Tractor Supply Company (TSCO)

Updated May 7th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$103	**5 Year CAGR Estimate:**	8.8%	**Volatility Percentile:**	86.4%
Fair Value Price:	$94	**5 Year Growth Estimate:**	9.5%	**Momentum Percentile:**	98.5%
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-1.9%	**Growth Percentile:**	90.6%
Dividend Yield:	1.2%	**5 Year Price Target**	$147	**Valuation Percentile:**	41.3%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	54.1%

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 $12.5 billion.

Tractor Supply reported its first quarter earnings results on April 25. The company was able to generate revenues of $1.82 billion during the first quarter, which was 8.3% more than the revenues that the company generated during the first quarter of 2018. Tractor Supply was able to beat the analyst consensus estimate slightly. Revenue growth was driven by a combination of higher same store sales, which rose 5.0% year over year, and by the opening of new stores. 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 $0.63 during the first quarter, which was 10.5% more than the company's earnings-per-share during the first quarter of fiscal 2018. The strong earnings-per-share growth rate was positively impacted by a lower share count, as Tractor Supply continued to repurchase shares throughout the last year.

Tractor Supply guides for revenues of $8.31 billion to $8.46 billion during fiscal 2019 on the back of a ~3% comparable sales growth rate, while earnings-per-share are forecasted to fall into 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	***$1.24***	***$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 the first quarter of 2019, this strong comps sales growth rate could be maintained. 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-digit 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	***22.0***	***20.0***
Avg. Yld.	---	0.8%	0.7%	0.8%	0.8%	0.9%	0.9%	1.1%	1.7%	1.4%	***1.2%***	***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. Strong share price gains during the last couple of months have made shares rise above fair value, though.

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%	***26.5%***	***31.2%***

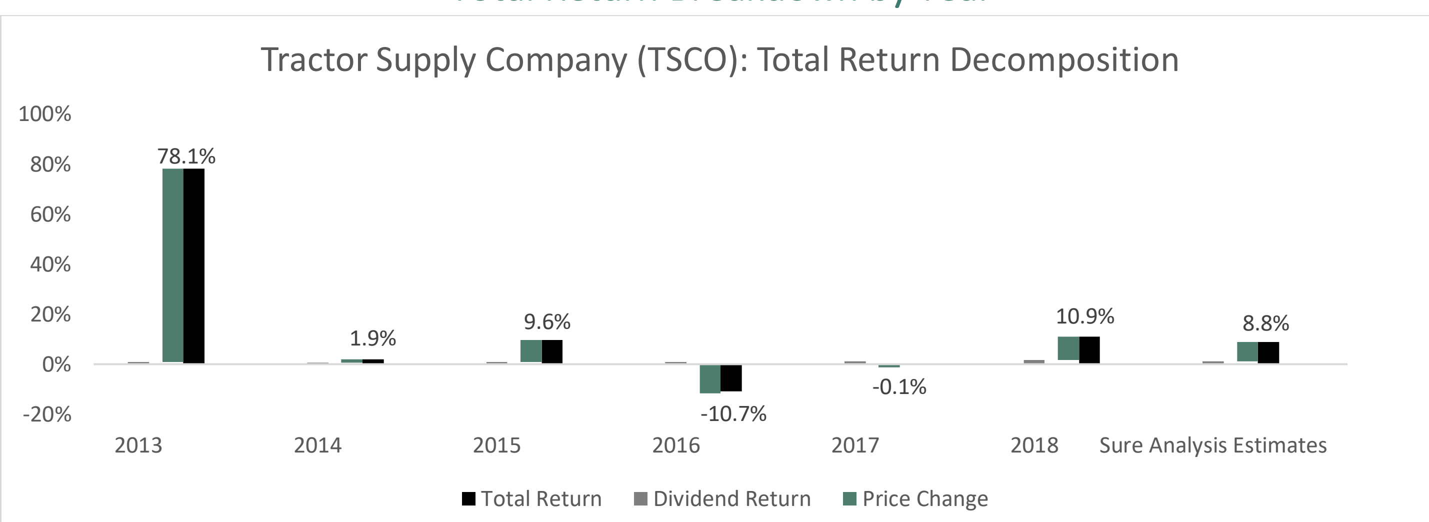
Tractor Supply does not have an overly long dividend history. Since 2011 Tractor Supply has paid dividends, and the payout has risen considerably since. This was possible due to a combination of earnings growth and a rising payout ratio.

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 as vulnerable to recessions and economic downturns as other sectors of retail.

Final Thoughts & Recommendation

Tractor Supply is not an overly large brick and mortar retailer at all, 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. Tractor Supply offers sizeable shareholder returns on top of that, although its dividend yield is relatively low right now. Due to trading above fair value right here, we rate Tractor Supply a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3207	3638	4233	4664	5165	5712	6227	6780	7256	7911
Gross Profit	1042	1204	1407	1566	1754	1950	2143	2325	2492	2703
Gross Margin	32.5%	33.1%	33.2%	33.6%	34.0%	34.1%	34.4%	34.3%	34.3%	34.2%
SG&A Exp.	784	868	974	1040	1139	1246	1369	1488	1640	1823
D&A Exp.	66	70	80	89	100	115	124	143	166	177
Operating Profit	192	266	353	437	515	589	651	694	686	702
Operating Margin	6.0%	7.3%	8.3%	9.4%	10.0%	10.3%	10.4%	10.2%	9.5%	8.9%
Net Profit	120	168	223	276	328	371	410	437	423	532
Net Margin	3.7%	4.6%	5.3%	5.9%	6.4%	6.5%	6.6%	6.4%	5.8%	6.7%
Free Cash Flow	141	126	88	225	115	249	220	425	381	416
Income Tax	70	97	128	159	186	217	237	251	250	151

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1277	1463	1595	1707	1903	2035	2371	2675	2869	3085
Cash & Equivalents	173	257	177	139	143	51	64	54	109	86
Inventories	676	737	831	908	979	1115	1284	1370	1453	1590
Goodwill & Int. Ass.	10	10	10	10	10	10	10	126	124	124
Total Liabilities	497	530	587	682	656	741	978	1222	1450	1523
Accounts Payable	262	247	266	320	316	371	427	520	577	620
Long-Term Debt	0	0	0	0	0	0	150	274	426	407
Shareholder's Equity	779	933	1008	1025	1247	1294	1393	1453	1419	1562
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.19	0.30	0.26

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	10.2%	12.3%	14.6%	16.7%	18.2%	18.8%	18.6%	17.3%	15.2%	17.9%
Return on Equity	17.2%	19.6%	22.9%	27.2%	28.9%	29.2%	30.5%	30.7%	29.4%	35.7%
ROIC	17.2%	19.6%	22.9%	27.2%	28.9%	29.2%	28.9%	26.7%	23.7%	27.9%
Shares Out.	144	146	143	139	140	136	134	131	125	123
Revenue/Share	21.88	24.36	28.63	32.05	36.44	40.96	45.50	50.66	56.60	64.07
FCF/Share	0.96	0.84	0.60	1.55	0.81	1.78	1.61	3.17	2.97	3.37

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