

## CF Industries (CF)

**\$45.89** (As of 01/16/20)

Price Target (6-12 Months): **\$49.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

### Summary

Earnings estimates for CF Industries for the fourth quarter of 2019 have been going down over the past month. The company is likely to benefit from higher nitrogen fertilizer demand in major markets. Higher nitrogen prices are also expected to support sales and margins. Further, the company is expected to gain from efforts to boost production capacity. Also, CF Industries is enjoying the benefits of ample natural gas supply. It is also committed to boost shareholders' value by leveraging on strong cash flows. It has also outperformed the industry it belongs to over a year. However, the company has a debt-laden balance sheet. Planned maintenance turnaround may impact its production. Moreover, the company is exposed to challenging agriculture market fundamentals. Persistent softness in agricultural commodity pricing is another concern.

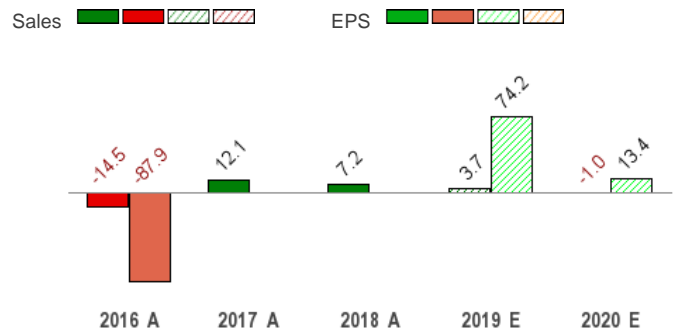
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$55.15 - \$38.90
20 Day Average Volume (sh)	1,623,217
Market Cap	\$10.0 B
YTD Price Change	-3.9%
Beta	0.95
Dividend / Div Yld	\$1.20 / 2.6%
Industry	<a href="#">Fertilizers</a>
Zacks Industry Rank	Bottom 1% (252 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.7%
Last Sales Surprise	-2.9%
EPS F1 Est- 4 week change	-5.2%
Expected Report Date	02/12/2020
Earnings ESP	-43.7%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	987 E	1,301 E	1,161 E	1,298 E	4,544 E
2019	1,001 A	1,502 A	1,038 A	1,058 E	4,592 E
2018	957 A	1,300 A	1,040 A	1,132 A	4,429 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.23 E	\$0.79 E	\$0.43 E	\$0.49 E	\$2.45 E
2019	\$0.27 A	\$1.28 A	\$0.29 A	\$0.34 E	\$2.16 E
2018	\$0.27 A	\$0.63 A	\$0.13 A	\$0.21 A	\$1.24 A

\*Quarterly figures may not add up to annual.

P/E TTM	22.4
P/E F1	18.7
PEG F1	3.1
P/S TTM	2.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

## 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 23%, 30%, 28% and 10% of its total sales in 2018 came from its Ammonia, Granular Urea and UAN and AN segments, respectively. The company completed the divestment of its phosphate unit to The Mosaic Company in March 2014.

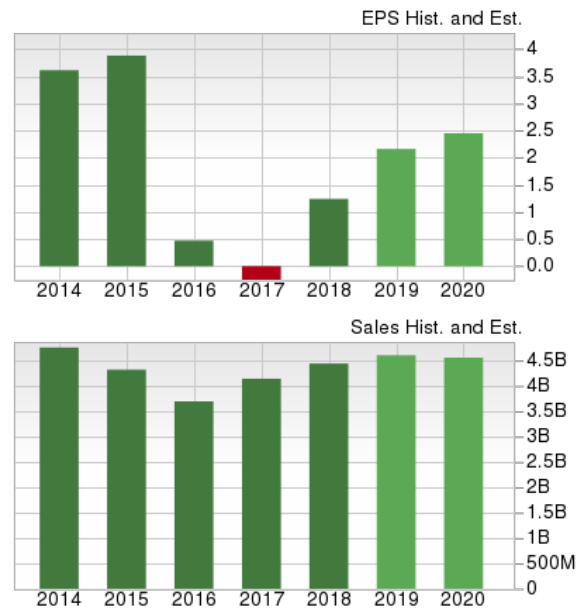
In April 2010, CF Industries acquired rival Terra Industries for \$4.7 billion. With the acquisition, the company has become the global leader in the nitrogen fertilizer industry and has expanded geographically.

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. The facilities acquired by Mosaic currently produce roughly 1.8 million tons of phosphate fertilizer per year.

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%.



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## Reasons To Buy:

- ▲ CF Industries should benefit from strong expected global demand for nitrogen fertilizers. In North America, farmers are expected to plant roughly 93-94 million acres of corn in 2019, around four million more acres than 2018 levels. CF Industries expects demand for nitrogen in North America to remain strong in the near term. Demand for nitrogen is expected to be driven by higher corn acres in the United States. The company also sees continued strong demand for urea in Brazil and India. CF Industries has thus outperformed the industry it belongs to over a year. The company's shares have gained 3.9% against the 10.5% decline of the industry.
- ▲ CF Industries should gain from higher prices of nitrogen fertilizers. The company saw higher average selling prices across all major products during the first nine months of 2019. Tighter global nitrogen supply, demand balance and logistical issues in North America are driving nitrogen prices. The company believes that the global nitrogen supply and demand balance will continue to tighten over the next several years. The company expects industry fundamentals to support global nitrogen prices in 2019. Tighter supply and demand balance is expected to drive prices.
- ▲ 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. Lower natural gas costs helped the company to record solid margins in 2018. The company expects natural gas cost advantage to continue in 2019.
- ▲ The company remains committed to return value to shareholders leveraging strong cash flows. Its board has authorized a new \$1 billion share repurchase program. CF Industries generated operating cash flows of roughly \$1.5 billion in 2018 and returned \$780 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 more than 1.5 million shares for around \$72 million since the authorization was announced in February 2019. Through Sep 30, 2019, it has repurchased around 5.7 million shares for \$250 million.

CF Industries is well placed to benefit from higher nitrogen demand in major markets in 2019. Higher nitrogen prices should also continue to support its sales and margins. It should also gain from capacity expansion actions.

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## Reasons To Sell:

- ▼ CF Industries faces headwinds from plant turnarounds which is hurting its sales volumes. Higher number of turnaround activities in 2018 led to lower production volumes and reduced the company's ammonia sales volumes. The company also saw higher costs related to turnaround and maintenance in 2018. Downtime related to turnarounds may continue to hurt production and sales volumes. Also, in the last reported quarter, sales volumes Granular Urea segment fell around 12% year over year due to lower volumes as a result of planned maintenance activities. As such, maintenance activities may continue to exert pressure on the company's margins.
- ▼ 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 \$4.2 billion at the end of third-quarter 2019, which is more than four times its cash and cash equivalents of around \$1,019 million. The company has a debt-to-equity ratio of 74%, which is higher than the industry average of 43.9%.
- ▼ The overall agriculture market fundamentals remain weak and there is a continuous negative sentiment among agriculture investors. The prevailing softness in agricultural commodity pricing is a concern for fertilizer companies as it is hindering fertilizer use by farmers given the adverse effect of lower crop pricing on growers' income. Lower farm income has an unfavorable impact on growers' nutrient purchasing decisions.

The company has a debt-laden balance sheet. Moreover, it is exposed to challenging agriculture market fundamentals. Planned maintenance turnaround will also hurt its production.

## Last Earnings Report

### CF Industries' Earnings & Sales Trail Estimates in Q3

CF Industries delivered profits of \$65 million or 29 cents per share in the third quarter of 2019, up from \$30 million or 13 cents in the year-ago quarter. However, earnings per share missed the Zacks Consensus Estimate of 34 cents.

Net sales inched down 0.2% year over year to \$1,038 million in the quarter. The figure also lagged the Zacks Consensus Estimate of \$1,069.4 million.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-2.94%
EPS Surprise	-14.71%
Quarterly EPS	0.29
Annual EPS (TTM)	2.05

### Segment Review

Net sales in the Ammonia segment fell 2.6% year over year to \$187 million in the quarter. Ammonia sales volume rose 9.6% year over year to 720,000 tons. Average selling prices of ammonia fell nearly 11% year over year to \$260 per ton due to higher global ammonia supply.

Sales in the Granular Urea segment declined 7.4% year over year to \$327 million. Sales volumes fell around 12% year over year to 1,200,000 tons. Lower volumes as a result of planned maintenance activities impacted performance in the reported quarter. Average selling prices for granular urea rose 5.4% year over year to \$273 per ton mainly due to a tighter nitrogen demand and supply balance.

Sales in the UAN segment went up 14.4% year over year to \$309 million. UAN sales volume rose 7.5% year over year to 1,741,000 tons in the quarter. Results reflect late planting in North America, which delayed some fertilizer shipments in the third quarter. Average selling prices rose roughly 6% year over year to \$177 per ton.

Sales in the AN segment fell 2.2% year over year to \$136 million. Sales volumes fell 6.7% to 561,000 tons. Average selling prices increased 4.8% year over year to \$242 per ton.

### Financials

CF Industries' cash and cash equivalents inched down 0.3% year over year of \$1,019 million at the end of the third quarter. Long-term debt was \$4,204 million at the end of the reported quarter.

Cash flow from operation was \$510 million, down 20.9% year over year. The company repurchased roughly 1.5 million shares during the reported quarter.

The company is currently executing a \$1-billion share repurchase program that is authorized through 2021. Notably, the company has repurchased more than 1.5 million shares for \$72 million since the authorization was announced in February 2019. Through Sep 30, 2019, it has repurchased around 5.7 million shares for \$250 million.

### Outlook

CF Industries is optimistic about the nitrogen fertilizer industry and expects fundamental factors to continue improving in the near and the long term as the global market continues to tighten.

The company expects demand from import-dependent regions to support global pricing in the near term. In North America, corn crop futures are expected to support higher planted corn acres over the next two seasons. Also, demand for urea from Brazil and India continues to be favorable.

Global demand growth for nitrogen is expected to outpace net capacity additions over the next four years. The company expects net Chinese-produced urea exports in the range of 1-3 million metric tons per year. Over this period, CF Industries expect North American producers to continue to benefit from access to low-cost North American natural gas.

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## Recent News

### CF Industries Declares Dividend – Oct 9, 2019

CF Industries' board has declared a quarterly dividend payout of 30 cents per share on its common stock. The dividend was paid on Nov 29, 2019 to shareholders of record as of Nov 15, 2019.

### CF Industries to Redeem Senior Notes Due May 2020 – Oct 9, 2019

CF Industries' fully-owned subsidiary, CF Industries, Inc., has elected to redeem in full all of the \$500,016,000 outstanding principal amount of its 7.125% senior notes due May 2020. The senior notes are slated to be redeemed on Nov 13, 2019.

Moreover, the company stated that the redemption will be in accordance with the optional redemption provisions of the indenture governing the senior notes. The company plans to employ cash in hand to fund the redemption.

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## Valuation

CF Industries' shares are up 3.9% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 10.5% and 0.1% over the past year, respectively.

The S&P 500 index is up 22.3% in the past year.

The stock is currently trading at 7.82X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.26X for the Zacks sub-industry, 9.54X for the Zacks sector and 12.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.27X and as low as 5.2X, with a 5-year median of 9.12X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$49 price target reflects 1.88X 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	7.82	6.26	9.54	12.12
	5-Year High	23.27	20.9	18.35	12.86
	5-Year Low	5.2	6.04	7.33	8.48
	5-Year Median	9.12	9.19	10.57	10.67
P/B TTM	Current	1.76	1.14	2.34	4.5
	5-Year High	3.62	2.48	3.54	4.5
	5-Year Low	0.7	1.05	1.34	2.85
	5-Year Median	1.61	1.38	2.18	3.61
P/S TTM	Current	2.17	1.27	2.18	3.56
	5-Year High	3.7	3.27	3.1	3.65
	5-Year Low	1.2	1.17	1.82	2.51
	5-Year Median	2.22	1.99	2.5	3.15

As of 01/16/2020

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## Industry Analysis Zacks Industry Rank: Bottom 1% (252 out of 254)



## Top Peers

Bunge Limited (BG)	Outperform
BASF SE (BASFY)	Neutral
Israel Chemicals Shs (ICL)	Neutral
The Scotts Miracle-Gro Company (SMG)	Neutral
Intrepid Potash, Inc (IPI)	Underperform
The Mosaic Company (MOS)	Underperform
Nutrien Ltd. (NTR)	Underperform
Sociedad Quimica y Minera S.A. (SQM)	Underperform

Industry Comparison Industry: Fertilizers				Industry Peers		
	CF Neutral	X Industry	S&P 500	IPI Underperform	MOS Underperform	SQM Underperform
<b>VGM Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Market Cap	9.98 B	6.18 B	24.61 B	310.13 M	8.34 B	8.34 B
# of Analysts	1	4	13	3	6	5
Dividend Yield	2.61%	1.17%	1.74%	0.00%	0.91%	2.07%
<b>Value Score</b>	<b>B</b>	-	-	<b>B</b>	<b>C</b>	<b>D</b>
Cash/Price	0.10	0.08	0.04	0.04	0.08	0.11
EV/EBITDA	7.85	8.90	14.24	6.78	7.64	14.29
PEG Ratio	3.12	2.55	2.07	NA	3.05	2.55
Price/Book (P/B)	1.76	0.99	3.38	0.72	0.81	3.89
Price/Cash Flow (P/CF)	8.99	8.63	13.75	6.82	4.99	18.98
P/E (F1)	18.73	18.73	19.09	13.56	21.38	25.38
Price/Sales (P/S)	2.14	1.33	2.68	1.37	0.89	4.09
Earnings Yield	5.34%	5.34%	5.24%	7.23%	4.68%	3.95%
Debt/Equity	0.74	0.41	0.72	0.08	0.44	0.62
Cash Flow (\$/share)	5.10	3.48	6.94	0.34	4.41	1.67
<b>Growth Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	-22.34%	-12.13%	10.56%	NA	-12.13%	11.42%
Proj. EPS Growth (F1/F0)	13.43%	14.08%	7.57%	33.33%	117.61%	14.08%
Curr. Cash Flow Growth	42.96%	42.96%	14.73%	234.57%	58.14%	2.69%
Hist. Cash Flow Growth (3-5 yrs)	-7.18%	-4.30%	9.00%	-11.72%	1.34%	-1.22%
Current Ratio	1.34	1.62	1.24	1.62	1.51	2.76
Debt/Capital	42.53%	29.68%	42.99%	7.12%	30.54%	38.21%
Net Margin	10.42%	8.50%	11.14%	8.50%	-0.36%	15.70%
Return on Equity	7.98%	6.49%	17.16%	4.61%	4.48%	14.96%
Sales/Assets	0.36	0.45	0.55	0.41	0.46	0.45
Proj. Sales Growth (F1/F0)	-1.03%	3.93%	4.16%	5.52%	-3.27%	14.76%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>C</b>	<b>D</b>	<b>F</b>
Daily Price Chg	0.53%	0.00%	0.89%	2.17%	2.32%	2.23%
1 Week Price Chg	-2.84%	-0.17%	0.39%	-13.21%	-0.67%	3.78%
4 Week Price Chg	-1.06%	1.25%	2.65%	-7.84%	6.89%	15.92%
12 Week Price Chg	0.92%	0.64%	7.55%	-27.91%	10.54%	13.92%
52 Week Price Chg	4.80%	-17.33%	22.12%	-25.63%	-31.10%	-26.62%
20 Day Average Volume	1,623,217	123,208	1,536,375	748,373	3,677,949	860,341
(F1) EPS Est 1 week change	-3.92%	0.00%	0.00%	-11.11%	3.62%	0.00%
(F1) EPS Est 4 week change	-5.16%	-4.63%	0.00%	-18.75%	-4.63%	-1.58%
(F1) EPS Est 12 week change	-11.61%	-11.61%	-0.40%	-31.58%	-39.23%	-5.88%
(Q1) EPS Est Mthly Chg	-6.12%	-16.13%	0.00%	NA	-30.30%	-16.13%

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## 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.

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### 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>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>F</b>
VGM Score	<b>B</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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