Tractor Supply Company (TSCO)

Updated October 26th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	10.0%	**Volatility Percentile:**	82.2%
Fair Value Price:	$85	**5 Year Growth Estimate:**	9.5%	**Momentum Percentile:**	98.6%
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Growth Percentile:**	88.0%
Dividend Yield:	1.4%	**5 Year Price Target**	$134	**Valuation Percentile:**	35.6%
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Total Return Percentile:**	48.5%

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, and power generators. The company was founded in 1938, is headquartered in Brentwood, TN, and is currently valued at $10.9 billion.

Tractor Supply reported its third quarter earnings results on October 25. The company was able to grow its revenues by 9% year over year. The top line hit $1.9 billion during Q3. Revenue growth was primarily driven by higher comparable store sales, which grew 5.1% year over year. The company also benefited from margin increases as well as from a substantial decline in its tax rate from 36% to 22%. This explains how Tractor Supply was able to generate a highly attractive earnings-per-share growth rate of 32%, as earnings-per-share rose to $0.95. Tractor Supply has updated its guidance for 2018. The company now sees earnings-per-share of $4.25. We have updated our estimates accordingly.

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	***$4.25***	***$6.69***
DPS	-	-	-	$0.14	$0.22	$0.36	$0.49	$0.61	$0.76	$0.92	***$1.24***	***$2.10***
Shares	144	144	146	143	139	140	136	134	131	125	***121***	***112***

Tractor Supply has recorded very compelling growth through the last decade. Its earnings-per-share have grown by 22% annually since 2008. 2018's earnings-per-share 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 comparable store sales increases, the opening of new stores, margin expansion, and share repurchases. These factors will likely persist going forward, which is why the earnings-per-share growth outlook for Tractor Supply is high, at 9.5% annualized.

For 2018 Tractor Supply forecasts comparable store sales growth of 4%-4.5%, 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. Thanks to rising comparable store sales, revenues should still grow by a mid-single-digits pace over the coming years. Due to increasing scale and operating leverage Tractor Supply also has a good chance of increasing its margins further. The tax rate impact that boosted Tractor Supply's earnings growth during 2018 will wane, which is why this year's profit growth will be an outlier.

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	***20.9***	***20.0***
Avg. Yld.	-	-	0.8%	0.7%	0.8%	0.8%	0.9%	0.9%	1.1%	1.7%	***1.4%***	***2.0%***

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Tractor Supply is a high-quality brick-and-mortar retailer that has delivered consistent growth over the last decade. Its valuation has, not surprisingly, been higher than that of most other retailers over that time frame. We believe that shares are fairly valued around 20 times annual net profits, which means that shares trade slightly above fair value right now. Multiple compression could be a marginal headwind 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%	***29.2%***	***31.4%***
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%***

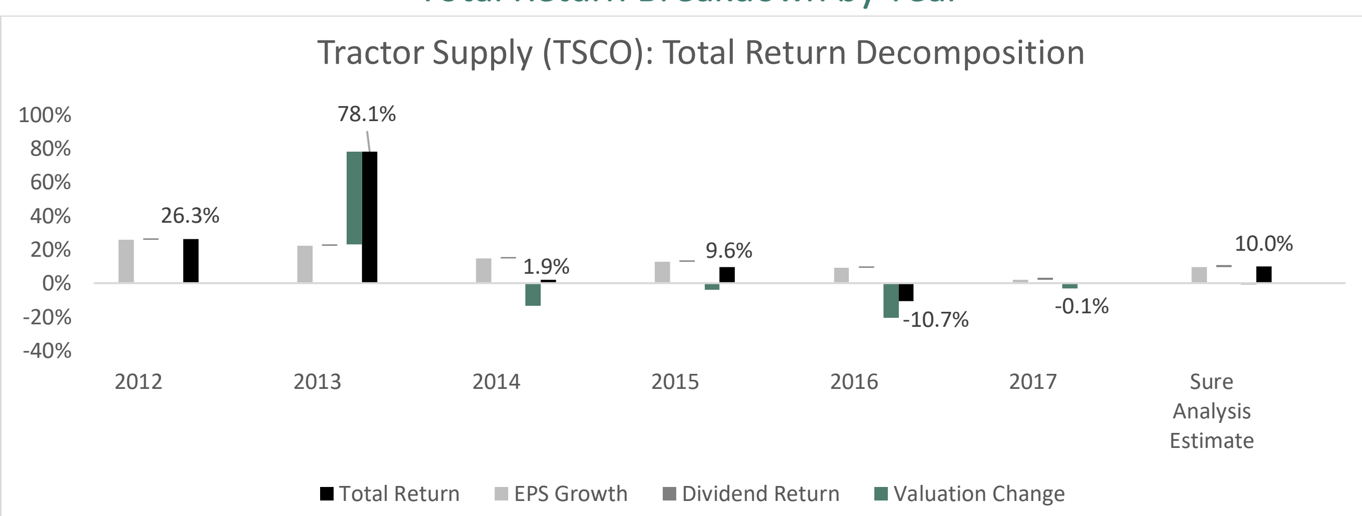
Tractor Supply's gross profits to assets ratio is at an extremely high level. Investments into new stores or other assets pay off quickly. The company has liabilities that are roughly half as high as its assets, but most of those liabilities are not interest-bearing. Accounts payable, for example, have been higher than long-term debt at the end of Q3. 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 is a high-quality retailer that operates in an attractive niche market that is relatively safe versus the Amazon-threat. Tractor Supply has generated compelling earnings growth in the past. This will likely persist going forward. Tractor Supply does not offer a high dividend yield, as shareholder payouts are weighted towards stock buybacks. Due to the fact that shares are trading slightly above fair value we rate Tractor Supply a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3008	3207	3638	4233	4664	5165	5712	6227	6780	7256
Gross Profit	912	1042	1204	1407	1566	1754	1950	2143	2325	2492
Gross Margin	30.3%	32.5%	33.1%	33.2%	33.6%	34.0%	34.1%	34.4%	34.3%	34.3%
SG&A Exp.	716	784	868	974	1040	1139	1246	1369	1488	1640
D&A Exp.	61	66	70	80	89	100	115	124	143	166
Operating Profit	136	192	266	353	437	515	589	651	694	686
Operating Margin	4.5%	6.0%	7.3%	8.3%	9.4%	10.0%	10.3%	10.4%	10.2%	9.5%
Net Profit	82	120	168	223	276	328	371	410	437	423
Net Margin	2.7%	3.7%	4.6%	5.3%	5.9%	6.4%	6.5%	6.6%	6.4%	5.8%
Free Cash Flow	126	141	126	88	225	115	249	220	425	381
Income Tax	52	70	97	128	159	186	217	237	251	250

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	1076	1277	1463	1595	1707	1903	2035	2371	2675	2869
Cash & Equivalents	37	173	257	177	139	143	51	64	54	109
Inventories	603	676	737	831	908	979	1115	1284	1370	1453
Goodwill & Int. Ass.	10	10	10	10	10	10	10	10	126	124
Total Liabilities	466	497	530	587	682	656	741	978	1222	1450
Accounts Payable	287	262	247	266	320	316	371	427	520	577
Long-Term Debt	0	0	0	0	0	0	0	150	274	426
Shareholder's Equity	610	779	933	1008	1025	1247	1294	1393	1453	1419
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.19	0.30

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	7.7%	10.2%	12.3%	14.6%	16.7%	18.2%	18.8%	18.6%	17.3%	15.2%
Return on Equity	13.9%	17.2%	19.6%	22.9%	27.2%	28.9%	29.2%	30.5%	30.7%	29.4%
ROIC	13.3%	17.2%	19.6%	22.9%	27.2%	28.9%	29.2%	28.9%	26.7%	23.7%
Shares Out.	144	144	146	143	139	140	136	134	131	125
Revenue/Share	20.07	21.88	24.36	28.63	32.05	36.44	40.96	45.50	50.66	56.60
FCF/Share	0.84	0.96	0.84	0.60	1.55	0.81	1.78	1.61	3.17	2.97

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.