Tractor Supply Company (TSCO)

Updated July 28th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	12.9%	**Volatility Percentile:**	82.4%
Fair Value Price:	$83	**5 Year Growth Estimate:**	9.5%	**Momentum Percentile:**	85.5%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.8%	**Valuation Percentile:**	75.0%
Dividend Yield:	1.6%	**5 Year Price Target**	$131	**Total Return Percentile:**	84.7%

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 $9.5 billion.

Tractor Supply reported its second quarter results on July 26. The company earned $1.69 per share during the quarter, a tremendous increase of 35% year over year. Revenues hit $2.2 billion, an increase of 10% year over year. Tractor Supply continued to generate a strong comparable store growth rate. Comps were up 5.6% during the second quarter.

Tractor Supply also increased its guidance for 2018, the company now sees earnings per share of $4.10 - $4.20. Despite an overall strong performance and the guidance raise the market sent shares lower by a couple of percentage points.

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	***$4.15***	***$6.53***
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 3%-3.5%, which is a strong pace for brick-and-mortar retailers. In addition, the company 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 Tractor Supply also has a good chance of increasing its margins further. Profit growth during 2018 will be boosted by tax rate changes. This is a one-time factor and will not recur moving forward.

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 but the majority of cash returns continue to be implemented through share repurchases.

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	***18.3***	***20.0***
Avg. Yld.	-	-	0.8%	0.7%	0.8%	0.8%	0.9%	0.9%	1.1%	1.7%	***1.6%***	***2.0%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Shares of Tractor Supply are trading at a little bit above 18 times this year's earnings, a low valuation relative to how shares were valued over the last couple of years. We see some multiple expansion going forward.

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%	***29.9%***	***32.2%***
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's gross profits to assets ratio is at an extremely high level, investments into new stores or other assets pay off 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 Q2. This explains why Tractor Supply's interest coverage ratio is so high. Overall the balance sheet looks very healthy.

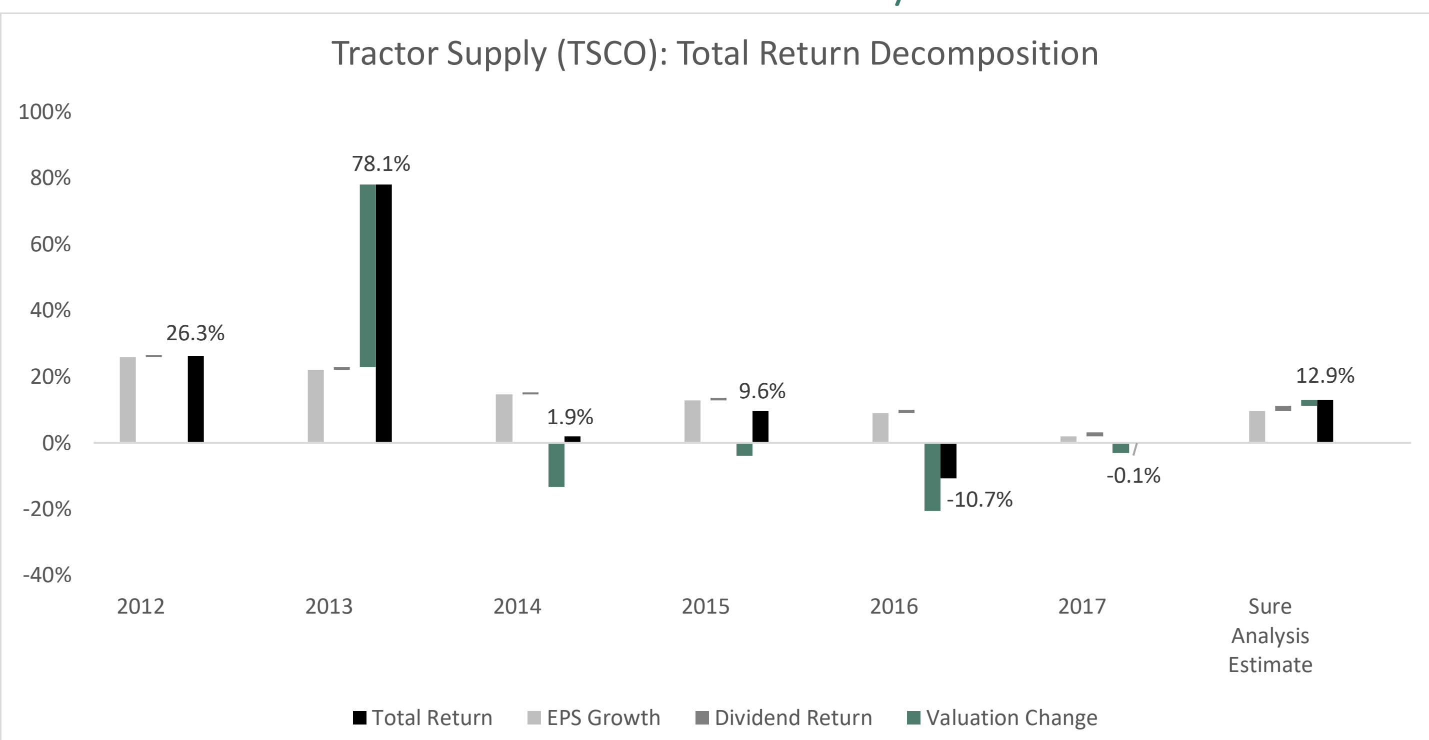
Many brick-and-mortar retailers feel the impact that Amazon and other online retailers are having on traffic at their stores, but Tractor Supply is relatively safe from the e-commerce threat. Many of the items the company sells are large and complex, and therefore not easily purchased online or shipped to customers' homes. This serves as a major advantage versus many other brick-and-mortar retailers. Tractor Supply also 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. We believe that Tractor Supply is not very vulnerable to recessions and economic downturns.

Final Thoughts & Recommendation

Tractor Supply operates in a small niche, where the company has been able to grow very profitably over the years. The company is relatively safe from online competition and returns a lot of cash to its owners. Going forward the total return outlook is good, and since shares are trading below fair value right now we are recommending them as a buy today.

Total Return Breakdown by Year



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