Tractor Supply Company (TSCO)

Updated June 7th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	11.9%	**Quality Percentile:**	N/A
Fair Value Price:	$80	**5 Year Growth Estimate:**	9.5%	**Momentum Percentile:**	N/A
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Total Return Percentile:**	N/A
Dividend Yield:	1.6%	**5 Year Price Target**	$127	**Valuation Percentile:**	

Overview & Current Events

Tractor Supply Company is a retailer that sells farm and ranch products. Its customers include recreational farmers & ranchers, tradesmen and small businesses. Its offerings include clothing, pet supplies, trailers and accessories, lawn & garden supplies, heating systems, tools, fending, lawn mowers, power generators, etc. The company was founded in 1938, is headquartered in Brentwood, TN, and is currently valued at $9.4 billion.

Tractor Supply's most recent quarterly results were announced on April 26. The company earned $0.57 per share during Q1, a 24% increase over the prior year's quarter. The company also grossed revenues of $1.7 billion, up 7% year over year. Tractor Supply guides for EPS of $3.95 to $4.15 during the current fiscal year, comps sales are seen growing 2.5%.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.55	$0.79	$1.13	$1.51	$1.90	$2.32	$2.66	$3.00	$3.27	$3.33	***$4.05***	***$6.35***
DPS	-	-	-	$0.14	$0.22	$0.36	$0.49	$0.61	$0.76	$0.92	***$1.24***	***$2.10***

Tractor Supply has recorded very compelling growth through the last decade, its earnings per share grew by 22% annually since 2008, 2018's EPS are forecasted to be more than seven times as high as what the company earned one decade ago.

This growth was possible due to several contributing factors, including comps sales increases, the opening of new stores, margin expansion and share repurchases. These factors will likely persist going forward, which is why the earnings growth outlook for Tractor Supply is high at 9.5% annualized.

For 2018 Tractor Supply forecasts comparable store sales growth of 2%-3%, which is a strong pace for brick-and-mortar retailers. The company additionally keeps opening new stores. Over the last year its store count rose by roughly 6%. The pace of new store openings will likely come down a bit going forward. But, with the addition of comparable store sales growth, revenues should still grow by a mid-single digits pace over the coming years. Thanks to increasing scale and operating leverage (thanks to rising comps sales) Tractor Supply also has a good chance of increasing its margins further. During 2018 tax rate changes (Tax Cuts and Jobs Act) will be a major one-time positive, but beyond 2019 the tax rate will remain relatively unchanged.

Thanks to strong cash flows Tractor Supply is able to finance high shareholder returns, via dividends and share repurchases. In recent years Tractor Supply has increased its dividend considerably (it only started making dividend payments in 2011), but the majority of cash returns are done by repurchasing shares. Over the last year alone Tractor Supply has bought back 4.5% of its stock, which is a significant positive for the company's EPS performance.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.9	13.4	15.4	20.7	23.6	25.8	25.4	29.1	25.5	19.1	***19.2***	***20.0***
Avg. Yld.	-	-	0.8%	0.7%	0.8%	0.8%	0.9%	0.9%	1.1%	1.7%	***1.6%***	***2.0%***

Tractor Supply trades at about 19 times this year's earnings, a small discount to its historic median valuation, which leaves some valuation expansion potential, which is a positive for the stock's forecasted total returns.

After increasing its dividend by more than 30% annually since 2012 Tractor Supply's dividend yield is now relatively on par with that of the broad market, going forward its dividend growth rate will remain attractive, although not as high as it was over the last few years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	84.8%	81.6%	82.2%	88.2%	91.7%	92.1%	95.8%	90.4%	86.9%	86.9%	***87.0%***	***85.0%***
Debt/A	43.3%	39.0%	36.2%	36.8%	39.9%	34.5%	36.4%	41.2%	45.7%	50.5%	***52.0%***	***54.0%***
Int. Cov.	63.6	117	207	169	414	924	313	225	119	49.5	***45.0***	***40.0***
Payout	-	-	-	9.3%	11.6%	15.5%	18.4%	20.3%	23.2%	27.6%	***30.6%***	***33.1%***
Std. Dev.	56.4%	37.5%	24.2%	32.4%	29.4%	15.0%	32.2%	16.4%	29.5%	28.1%	***23.0%***	***22.0%***

Tractor Supply has very strong fundamentals: Its gross profits to assets ratio is at an extremely high level, which shows that it is highly accretive for the company to open new stores. Investments into its asset base pay off very quickly. The company has liabilities that are roughly half as high as its assets, but most of those liabilities are not interest-bearing (accounts payable, for example, have been higher than long-term debt at the end of Q1), which explains why Tractor Supply's interest coverage ratio is so high. The company's balance sheet is thus very healthy, and Tractor Supply has ample room to take on debt if it wishes to do so (e.g. for an acquisition).

Many brick-and-mortar retailers feel the impact that Amazon and other online retailers are having on traffic at their stores, but Tractor Supply is relatively safe from the e-commerce threat. Many of the items the company sells are big and bulky and therefore not easily shipped to customers' homes, and customers tend to like shopping at Tractor Supply's stores. This serves as a major advantage versus many other brick-and-mortar retailers. At the same time Tractor Supply doesn't have a lot of competition in the niche market it serves.

Profits declined by 10% from 2007 to 2008, but hit a new record high in 2009, thus Tractor Supply is not significantly vulnerable to recessions and economic downturns.

Final Thoughts & Recommendation

Tractor Supply is a relatively small but fundamentally strong brick-and-mortar specialty retailer that combines attractive earnings growth, high shareholder returns and an inexpensive valuation (versus the historic norm). Tractor Supply is relatively safe from the Amazon threat and should provide compelling total returns over the coming years. It is a buy for investors looking for solid total returns, recession resistance, and exposure to a high quality retailer.

Total Return Breakdown by Year