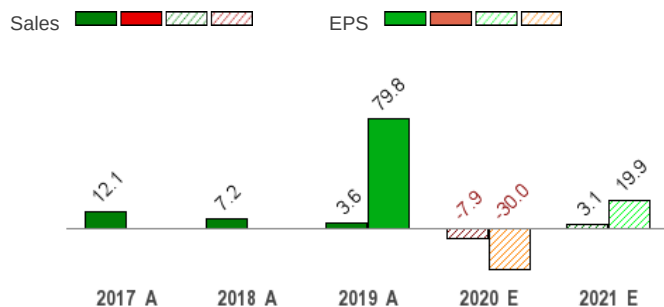
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.15 - \$19.73
20 Day Average Volume (sh)	2,798,667
Market Cap	\$5.9 B
YTD Price Change	-42.5%
Beta	1.08
Dividend / Div Yld	\$1.20 / 4.4%
Industry	Fertilizers
Zacks Industry Rank	Top 14% (36 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.8%
Last Sales Surprise	9.0%
EPS F1 Est- 4 week change	-3.7%
Expected Report Date	07/29/2020
Earnings ESP	-20.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	941 E	1,185 E	995 E	1,111 E	4,356 E
2020	971 A	1,219 E	957 E	1,088 E	4,226 E
2019	1,001 A	1,502 A	1,038 A	1,049 A	4,590 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.23 E	\$0.41 E	\$0.16 E	\$0.19 E	\$1.87 E
2020	\$0.31 A	\$0.71 E	\$0.24 E	\$0.31 E	\$1.56 E
2019	\$0.27 A	\$1.28 A	\$0.29 A	\$0.25 A	\$2.23 A

*Quarterly figures may not add up to annual.

P/E TTM	12.9
P/E F1	17.6
PEG F1	2.9
P/S TTM	1.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/11/2020. The reports text is as of 05/12/2020.

Overview

CF Industries Holdings, Inc., headquartered in Deerfield, IL, is one of the largest manufacturers and distributors of nitrogenous fertilizer and other nitrogen products globally. The company's principal nitrogenous fertilizer products are ammonia, granular urea, urea ammonium nitrate solution (UAN) and ammonium nitrate (AN).

CF Industries is a leading nitrogen fertilizer producer in North America. The company operates two of the largest fertilizer complexes in North America, one in Donaldsonville, Louisiana, United States and the other in Medicine Hat, Alberta, Canada.

Roughly 24%, 29%, 28% and 11% of its total sales in 2019 came from its Ammonia, Granular Urea and UAN and AN segments, respectively, while the "Other" segment accounted for the balance. The company completed the divestment of its phosphate unit to The Mosaic Company in March 2014.

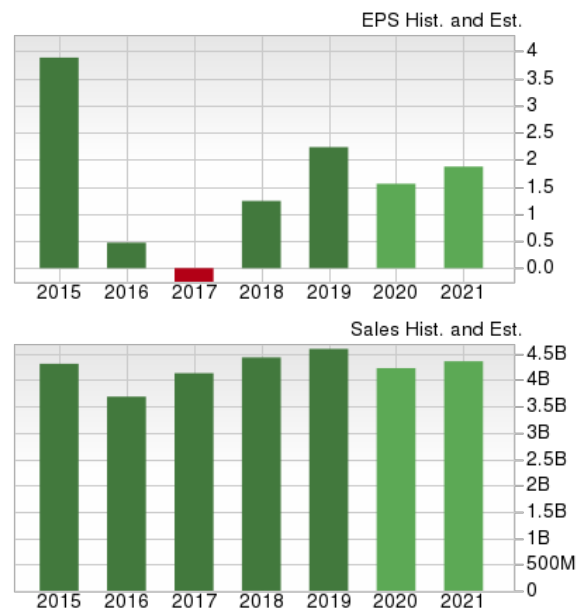
In April 2010, CF Industries acquired rival Terra Industries for \$4.7 billion. With the acquisition, the company has become the global leader in the nitrogen fertilizer industry and has expanded geographically.

CF Industries, in October 2013, signed a definitive agreement to sell its phosphate mining and manufacturing business to fertilizer producer Mosaic for \$1.4 billion in cash (including \$200 million to fund CF Industries' asset retirement obligation escrow). The transaction was closed in March 2014.

Under the deal, CF Industries disposed the Hardee County phosphate rock mine, the Plant City phosphate complex, an ammonia terminal, phosphate warehouse and dock at the Port of Tampa and the site of the former Bartow phosphate complex to Mosaic.

CF Industries and Mosaic also entered into a long-term ammonia supply agreement, under which, the former agreed to supply ammonia to Mosaic from its Donaldsonville, LA, nitrogen complex and its 50% owned Point Lisas Nitrogen Ltd. (PLNL) facility in the Republic of Trinidad and Tobago.

In 2016, the company completed its capacity expansion projects at Donaldsonville and Port Neal. The projects involved the building of new urea, ammonia and UAN facilities at Donaldsonville complex along with new urea and ammonia facilities at the Port Neal complex. The facilities have boosted the company's overall production capacity by roughly 25%.



Reasons To Sell:

- ▼ CF Industries has underperformed the industry it belongs to over a year. The company's shares are down 32.8% compared with the 28.3% decline of the industry. CF Industries faces headwinds from lower expected nitrogen prices in second-quarter of 2020. The company witnessed lower prices across all major products in the last reported quarter, which dented revenues. Prices were affected by greater global supply availability due to increased global operating rates. Moreover, lower global energy prices have put pressure on product prices. The company expects pricing weakness to continue through the first half of 2020. As such, lower prices are expected to continue to weigh on its results.
- ▼ Although CF Industries is taking actions to de-leverage its balance sheet, it continues to operate with high debt level with total long-term debt of roughly \$4 billion at the end of the first quarter, which is significantly higher than its cash and cash equivalents of around \$753 million. The company had a total debt-to-total capital ratio of 0.45 as of Mar 31, 2020, which is higher than the industry average of 0.41 and also sequentially higher than 0.41 as of Dec 31, 2019. As such, the company appears to have higher default risk.
- ▼ The overall agriculture market fundamentals remain weak. The prevailing softness in agricultural commodity pricing is a concern as it is hindering fertilizer use by farmers given the adverse effect of lower crop pricing on growers' income. Moreover, disruptions associated with the outbreak of coronavirus are likely to hurt demand in China, a top consumer of agricultural commodities. Weaker expected demand in China due to the impact of coronavirus is likely to put pressure on agricultural commodity prices in the near term, which will affect demand for fertilizers.

The company faces headwind from lower nitrogen prices. It also has a debt-laden balance sheet. Moreover, the company is exposed to challenging agriculture market fundamentals.

Risks

- CF Industries should benefit from higher expected global demand for nitrogen fertilizers in 2020. In North America, farmers are expected to plant roughly 92-94 million acres of corn in 2020. CF Industries expects demand for nitrogen in North America to be strong in the 2020 spring application season after a weak fall application season. Demand for nitrogen is expected to be driven by higher corn acres in the United States compared with 2019. Normal planting conditions are expected to drive demand. The company also sees continued strong demand for urea in Brazil and India. Lower domestic urea production in Brazil is likely to increase demand this year.
 - Low natural gas prices have been an advantage for CF Industries. The company's nitrogen business is enjoying the benefit of abundant natural gas supply, driven by an increase in production of North American shale gas. Natural gas cost remains lower in North America compared with the rest of the world. The company expects natural gas cost advantage to continue in 2020, especially in the first half.
 - The company remains committed to return value to shareholders leveraging strong cash flows. CF Industries generated operating cash flows of roughly \$1.5 billion in 2019 and returned \$602 million to shareholders. Moreover, the company is currently executing a \$1 billion share repurchase program that is authorized through 2021. Notably, the company has repurchased around 2.6 million shares during the first quarter of 2020. Since February 2019, the company repurchased around 10.2 million shares for \$437 million.
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Last Earnings Report

CF Industries' Earnings & Sales Beat Estimates in Q1

CF Industries delivered profits of \$68 million or 31 cents per share in the first quarter of 2020, down from \$90 million or 40 cents in the year-ago quarter. Nevertheless, earnings per share beat the Zacks Consensus Estimate of 23 cents.

Net sales fell around 3% year over year to \$971 million in the quarter. However, the figure beat the Zacks Consensus Estimate of \$891.3 million.

Average selling prices in the first quarter were lower on a year-over-year basis across all segments due to increased global supply availability. This was mostly offset by higher sales volumes across all segments.

Segment Review

Net sales in the Ammonia segment rose 3.2% year over year to \$193 million in the reported quarter. Ammonia sales volume rose year over year owing to comparatively favorable weather enabling fertilizer application. Average selling prices of ammonia fell year over year due to higher global ammonia supply availability.

Sales in the Granular Urea segment declined 1.7% year over year to \$337 million. Sales volumes rose year over year but average selling prices for urea declined due to increased global supply availability as lower global energy costs led to rise in operating rates.

Sales in the UAN segment fell 8.2% year over year to \$235 million. Sales volumes increased year over year but average selling prices declined in the quarter.

Sales in the AN segment declined 8.7% year over year to \$116 million. Sales volumes rose year over year on the back of higher demand in North America and Europe. Average selling prices declined year over year due to increased global supply availability.

Financials

CF Industries' cash and cash equivalents rose 12.2% year over year to \$753 million at the end of the first quarter. Long-term debt was \$3,958 million at the end of the quarter, down 15.8% year over year.

Cash flow from operations amounted to \$292 million in the reported quarter, down 4.6% year over year. The company repurchased around 2.6 million shares during the first quarter. Since February 2019, the company repurchased around 10.2 million shares for \$437 million.

Outlook

CF Industries expects positive global nitrogen demand in the near term, driven by higher nitrogen-consuming planted corn and coarse grain acres in North America this year compared with 2019 levels. It projects 92-94 million acres of corn to be planted in the United States in 2020, lower than the U.S. Department of Agriculture's projection of 97 million acres in March.

CF Industries anticipates North American nitrogen production facilities to remain at the low-end of the global nitrogen cost curve in the near term. This will be supported by access to low-cost North American natural gas.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	8.95%
EPS Surprise	34.78%
Quarterly EPS	0.31
Annual EPS (TTM)	2.13

Recent News

CF Industries Declares Dividend – Apr 28, 2020

CF Industries' board has declared a quarterly dividend payout of 30 cents per share on its common stock. The dividend will be paid on May 29, 2020 to shareholders of record as of May 15, 2020.

Valuation

CF Industries' shares are down 42.5% in the year-to-date period and down 32.8% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 26.2% and 15.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 28.3% and 10.8%, respectively.

The S&P 500 index is down 9% in the year-to-date period and up 3.9% in the past year.

The stock is currently trading at 5.56X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.16X for the Zacks sub-industry, 9.67X for the Zacks sector and 10.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.44X and as low as 4.88X, with a 5-year median of 9.07X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$23 price target reflects 0.92X tangible book value.

The table below shows summary valuation data for CF:

Valuation Multiples - CF					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	5.56	8.16	9.67	10.64
	5-Year High	23.44	20.98	18.01	12.86
	5-Year Low	4.88	5.72	6.53	8.28
	5-Year Median	9.07	9.07	10.85	10.77
P/B TTM	Current	1.1	0.74	1.77	3.85
	5-Year High	3.62	2.3	3.57	4.55
	5-Year Low	0.7	0.59	1.22	2.84
	5-Year Median	1.55	1.35	2.17	3.65
P/S TTM	Current	1.3	0.98	2.22	3.21
	5-Year High	3.7	3.26	3.14	3.66
	5-Year Low	1.01	0.66	1.41	2.43
	5-Year Median	2.19	2.19	2.45	3.17

As of 05/11/2020

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The Scotts MiracleGro Company (SMG)	Outperform	2
BASF SE (BASFY)	Neutral	3
Bunge Limited (BG)	Neutral	4
Israel Chemicals Shs (ICL)	Neutral	3
Intrepid Potash Inc (IPI)	Neutral	4
The Mosaic Company (MOS)	Neutral	3
Sociedad Quimica y Minera SA (SQM)	Neutral	3
Nutrien Ltd (NTR)	Underperform	3

Industry Comparison Industry: Fertilizers				Industry Peers		
	CF	X Industry	S&P 500	IPI	MOS	SQM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	B	-	-	C	D	F
Market Cap	5.87 B	4.25 B	19.55 B	134.11 M	4.25 B	6.11 B
# of Analysts	5	3	14	2	5	5
Dividend Yield	4.37%	0.84%	2.13%	0.00%	1.78%	2.85%
Value Score	B	-	-	A	D	C
Cash/Price	0.12	0.14	0.06	0.32	0.24	0.10
EV/EBITDA	4.82	6.20	11.85	2.40	16.94	18.01
PEG Ratio	2.89	2.58	2.60	NA	16.03	2.21
Price/Book (P/B)	1.10	0.75	2.71	0.31	0.50	2.86
Price/Cash Flow (P/CF)	4.58	4.33	10.71	2.79	2.65	21.96
P/E (F1)	17.33	17.65	19.55	10.74	112.20	21.85
Price/Sales (P/S)	1.29	0.69	2.01	0.59	0.48	3.14
Earnings Yield	5.68%	5.68%	4.85%	8.82%	0.89%	4.57%
Debt/Equity	0.73	0.48	0.76	0.08	0.53	0.71
Cash Flow (\$/share)	5.99	3.48	7.01	0.37	4.23	1.06
Growth Score	C	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	-9.50%	-9.50%	10.82%	NA	-19.56%	9.67%
Proj. EPS Growth (F1/F0)	-30.22%	-11.39%	-9.99%	-5.00%	-47.37%	0.19%
Curr. Cash Flow Growth	10.61%	6.78%	5.83%	6.78%	-5.87%	-36.68%
Hist. Cash Flow Growth (3-5 yrs)	-0.27%	-1.27%	8.52%	-11.59%	-2.99%	-1.27%
Current Ratio	1.20	1.44	1.27	2.05	1.29	3.45
Debt/Capital	42.28%	34.58%	44.41%	7.23%	34.58%	41.58%
Net Margin	10.33%	3.02%	10.59%	0.03%	-15.91%	14.31%
Return on Equity	8.34%	4.66%	16.36%	1.27%	-0.53%	13.01%
Sales/Assets	0.36	0.43	0.55	0.39	0.44	0.42
Proj. Sales Growth (F1/F0)	-7.93%	0.00%	-2.41%	4.40%	-7.07%	5.77%
Momentum Score	B	-	-	F	F	D
Daily Price Chg	-5.41%	-2.44%	-0.95%	-3.77%	-5.79%	0.22%
1 Week Price Chg	9.09%	7.00%	3.23%	6.00%	6.82%	7.18%
4 Week Price Chg	-8.19%	-5.36%	4.49%	14.70%	-8.03%	2.79%
12 Week Price Chg	-28.30%	-18.60%	-20.09%	-52.34%	-40.16%	-24.11%
52 Week Price Chg	-32.73%	-31.65%	-7.00%	-69.73%	-51.03%	-32.40%
20 Day Average Volume	2,798,667	132,388	2,530,553	868,463	4,927,171	657,393
(F1) EPS Est 1 week change	1.43%	0.00%	0.00%	0.00%	-65.52%	0.00%
(F1) EPS Est 4 week change	-3.71%	-3.71%	-6.07%	-34.48%	-72.97%	-0.75%
(F1) EPS Est 12 week change	-31.99%	-29.63%	-15.69%	-29.63%	-87.01%	-14.90%
(Q1) EPS Est Mthly Chg	0.47%	-1.77%	-12.45%	0.00%	-1,600.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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