How Russia's invasion of Ukraine is affecting investments in the agriculture sector

BRENDA BOUW

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Many agriculture stocks and exchange-traded funds have surged in recent weeks and are trading at or near all-time highs.
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Even before Russia invaded Ukraine, prices of many agricultural commodities were on the rise due to supply shortages and growing demand for food as economies recover from the coronavirus crisis.

The conflict between Russia and Ukraine – major global producers of commodities such as corn, wheat, barley and potash – has sent prices soaring even higher amid anticipation of even greater supply shortages.

Many agriculture stocks and exchange-traded funds have surged in recent weeks and are trading at or near all-time highs. While investors in the sector are benefitting from the higher prices, money managers warn stocks will be volatile in the weeks and months to come.

"The macro environment has changed significantly in the past couple of weeks," says Mike Archibald, vice-president and portfolio manager at AGF Investments. "For people looking at the space right now, I would suggest some level of caution."

Mr. Archibald believes the backdrop for agriculture commodities remains strong despite the unrest in Eastern Europe, but doesn't believe now is a good time to buy many stocks in the sector.

In fact, he recently trimmed some of his holdings in Saskatoon-based Nutrien Ltd. NTR-T, the world's largest fertilizer producer, which has seen its share price rise by about 20 per cent since Russia invaded Ukraine on Feb. 24.

"Despite what's occurred in the last couple of weeks, pricing for a lot of these commodities is likely to stay high," he says. "It's just that sometimes stocks get a little bit ahead of themselves. And I think that's the situation we're in right now."

Nutrien interim chief executive officer Ken Seitz said recently that the company would boost potash production if it saw sustained supply problems in Russia and Belarus, the world's second-and third-largest potash producing countries after Canada.

"We could probably see a prolonged, more prolonged disruption in [potash] supply out of that part of the world," Mr. Seitz said at a BMO Capital Markets investor conference last week, according to a Reuters report.

Outside of supply disruptions, many investors believe a steadily growing population is a good reason to get into agriculture stocks long-term: The United Nations projects the world's population will grow to about 9.7 billion people by 2050 from about 7.8 billion today. Agriculture companies are expected to benefit from the increased food production that will be required to feed the world, including a growing middle class that will spend more.

Still, investing experts note commodities are cyclical and recommend diversification by playing different parts of the sector, including producers, retailers and agricultural technology (agtech) companies.

Christine Poole, chief executive officer and managing director at Toronto-based GlobeInvest Capital Management Inc., has invested in agriculture stocks for her clients for years as a long-term play on the growing population.

Her clients owned Potash Corp. of Saskatchewan before it merged with Agrium Inc. in 2018 and became Nutrien – and held on to it for its diversification across the sector, including its expanding retail division. Nutrien has more than 2,000 retail locations in seven countries that sell everything from crop nutrients and protection products to digital tools for farmers.

"The retail side is more consistent and offers a buffer when nutrient prices are going the other way," Ms. Poole says, which could happen given the recent runup in fertilizer prices due to global political tensions and sanctions disrupting supply.

"We're not chasing the stock right now," she says. "We have it in our portfolios, but for new client money, we're sitting on the sidelines to see how this plays out."

AGF's Mr. Archibald points to global farm equipment manufacturer Deere & Co. DE-N as another way to invest in the sector. The stock has nearly tripled since the pandemic lows in mid-2020 and is up about 20 per cent since the Russia-Ukraine conflict erupted late last month.

"Demand for its products is extremely high right now from the farming community," he says.

He notes that Deere is an iconic brand in the agriculture sector and geographically diversified, with about 60 per cent of its revenue coming from North America and the rest globally.

Another idea for investors could be Ag Growth International Inc. AFN-T, a grain handling, storage and equipment company, which has doubled from its pandemic lows and has risen about 5 per cent in the past couple of weeks. Mr. Archibald says the company is expected to benefit from the high-price environment.

“They tend to lag the cycle slightly,” he says.

Mr. Archibald explains that the company’s business tends to pick up as prices increase because farmers are growing more crops and need more equipment and storage space.

Ag Growth tends to be a slightly more volatile stock than Nutrien, as the company is smaller and has more balance sheet leverage, he says.

“However, the company is generating more free cash flow and should be able to pay it down over the years,” he adds.

Investors may also be interested in smaller companies in the growing agtech space, such as CubicFarm Systems Corp. CUB-T, which makes indoor farming technologies.

“It’s more of a technology play,” Mr. Archibald says, but also warns that it’s speculative as a small company in an emerging space.

The company also has ambitious growth plans at a time when most food producers are looking for ways to boost production amid a shrinking land base.

Disruption of Russia and Ukraine’s global wheat exports, combined with poor harvests in North America, have investors exploring broad agriculture exposure, including agtech, directly and through ETFs, says Mark Yamada, chief executive officer of PUR Investing Inc. in Toronto.

“ETFs provide well-diversified exposure to traditional and new ideas,” he says.

He points to the iShares Global Agriculture Index ETF COW-T, a well-known TSX-traded product that includes a mix of commodities, fertilizers, chemicals, machinery, packaged foods and meats. Top holdings include fertilizer company Mosaic Inc., food processing company Archer Daniels Midland Co. and agricultural commodity trading and processing company Bunge Ltd. The ETF is trading at record highs amid the Russia-Ukraine crisis.

Other examples he cites include the iShares MSCI Agriculture Producers ETF VEGI-A, with top holdings Deere and Nutrien, and the VanEck Agribusiness ETF MOO-A, with holdings such as animal medicine company Zoetis Inc., veterinary products and services company Idexx Laboratories Inc. as well as other traditional agriculture sector names. Both VEGI and MOO are also trading at record highs.

For those interested in agtech, Mr. Yamada notes there’s the Global X AgTech and Food Innovation ETF KROP-Q, which offers exposure to companies ranging from chemical and seed provider Corteva Inc. to plant-based protein companies Beyond Meat Inc. and Oatly Group AB. The ETF is down about 20 per cent since it started trading in July, dropping alongside other technology names as many investors move away from growth stocks.

Mr. Yamada says the industry will always be cyclical, “punctuated by periods of extreme disruption,” but he believes agriculture – whether stocks or ETFs – should be in most investors’ portfolios to offset volatile markets.

“Putting commodities in a portfolio always makes sense because they are generally uncorrelated with the rest of the market,” he says.