Tractor Supply Company (TSCO)

Updated August 30th, 2019 by Kay Ng

Key Metrics

Current Price:	$102	**5 Year CAGR Estimate:**	9.3%	**Volatility Percentile:**	83.0%
Fair Value Price:	$94	**5 Year Growth Estimate:**	9.5%	**Momentum Percentile:**	73.5%
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Growth Percentile:**	91.9%
Dividend Yield:	1.4%	**5 Year Price Target**	$148	**Valuation Percentile:**	46.5%
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Total Return Percentile:**	55.2%

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, lawnmowers, and power generators. The company was founded in 1938, is headquartered in Brentwood, TN, and is currently valued at $12.2 billion.

Tractor Supply reported its second-quarter earnings results on July 25. The company generated revenues of $2.35 billion during the quarter, which was 6.3% more than the revenues that the company generated during the Q2 2018. Revenue growth was driven by a combination of improvements in its average ticket, positive comparable transaction counts, and growth across all geographies. Same-store sales growth of 3.2% was decent.

Tractor Supply generated earnings-per-share of $1.80 during the Q2, which was 6.5% higher than the company's earnings-per-share during Q2 2018. The company slightly improved the lower-end guidance. The updated guidance for 2019 is $8.40-$8.46 billion in revenues on the back of 3%-4% comparable sales growth and diluted earnings-per-share of $4.65-$4.75.

After the end of Q2, Tractor Supply extended the contract with CEO, Greg Sandfort, for up to a year until it finds a successor at which time Sandfort will help with the transition. Sandfort has been the CEO at TSCO since May 2016. During the period, the company's earnings-per-share increased by about 13% per year.

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	***$4.70***	***$7.40***
DPS	-	-	$0.14	$0.22	$0.36	$0.49	$0.61	$0.76	$0.92	$1.20	***$1.24***	***$2.30***
Shares[1]	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 growth, 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. That growth is expected to taper down to 3%-4% for 2019. In addition, the company keeps opening new stores. It plans to add 80 Tractor Supply stores and 10-15 Petsense stores to its network this year. Thanks to rising comparable store sales, revenues should still grow by a mid-single-digit pace over the coming years. Due to an 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.

1. Shares in millions.

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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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	***21.7***	***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 operates 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. Share price gains since the start of the year has 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%	***26.4%***	***31.1%***

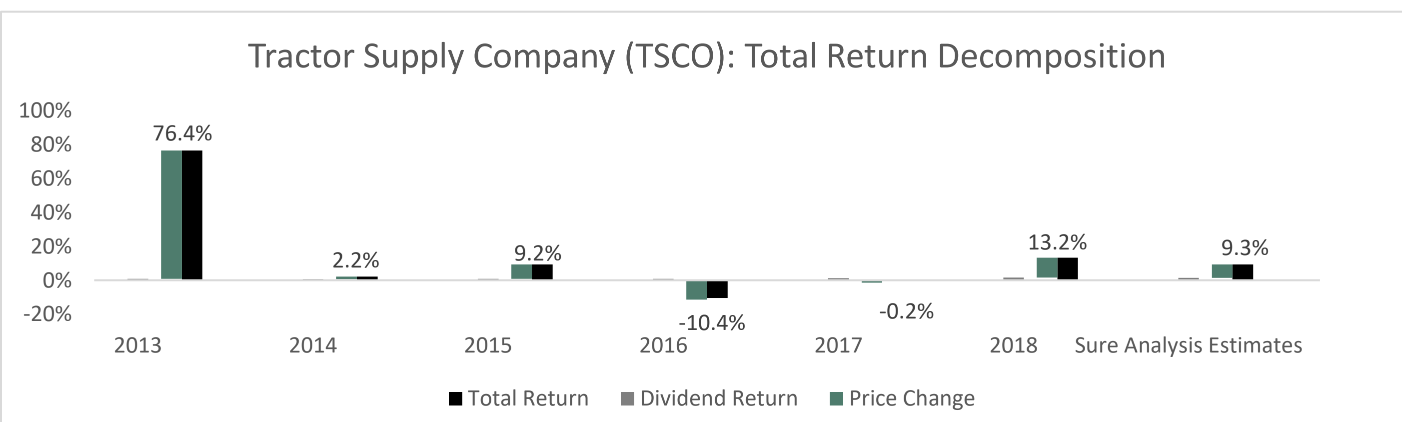
Since 2011, Tractor Supply has paid dividends, and the payout has risen considerably since. This was possible due to a combination of earnings growth and a rising payout ratio.

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, during a recession, but recovered quickly and hit a new record high in 2009. We believe that Tractor Supply is not as vulnerable to recessions and economic downturns as other retail industries.

Final Thoughts & Recommendation

Tractor Supply has generated high total returns of about 25% per year over the last decade. We believe earnings growth will taper off to 9.5% per year. Combined with a low yield of 1.4% and a drag of -1.6% from valuation compression, we estimate a five-year rate of return of 9.3% from investing in TSCO today. Consequently, we rate TSCO as a hold today as its yield is low and the stock is fully valued.

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.