

CF Industries (CF)

\$22.98 (As of 03/19/20)

Price Target (6-12 Months): **\$24.00**

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:C

Value: B

Growth: D

Momentum: D

Summary

Earnings estimates for CF Industries for the first quarter of 2020 have been declining over the past month. The company is likely to benefit from higher nitrogen fertilizer demand in major markets in 2020. A strong spring application season is likely to drive demand in North America. 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, lower nitrogen prices are expected to hurt sales and margins in the first quarter of 2020. The company also has a debt-laden balance sheet. Moreover, it is exposed to challenging agriculture market fundamentals. Lower expected demand in China due to coronavirus is likely to put pressure on crop commodity pricing.

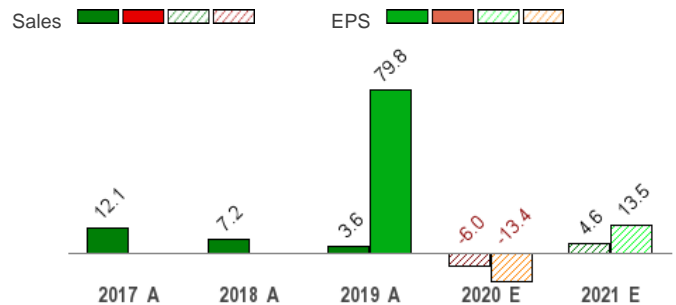
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.15 - \$19.73
20 Day Average Volume (sh)	4,029,654
Market Cap	\$5.0 B
YTD Price Change	-51.9%
Beta	1.07
Dividend / Div Yld	\$1.20 / 5.2%
Industry	Fertilizers
Zacks Industry Rank	Bottom 20% (202 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.9%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	-12.0%
Expected Report Date	05/06/2020
Earnings ESP	-10.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,513 E
2020	892 E	1,248 E	1,008 E	1,174 E	4,316 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					\$2.19 E
2020	\$0.22 E	\$0.73 E	\$0.29 E	\$0.43 E	\$1.93 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	11.0
P/E F1	11.9
PEG F1	2.0
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/19/2020. The reports text is as of 03/20/2020.

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.

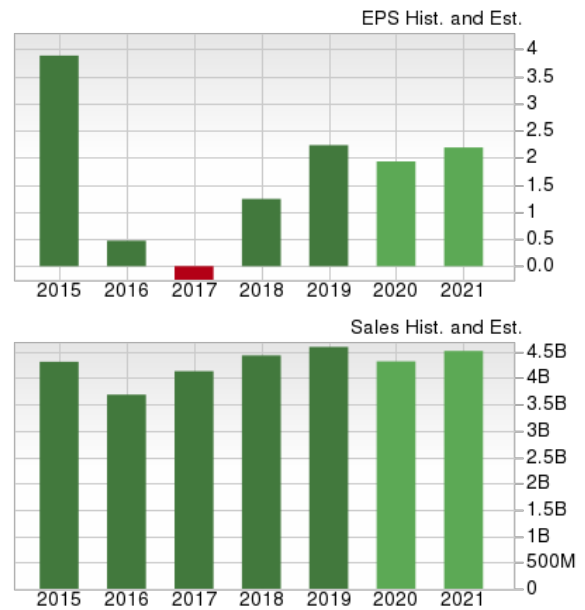
In April 2010, CF Industries acquired rival Terra Industries for \$4.7 billion. With the acquisition, the company has become the global leader in the nitrogen fertilizer industry and has expanded geographically.

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 has outperformed the industry it belongs to over a year. The company's shares are down 44.1% against the 49.5% decline of the industry. 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, at the end of 2019, around 7.6 million shares for around \$337 million since the authorization was announced in February 2019. It repurchased roughly 1.9 million shares during the last reported 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.

Reasons To Sell:

- ▼ CF Industries faces headwinds from lower expected nitrogen prices in the first-quarter of 2020. It saw lower prices across all major products in the most recent quarter, hurting its 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 2019, which is significantly higher than its cash and cash equivalents of around \$287 million. The company has a debt-to-equity ratio of 70.2%, which is higher than the industry average of 42.2%.
- ▼ 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.

Last Earnings Report

CF Industries' Earnings & Sales Miss Estimates in Q4

CF Industries recorded profits of \$55 million or 25 cents per share in the fourth quarter of 2019, up from \$49 million or 21 cents in the year-ago quarter. However, earnings per share missed the Zacks Consensus Estimate of 26 cents.

Net sales fell 7% year over year to \$1,049 million in the quarter. It also lagged the Zacks Consensus Estimate of \$1,057.8 million.

The top line was hurt by lower year-over-year selling prices across all major products that more than offset increased sales volumes.

Full-Year Results

For 2019, earnings were \$2.23 per share, up from \$1.24 per share a year ago.

Revenues were \$4,590 million for the full year, up around 4% year over year, driven by higher average selling prices across most key products. Sales volumes for the year were flat year over year.

Segment Review

Net sales in the Ammonia segment rose roughly 6% year over year to \$266 million in the reported quarter. Ammonia sales volume rose year over year due to increased supply availability as a result of higher production. Average selling prices of ammonia fell year over year due to higher global ammonia supply availability.

Sales in the Granular Urea segment declined roughly 31% year over year to \$239 million. Sales volumes fell year over year due to lower volumes of product availability as a result of planned maintenance activities and the company's move to build inventory ahead of the spring fertilizer application season. Average selling prices for urea fell year over year due to increased global supply availability.

Sales in the UAN segment went down around 2% year over year to \$336 million. Sales volumes and average selling prices were both flat year over year in the quarter.

Sales in the AN segment rose roughly 21% year over year to \$117 million. Sales volumes rose year over year on the back of higher demand in the United States. Average selling prices declined year over year due to increased global supply availability.

Financials

CF Industries' cash and cash equivalents fell roughly 58% year over year to \$287 million at the end of 2019. Long-term debt was \$3,957 million at the end of the year, down roughly 18% year over year.

Cash flow from operation was \$320 million for the reported quarter, up around 19% year over year. The company repurchased roughly 1.9 million shares during the reported quarter. It is currently executing a share repurchase program worth \$1 billion that is authorized through 2021.

Outlook

The company expects global nitrogen demand to be positive over the near term as application seasons develop in different regions globally. In North America, crop futures and an expected return to traditional planting conditions in the region are projected to support a rise in nitrogen-consuming planted corn and coarse grain acres in 2020 on a year-over-year basis.

CF Industries also envisions demand to remain strong in India this year. It expects a new urea tender in India in late March or early April 2020. CF Industries also sees demand in Brazil to be favorable in 2020, backed by reduced domestic urea production.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	-0.83%
EPS Surprise	-3.85%
Quarterly EPS	0.25
Annual EPS (TTM)	2.09

Recent News

CF Industries Declares Dividend – Feb 1, 2020

CF Industries' board has declared a quarterly dividend payout of 30 cents per share on its common stock. The dividend was paid on Feb 28, 2020 to shareholders of record as of Feb 14, 2020.

Valuation

CF Industries' shares are down 44.1% over the trailing 12-month period. Stocks in the Zacks Fertilizers industry and the Zacks Basic Materials sector are down 49.5% and 40.5% over the past year, respectively.

The S&P 500 index is down 16.7% in the past year.

The stock is currently trading at 5.12X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 5.87X for the Zacks sub-industry, 6.24X for the Zacks sector and 10.79X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 0.93X 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	5.12	5.87	6.24	10.79
	5-Year High	23.44	20.99	18.35	12.88
	5-Year Low	4.88	5.87	6.24	8.31
	5-Year Median	9.07	9.3	10.55	10.79
P/B TTM	Current	0.89	0.52	1.16	3.23
	5-Year High	3.62	2.3	3.55	4.55
	5-Year Low	0.7	0.52	1.16	2.85
	5-Year Median	1.59	1.36	2.18	3.63
P/S TTM	Current	1.1	0.66	1.43	2.6
	5-Year High	3.7	3.27	3.37	3.68
	5-Year Low	1.01	0.66	1.3	2.5
	5-Year Median	2.2	1.92	2.56	3.19

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 254)



Top Peers

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

Industry Comparison Industry: Fertilizers				Industry Peers		
	CF Neutral	X Industry	S&P 500	IPI Underperform	MOS Neutral	SQM Neutral
VGM Score	C	-	-	B	C	D
Market Cap	4.97 B	3.11 B	16.45 B	126.42 M	3.11 B	4.50 B
# of Analysts	5	4	13	2	5	5
Dividend Yield	5.22%	1.03%	2.67%	0.00%	2.43%	3.83%
Value Score	B	-	-	A	B	B
Cash/Price	0.05	0.12	0.06	0.14	0.12	0.13
EV/EBITDA	4.58	6.45	10.36	2.72	15.65	8.12
PEG Ratio	2.05	1.76	1.49	NA	3.03	0.59
Price/Book (P/B)	0.89	0.65	2.16	0.29	0.33	2.10
Price/Cash Flow (P/CF)	3.83	3.96	8.92	2.62	1.95	10.25
P/E (F1)	12.28	11.91	13.12	7.11	21.19	14.50
Price/Sales (P/S)	1.08	0.57	1.72	0.57	0.35	2.32
Earnings Yield	8.40%	8.39%	7.54%	14.58%	4.74%	6.90%
Debt/Equity	0.70	0.41	0.70	0.08	0.48	0.62
Cash Flow (\$/share)	5.99	3.48	7.01	0.37	4.23	1.67
Growth Score	D	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	-16.25%	-16.25%	10.85%	NA	-20.47%	9.67%
Proj. EPS Growth (F1/F0)	-13.45%	3.85%	4.90%	35.00%	104.21%	11.32%
Curr. Cash Flow Growth	10.61%	3.99%	6.03%	6.78%	-5.87%	2.69%
Hist. Cash Flow Growth (3-5 yrs)	-0.27%	-2.99%	8.55%	-11.59%	-2.99%	-1.22%
Current Ratio	1.46	1.66	1.23	1.66	1.43	2.76
Debt/Capital	41.24%	30.87%	42.57%	7.21%	32.57%	38.21%
Net Margin	10.74%	4.98%	11.57%	6.19%	-11.99%	14.31%
Return on Equity	8.10%	5.39%	16.74%	3.17%	0.65%	13.01%
Sales/Assets	0.36	0.43	0.54	0.39	0.44	0.42
Proj. Sales Growth (F1/F0)	-5.97%	0.28%	3.13%	4.40%	-6.82%	13.98%
Momentum Score	D	-	-	C	F	C
Daily Price Chg	8.70%	7.24%	1.03%	24.66%	17.26%	7.81%
1 Week Price Chg	-24.86%	-17.04%	-11.01%	-24.84%	-23.01%	-17.84%
4 Week Price Chg	-41.79%	-35.32%	-33.45%	-55.14%	-55.50%	-48.14%
12 Week Price Chg	-52.58%	-36.95%	-30.67%	-63.91%	-62.05%	-39.20%
52 Week Price Chg	-44.10%	-40.90%	-23.69%	-75.26%	-70.95%	-56.51%
20 Day Average Volume	4,029,654	189,432	3,981,936	777,178	8,499,972	1,427,476
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.00%	-7.18%	0.00%
(F1) EPS Est 4 week change	-11.95%	-5.45%	-0.85%	0.00%	-49.61%	-5.45%
(F1) EPS Est 12 week change	-25.29%	-24.99%	-1.70%	-36.72%	-64.07%	-6.94%
(Q1) EPS Est Mthly Chg	-17.59%	0.27%	-0.88%	0.00%	-566.67%	7.69%

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	D
Momentum Score	D
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.