Thomson Reuters Corporation (TRI)

Updated August 21st, 2018 by Nick McCullum

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	8.1%	**Volatility Percentile:**	6.5%
Fair Value Price:	$45	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	19.7%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.9%	**Valuation Percentile:**	71.2%
Dividend Yield:	3.2%	**5 Year Price Target**	$57	**Total Return Percentile:**	52.3%

Overview & Current Events

Thomson Reuters Corporation is a global financial information and data solutions provider for businesses and professionals in the fields of finance, accounting, tax, and media. The company operates in four business segments: Financial & Risk, Legal, Tax & Accounting, and Reuter News. Thomson Reuters was created in 2008 when the Thomson Corporation purchased the British company Reuters Group. The company is majority owned by the Thomson family – the wealthiest in Canada by a wide margin. Thomson Reuters is cross-listed on the Toronto Stock Exchange and the New York Stock Exchange, where it trades under the ticker TRI on both exchanges. Thomson Reuters is a rare example of an international company that trades on an American stock exchange and reports financial results in U.S. dollars. Accordingly, all figures referenced in this report are in USD and refer to the company's NYSE-listed common equity.

In early August, Thomson Reuters reported (8/2/18) financial results for the second quarter of fiscal 2018. In the quarter, revenues increased by 2% while operating profit declined by 6%. Adjusted EBITDA declined by 8%, largely due to eroding margins. More specifically, the company's adjusted EBITDA margin declined to 29.7%, from 26.5% in the same period a year ago. On the bottom line, Thomson Reuters' adjusted earnings-per-share declined by 11% year-on-year. The company's poor profitability performance reflects increased costs and investment related to the pending sale of a large business unit (more on that in a moment). Thomson Reuters' second quarter financial performance was received positively by the markets and its stock rose by nearly 4% on the first trading day following the earnings release.

Thomson Reuters reaffirmed its 2018 business outlook with the publication of its second quarter earnings release. The company continues to expect low single-digit revenue growth as well as adjusted EBITDA between $1.2 billion and $1.3 billion. For context, Thomson Reuters generated $3.4 billion of adjusted EBITDA last year. This year is clearly set to be a weak one for this blue-chip financial data and information provider.

Earlier in the year, Thomson Reuters announced (1/30/18) that it signed a definitive agreement to sell a majority 55% stake in the key Financial & Risk (F&R) business to a group of private equity funds managed by Blackstone. Thomson Reuters will receive approximately $17 billion in gross proceeds (subject to purchase price adjustments) and will retain a 45% interest in the new partnership. Thomson Reuters stated it plans to use the proceeds to invest in its core Legal and Tax & Accounting units, pay down debt, and repurchase shares. In the company's second quarter earnings release, Thomson Reuters shared that the transaction is expected to close early in the fourth quarter of 2018. The transaction will be transformative for Thomson Reuters and investors should monitor its progress closely moving forward.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.89	$1.85	$1.75	$2.05	$2.11	$1.54	$1.85	$2.13	$1.79	$2.51	***$0.90***	***$3.15***
DPS	$1.08	$1.12	$1.16	$1.24	$1.28	$1.30	$1.32	$1.34	$1.36	$1.38	***$1.38***	***$1.60***

We expect Thomson Reuters to experience a significant, one-time decline in earnings (as well as other fundamental financial metrics) due to the pending spinoff of its Financial & Risk business. Not only will the company lose 55% of the business unit's profit potential, but this impact will be exacerbated by the significant costs and investments associated with the sale. The company is forecasting for a 65% decline in adjusted EBITDA, and we believe that a similar decline in earnings-per-share is likely. Beyond that, Thomson Reuters' growth is almost certain to exceed its historical average

(2.9% per year over the last decade) as it is beginning from a very low starting point. Between 2018 and 2023, we expect Thomson Reuters to grow its earnings-per-share from $0.90 to $3.00. Our long-term growth estimate is 4% based off of 2017 earnings, to 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.8	19.3	21.4	16.8	13.5	24.4	21.8	23.9	29.9	23.2	***17.2***	***18.0***
Avg. Yld.	3.4%	3.1%	3.1%	3.6%	4.5%	3.5%	3.3%	2.6%	2.5%	2.4%	***3.2%***	***2.8%***

Thomson Reuters has traded at an average price-to-earnings ratio of 21.1 over the last decade. Using the company's 2017 earnings-per-share, the company is trading at a price-to-earnings ratio of 17.2 today. Our fair value estimate for the company is an earnings multiple of 18. If the company's valuation can expand to this level over five years, this will add 0.9% to the company's annualized returns during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

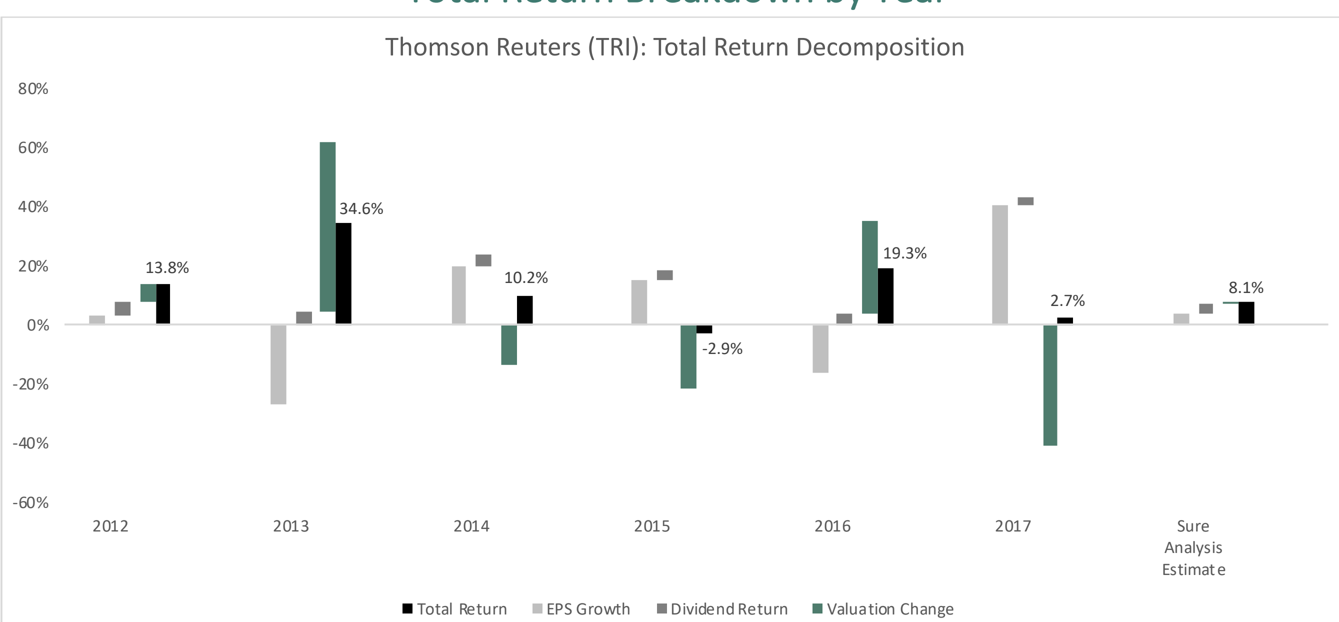
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	8.7%	9.0%	8.5%	11.7%	10.5%	9.7%	11.1%	10.6%	10.5%	12.3%	***12.0%***	***13.0%***
Int. Cov.	9.2	1.8	3.8	-1.8	5.8	3.2	5.6	3.8	3.6	4.3	***4.0***	***4.0***
Debt/A	46.5%	44.1%	44.6%	48.4%	46.2%	49.4%	52.1%	55.0%	52.4%	48.7%	***50.0%***	***50.0%***
Std. Dev.	42.1%	29.3%	14.1%	21.6%	14.1%	14.9%	12.9%	12.6%	15.6%	10.4%	***14.0%***	***14.0%***
Payout	57.1%	60.5%	66.3%	60.5%	60.7%	84.4%	71.4%	62.9%	76.0%	55.0%	***153%***	***50.8%***

Qualitatively, Thomson Reuters' strongest competitive advantage is its brand recognition, which provides it with Bloomberg-esque pricing power in the competitive world of financial information. The company scores well on each of our quality metrics, with a below-average stock price standard deviation and a balance sheet comprised of a roughly equal amount of debt and shareholders' equity.

Final Thoughts & Recommendation

With Thomson Reuters' expected total returns in the high single-digits, the company may look appealing for investors – particularly in Canada. With that said, we caution that the company has an above-average level of business uncertainty thanks to the pending sale of 55% of its Financial & Risk business. With this in mind, Thomson Reuters earns a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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.