

CF Industries (CF)

\$34.38 (As of 08/17/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

Summary

CF Industries' profits declined year over year in second-quarter 2020. However, earnings per share and sales beat the respective Zacks Consensus Estimate. The company is well placed to benefit from higher nitrogen demand in major markets in 2020. Demand for nitrogen in North America is expected to be strong in 2020 driven by higher corn acres in the United States. Normal planting conditions are also expected to support demand in the region. Moreover, lower domestic urea production is expected to drive demand in Brazil this year. The company should also gain from lower natural gas prices, driven by ample supply on the back of higher North American shale gas production. The cost advantage is expected to continue through the balance of 2020. The company is also committed to boost shareholders' value leveraging strong cash flows.

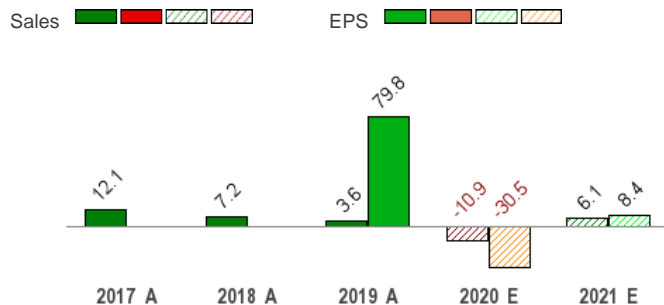
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.30 - \$19.73
20 Day Average Volume (sh)	3,002,812
Market Cap	\$7.4 B
YTD Price Change	-28.0%
Beta	1.13
Dividend / Div Yld	\$1.20 / 3.5%
Industry	Fertilizers
Zacks Industry Rank	Top 9% (22 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	64.8%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	19.6%
Expected Report Date	11/04/2020
Earnings ESP	23.3%
P/E TTM	19.8
P/E F1	22.2
PEG F1	3.7
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	977 E	1,225 E	1,032 E	1,096 E	4,338 E
2020	971 A	1,204 A	944 E	1,039 E	4,088 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	\$0.40 E	\$0.54 E	\$0.29 E	\$0.41 E	\$1.68 E
2020	\$0.31 A	\$0.89 A	\$0.15 E	\$0.26 E	\$1.55 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/17/2020. The reports text is as of 08/18/2020.

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.

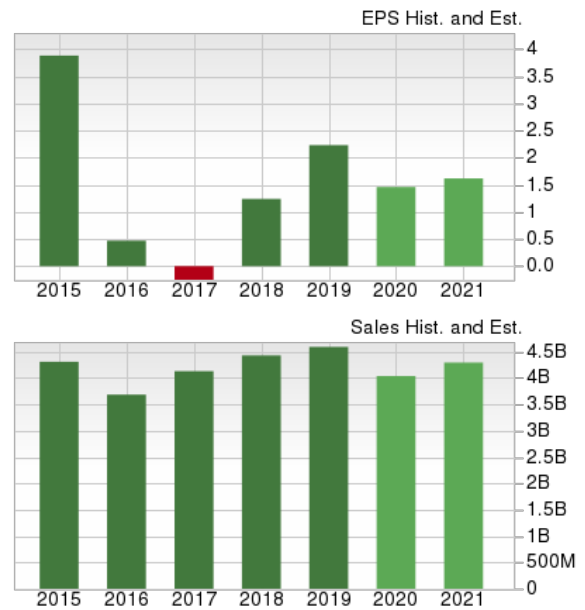
In April 2010, CF Industries acquired rival Terra Industries for \$4.7 billion. With the acquisition, the company has become the global leader in the nitrogen fertilizer industry and has expanded geographically.

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 Buy:

- ▲ 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. The company witnessed higher sales volumes in the first half of 2020 driven by a favorable weather, which allowed greater fertilizer application during the spring application season. Demand for nitrogen is also 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 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 through 2020.
- ▲ The company remains committed to boost shareholders' value by 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. The company's cash flow from operations also rose 10% year over year in the second quarter.

CF Industries is well placed to benefit from higher nitrogen demand in major markets in 2020. It should also gain from ample natural gas supply. The company is also committed to boost shareholders' value.

Risks

- CF Industries has underperformed the industry it belongs to over a year. The company's shares are down 29.4% compared with the 11% decline of the industry. CF Industries faces headwinds from lower expected nitrogen prices. 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. Lower global nitrogen prices also led to the shutdown of three ammonia plants in Trinidad. As such, lower prices are expected to continue to weigh on its financial performance.
 - 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 \$3,959 million at the end of the second quarter, modestly higher than \$3,958 million at the end of the first quarter. Further, its time-interest-earned ratio of 3.8 at the end of the second quarter fell from 4.5 in the prior quarter. 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.
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Last Earnings Report

CF Industries' Earnings & Sales Beat Estimates in Q2

CF Industries delivered profits of \$190 million or 89 cents per share in the second quarter of 2020, down from \$283 million or \$1.28 per share in the year-ago quarter. Nevertheless, earnings per share beat the Zacks Consensus Estimate of 54 cents.

Net sales fell 19.8% year over year to \$1,204 million in the quarter. However, the figure beat the Zacks Consensus Estimate of \$1,144.7 million.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	5.19%
EPS Surprise	64.81%
Quarterly EPS	0.89
Annual EPS (TTM)	1.74

Segment Review

Net sales in the Ammonia segment fell 23% year over year to \$364 million in the reported quarter. The company saw lower year over year sales volumes in the reported quarter. Average selling prices of ammonia fell year over year in the quarter, impacted by higher global supply.

Sales in the Granular Urea segment declined 24% year over year to \$329 million. Average selling prices for urea declined due to increased global supply availability.

Sales in the UAN segment fell 8.2% year over year to \$308 million. Sales volumes declined year over year, while average selling prices declined in the quarter due to higher global supply availability.

Sales in the AN segment declined 6.3% year over year to \$118 million. Sales volumes rose year over year on the back of higher demand in Europe for agricultural applications. Average selling prices declined year over year due to increased global supply availability.

Financials

CF Industries' cash and cash equivalents fell 34.4% year over year to \$563 million in the second quarter. Long-term debt was \$3,959 million at the end of the quarter, down 5.8% year over year.

Cash flow from operations amounted to \$426 million in the reported quarter, up 10.1% year over year. The company did not repurchase shares during the second quarter. Since share repurchase authorization announced in February 2019, the company has around \$560 million remaining under the program.

Outlook

CF Industries expects global nitrogen demand to remain positive into 2021. Further, global nitrogen requirements are driven by demand in India and Brazil. Demand for urea imports into Brazil remains positive. This is partly supported by improved farm incomes. The company expects total urea imports into Brazil to surpass 6.5 million metric tons in 2020.

Per the company, low global energy prices are boosting global nitrogen supply. However, lower global nitrogen prices led to the shutdown of three ammonia plants in Trinidad. North American nitrogen production facilities are expected to benefit from access to low-cost North American natural gas. In the long term, the company expects global demand growth for nitrogen to outpace net capacity additions.

Recent News

CF Industries Declares Dividend

on **Jul 10, 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 Aug 31, 2020 to shareholders of record as of Aug 17, 2020.

Valuation

CF Industries' shares are down 28% in the year-to-date period and down 29.4% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 9.1% and up 0.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11% and up 11.8%, respectively.

The S&P 500 index is up 4.6% in the year-to-date period and up 15.4% in the past year.

The stock is currently trading at 7X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.95X for the Zacks sub-industry, 10.9X for the Zacks sector and 12.74X 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 8.92X.

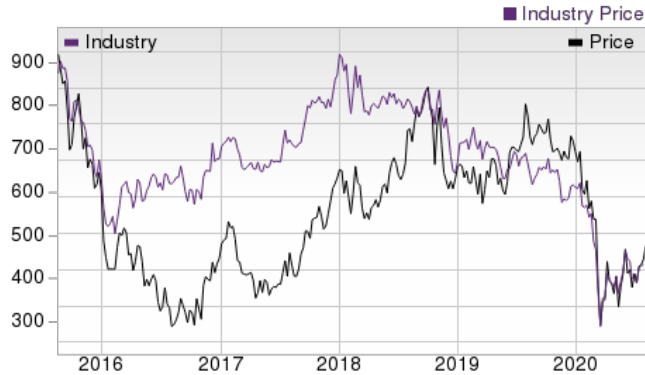
Our Outperform recommendation indicates that the stock will perform above the market. Our \$40 price target reflects 1.42X tangible book value.

The table below shows summary valuation data for CF:

Valuation Multiples - CF					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7	8.95	10.9	12.74
	5-Year High	23.44	21.48	18.59	12.85
	5-Year Low	4.88	5.88	6.55	8.25
	5-Year Median	8.92	9.63	10.47	10.91
P/B TTM	Current	1.32	0.96	2.52	4.52
	5-Year High	3.34	2.06	3.07	4.56
	5-Year Low	0.7	0.62	1.23	2.83
	5-Year Median	1.47	1.38	2.21	3.74
P/S TTM	Current	1.73	1.22	2.85	3.73
	5-Year High	3.4	3.39	3.43	3.74
	5-Year Low	1.01	0.69	1.45	2.44
	5-Year Median	2.15	1.86	2.66	3.22

As of 08/17/2020

Industry Analysis Zacks Industry Rank: Top 9% (22 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Bunge Limited (BG)	Outperform	1
The Scotts MiracleGro Company (SMG)	Outperform	1
BASF SE (BASFY)	Neutral	3
Israel Chemicals Shs (ICL)	Neutral	2
Intrepid Potash, Inc (IPI)	Neutral	3
The Mosaic Company (MOS)	Neutral	2
Nutrien Ltd. (NTR)	Neutral	3
Sociedad Quimica y Minera S.A. (SQM)	Neutral	3

Industry Comparison Industry: Fertilizers				Industry Peers		
	CF	X Industry	S&P 500	IPI	MOS	SQM
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	3
VGM Score	C	-	-	C	B	F
Market Cap	7.35 B	6.77 B	23.75 B	155.82 M	6.77 B	8.46 B
# of Analysts	5	4	14	2	6	6
Dividend Yield	3.49%	0.00%	1.62%	0.00%	1.12%	0.00%
Value Score	B	-	-	A	C	D
Cash/Price	0.07	0.09	0.07	0.20	0.16	0.09
EV/EBITDA	5.71	6.37	13.49	2.71	22.46	24.18
PEG Ratio	3.70	3.48	3.03	NA	9.00	3.26
Price/Book (P/B)	1.32	0.88	3.18	0.37	0.78	4.01
Price/Cash Flow (P/CF)	5.74	6.09	12.85	3.20	4.22	30.43
P/E (F1)	22.18	24.61	22.17	NA	63.00	32.20
Price/Sales (P/S)	1.73	0.97	2.49	0.74	0.78	4.62
Earnings Yield	4.51%	3.88%	4.32%	-2.99%	1.57%	3.11%
Debt/Equity	0.71	0.48	0.77	0.04	0.52	0.81
Cash Flow (\$/share)	5.99	3.66	6.94	3.66	4.23	1.06
Growth Score	F	-	-	F	B	D
Hist. EPS Growth (3-5 yrs)	-2.52%	-2.52%	10.44%	NA	-17.18%	6.87%
Proj. EPS Growth (F1/F0)	-30.40%	-23.62%	-5.97%	-135.00%	49.12%	-5.82%
Curr. Cash Flow Growth	10.61%	-5.87%	5.22%	6.78%	-5.87%	-36.68%
Hist. Cash Flow Growth (3-5 yrs)	-0.27%	-0.94%	8.52%	-11.59%	-2.99%	-1.27%
Current Ratio	1.85	1.85	1.33	1.86	1.30	3.24
Debt/Capital	41.52%	33.31%	44.59%	4.11%	34.32%	44.79%
Net Margin	8.87%	3.10%	10.13%	-6.84%	-12.92%	13.25%
Return on Equity	6.76%	4.26%	14.51%	-2.05%	-0.64%	11.39%
Sales/Assets	0.34	0.43	0.51	0.36	0.45	0.38
Proj. Sales Growth (F1/F0)	-10.94%	0.00%	-1.67%	-15.43%	-6.85%	1.40%
Momentum Score	A	-	-	D	A	D
Daily Price Chg	-2.05%	0.00%	-0.02%	-10.74%	0.11%	-0.50%
1 Week Price Chg	5.95%	2.72%	1.09%	41.46%	3.72%	3.26%
4 Week Price Chg	17.90%	16.79%	4.83%	34.99%	38.91%	9.28%
12 Week Price Chg	24.61%	10.20%	13.09%	8.52%	54.41%	38.46%
52 Week Price Chg	-29.43%	-5.33%	2.77%	-62.56%	-10.66%	21.00%
20 Day Average Volume	3,002,812	73,460	1,932,479	111,116	4,984,240	608,091
(F1) EPS Est 1 week change	8.41%	0.00%	0.00%	0.00%	40.50%	0.00%
(F1) EPS Est 4 week change	19.57%	0.65%	1.80%	0.00%	356.99%	-2.51%
(F1) EPS Est 12 week change	14.79%	14.79%	2.88%	-250.00%	444.87%	-4.56%
(Q1) EPS Est Mthly Chg	45.16%	29.36%	0.80%	0.00%	133.57%	-10.50%

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	F
Momentum Score	A
VGM Score	C

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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