Tractor Supply Company (TSCO)

Updated January 31st, 2019 by Jonathan Weber

Key Metrics

Current Price:	$85	**5 Year CAGR Estimate:**	12.8%	**Volatility Percentile:**	82.7%
Fair Value Price:	$94	**5 Year Growth Estimate:**	9.5%	**Momentum Percentile:**	87.7%
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Growth Percentile:**	88.9%
Dividend Yield:	1.4%	**5 Year Price Target**	$147	**Valuation Percentile:**	61.8%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	71.4%

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, fencing, lawn mowers, and power generators. The company was founded in 1938, is headquartered in Brentwood, TN, and is currently valued at $10.5 billion.

Tractor Supply reported its fourth quarter and full year earnings results on January 31. The company was able to generate revenues of $2.13 billion during the fourth quarter, which was 9.2% more than the revenues that the company generated during the fourth quarter of 2017. This revenue growth was driven by a combination of higher same store sales, which rose 5.7% year over year, and by the opening of new stores. Especially the strong comparable store sales growth rate, which has a positive influence on the company's margins due to the impact of fixed cost digression / operating leverage, is attractive for investors. Tractor Supply has generated earnings-per-share of $1.11 during the fourth quarter, which was 27.6% more than the company's earnings-per-share during the fourth quarter of fiscal 2017. The very strong earnings-per-share growth rate was positively impacted by a lower tax rate, which means that this growth rate is not sustainable in the long run.

Tractor Supply guides for revenues of $8.31 billion to $8.46 billion during fiscal 2018, while earnings-per-share are forecasted in a range of $4.60 to $4.75.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.79	$1.13	$1.51	$1.90	$2.32	$2.66	$3.00	$3.27	$3.33	$4.31	***$4.68***	***$7.37***
DPS	-	-	$0.14	$0.22	$0.36	$0.49	$0.61	$0.76	$0.92	$1.20	***$1.30***	***$2.30***
Shares	144	146	143	139	140	136	134	131	125	123	***121***	***115***

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 were roughly six times as high as what the company earned during 2009.

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.

During 2018 Tractor Supply achieved comparable store sales growth of 5.1%, 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%, but 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 2018's massive earnings growth was 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 are being implemented through share repurchases.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.4	15.4	20.7	23.6	25.8	25.4	29.1	25.5	19.1	19.0	***18.2***	***20.0***
Avg. Yld.	-	0.8%	0.7%	0.8%	0.8%	0.9%	0.9%	1.1%	1.7%	1.4%	***1.4%***	***1.6%***

Tractor Supply is operating in an attractive niche market of the large brick and mortar retail industry. The company has produced consistent and attractive growth over the last decade, which is why it is not surprising to see shares trading at a comparatively high valuation relative to how other brick and mortar retailers are valued. More recently the valuation has declined, though, which is why we believe that shares are relatively attractively valued right here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	9.3%	11.6%	15.5%	18.4%	20.3%	23.2%	27.6%	27.8%	***27.8%***	***31.2%***

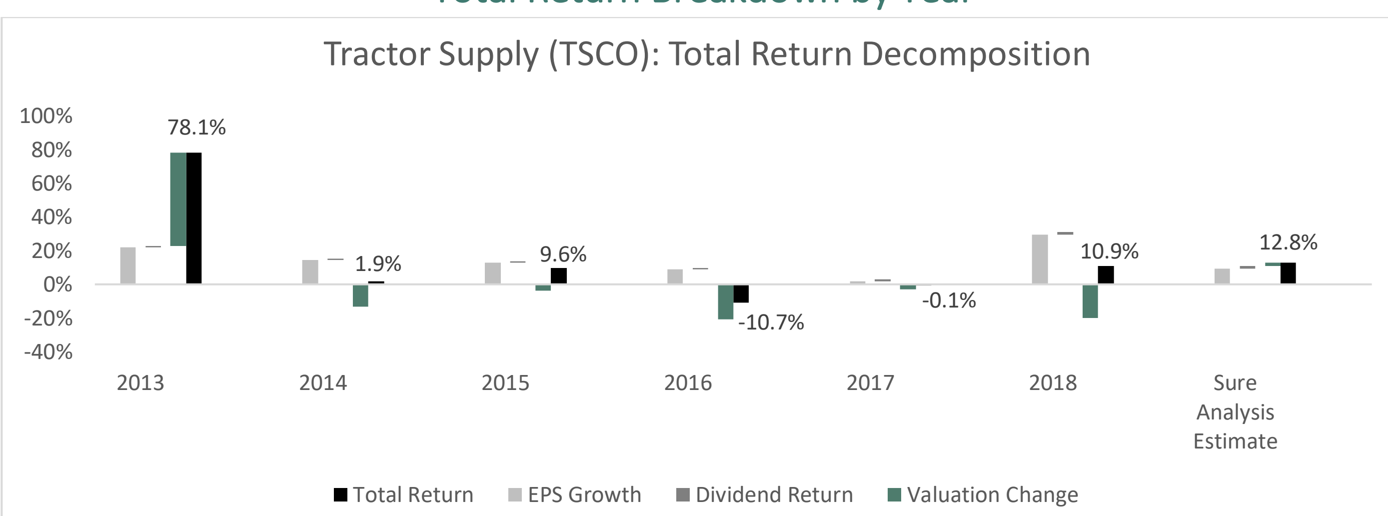
Tractor Supply does not have an overly long dividend history. Since 2011 Tractor Supply has paid dividends, and the payout has risen considerably since. This was possible due to a combination of EPS growth and a rising payout ratio.

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 does not 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 not a large company, but Tractor Supply has generated highly compelling earnings growth and shareholder returns over the last decade. We believe that the company's earnings growth rate will slow down going forward, but growth will remain at a solid level. Due to the fact that shares are inexpensive relative to how shares were valued in the past, Tractor Supply has a compelling total return outlook. The company earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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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.

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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.