



Thomson Reuters Corporation (TRI)

Updated February 27th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	3.6%	Volatility Percentile:	12.6%
Fair Value Price:	\$47	5 Year Growth Estimate:	4.0%	Momentum Percentile:	96.8%
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Growth Percentile:	22.2%
Dividend Yield:	2.6%	5 Year Price Target	\$57	Valuation Percentile:	26.8%
Dividend Risk Score:	C	Retirement Suitability Score:	C	Total Return Percentile:	15.2%

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. Thomson Reuters was created in 2008 when the Thomson Corporation purchased the British company Reuters Group. Thomson Reuters is cross-listed in Toronto and New York, 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.

Thomson Reuters reported Q4 earnings on 2/26/19 and results capped a strong year of growth for the company. Total revenue increased 7% due to higher recurring revenues. At constant currency rates, revenue would have risen 9% as a 3% organic revenue increase was partially offset by a decline in global print and transactions revenues. Operating profits, however, decreased 43% due to the cost of investments to reposition the company following the sale of 55% of the company's former F&R segment. Earnings included that sale, which generated a \$3.4 billion gain in Q4. That helped lead earnings-per-share for the full year over \$6, but is not representative of normalized earnings moving forward.

The sale of the majority stake of the F&R business was completed in Q4, and the business is now known as Refinitiv. Thomson Reuters received \$17 billion in proceeds from the transaction and has thus far used \$10 billion of it to return to shareholders. Indeed, the company's share count fell materially in Q4 and is now down to 550 million shares, which was well below our prior expectation. The company also used \$4 billion to pay down debt, enabling it to remain well below its leverage target of 2.5X EBITDA. It is using \$1 billion for general corporate purposes, and will use \$2 billion to fund strategic acquisitions. Overall, this deal appears to have been hugely positive for Thomson Reuters.

The board authorized a four-cent increase in the dividend, bringing the payout to \$1.44 per share annually. This is the 26th consecutive year of dividend growth for Thomson Reuters.

Management provided vague guidance of operating earnings that should be slightly in excess of 2018, and coupled with the substantially lower share count, we see \$2.60 in earnings-per-share for this year as an initial estimate. However, given the transitional nature of this year, earnings may be quite volatile.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.85	\$1.75	\$2.05	\$2.11	\$1.54	\$1.85	\$2.13	\$1.79	\$2.51	\$6.18	\$2.60	\$3.16
DPS	\$1.12	\$1.16	\$1.24	\$1.28	\$1.30	\$1.32	\$1.34	\$1.36	\$1.38	\$1.39	\$1.44	\$1.80
Shares	834	838	833	830	831	811	784	749	720	550	530	480

Thomson Reuters earnings were very high in 2018 thanks to the Refinitiv deal, but as 2018 was a year of transition, 2019 should be more normalized. Starting this year, 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, and organic revenue growth in its remaining segments is in the low to mid-single digits. In addition, the company has made it clear that share repurchases are a priority, which will help drive earnings-per-share higher as well. Between 2019 and 2024, we expect

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Thomson Reuters to grow its earnings-per-share from \$2.60 to \$3.16. This year will provide some much-needed clarity on what Thomson Reuters' business will look like post-Refinitiv.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.3	21.4	16.8	13.5	24.4	21.8	23.9	29.9	23.2	7.0	21.0	18.0
Avg. Yld.	3.1%	3.1%	3.6%	4.5%	3.5%	3.3%	2.6%	2.5%	2.4%	3.2%	2.6%	3.2%

We see fair value for this stock at 18 times earnings and today, shares trade for 21 earnings. We therefore see a meaningful 3% headwind to total returns annually as the valuation moderates over time. The stock has rallied strongly thus far in 2019 and that has caused it to become slightly overvalued. A moderating valuation should see the yield rise over time as the dividend increases at roughly the rate of earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

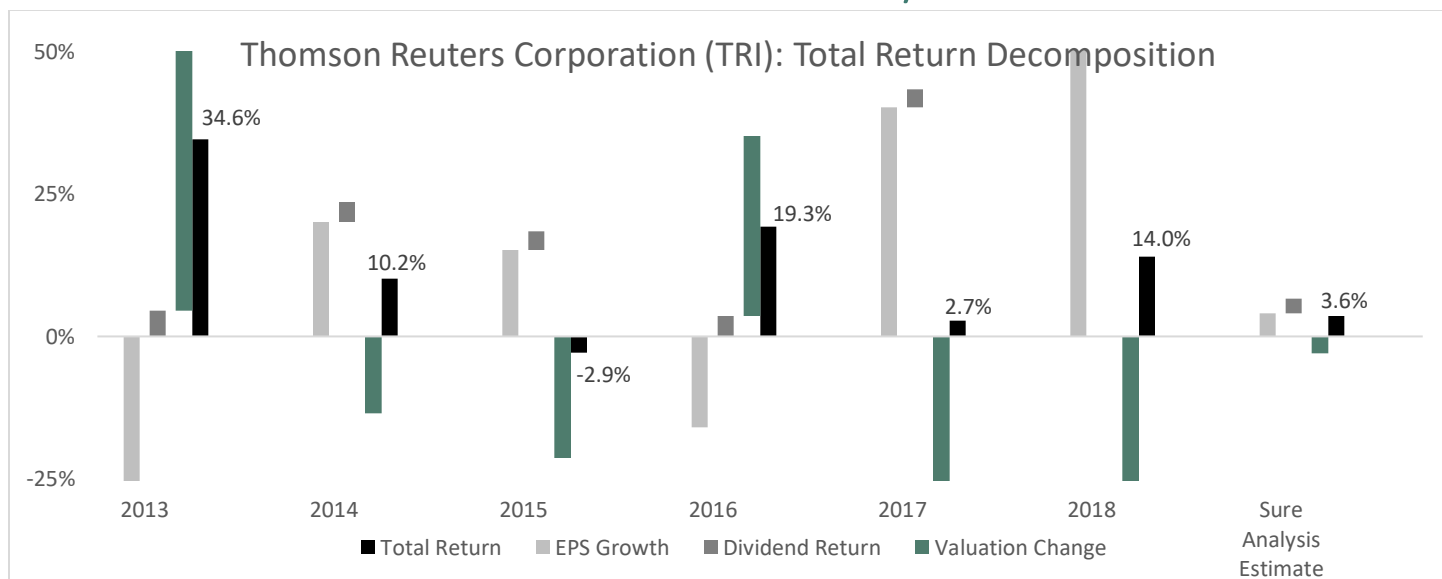
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	61%	66%	61%	61%	84%	71%	63%	76%	55%	22%	55%	57%

Qualitatively, Thomson Reuters' strongest competitive advantage is its brand recognition, which provides it with strong pricing power in the competitive world of financial information. The company's payout ratio is just over half of earnings, and we don't see material movement in that number for the foreseeable future. The company has proven it is much more interested in investing for future growth, as well as buying back its own shares, than it is in becoming a dividend growth story. However, the payout is very safe and the current yield is decent.

Final Thoughts & Recommendation

We see total returns for Thomson Reuters in the low-single digits, consisting of the 2.6% yield, 4% earnings growth and a 3% headwind from the valuation. The sale of the Financial & Risk business is a net positive, but the stock is near its highs, and is thus already pricing in much of that benefit. We are therefore downgrading Thomson Reuters from a hold to a sell given the murky growth outlook, lower-than-normal yield, and the valuation that we find slightly unattractive. Investors are quite excited by the prospects of the Refinitiv deal, but we see that as already priced into the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	12997	13070	13807	13132	12702	12607	11257	11166	11333	5501
Gross Profit	3122	3009	3810	3422	3148	3398	3095	2934	3254	1370
D&A Exp.	1556	1574	1709	1735	1830	1822	1582	1552	1463	619
Operating Profit	1575	1419	2305	2570	1516	2545	1526	1390	1755	780
Op. Margin	12.1%	10.9%	16.7%	19.6%	11.9%	20.2%	13.6%	12.4%	15.5%	14.2%
Net Profit	844	909	-1390	1989	137	1909	1255	3098	1395	3949
Net Margin	6.5%	7.0%	-10.1%	15.1%	1.1%	15.1%	11.1%	27.7%	12.3%	71.8%
Free Cash Flow	1569	1558	1556	1694	1099	1446	1887	2079	1079	1486
Income Tax	-299	139	293	126	848	62	34	-15	-274	141

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	34573	35531	32476	32537	32439	30597	29112	27852	26480	17047
Cash & Equivalents	1111	864	422	1283	1316	1018	966	2368	874	2706
Acc. Receivable	1742	1854	1966	1795	1733	1792	1714	1327	1415	1313
Inventories	N/A	N/A	66	55	46	37	33	32	31	N/A
Goodwill & Int.	28319	27606	26043	26044	26383	25056	23781	21534	21815	9308
Total Liabilities	15238	15856	15726	15039	16009	15938	16012	14596	12905	7821
Accounts Payable	N/A	N/A	508	461	406	411	282	311	307	N/A
Long-Term Debt	7603	7518	7594	7231	8066	8110	8424	7389	7026	3216
Total Equity	19267	19322	16295	17035	15926	14068	12503	12663	12967	9226
D/E Ratio	0.39	0.39	0.46	0.42	0.50	0.57	0.67	0.58	0.54	0.35

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.4%	2.6%	-4.1%	6.1%	0.4%	6.1%	4.2%	10.9%	5.1%	18.1%
Return on Equity	4.5%	4.7%	-7.8%	11.9%	0.8%	12.7%	9.4%	24.6%	10.9%	35.6%
ROIC	3.2%	3.4%	-5.4%	8.1%	0.6%	8.1%	5.7%	14.7%	6.8%	23.9%
Shares Out.	834	838	833	830	831	811	784	749	720	550
Revenue/Share	17.19	17.21	18.25	17.44	16.84	17.12	15.81	16.42	17.33	8.23
FCF/Share	2.07	2.05	2.06	2.25	1.46	1.96	2.65	3.06	1.65	2.22

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

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