Tractor Supply Company (TSCO)

Updated July 29th, 2020 by Samuel Smith

Key Metrics

Current Price:	$146	**5 Year CAGR Estimate:**	2.4%	**Market Cap:**	$16.8B
Fair Value Price:	$109	**5 Year Growth Estimate:**	7.5%	**Ex-Dividend Date:**	8/22/20
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Dividend Payment Date:**	9/9/20
Dividend Yield:	1.0%	**5 Year Price Target**	$156	**Years Of Dividend Growth:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	12.9%

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 market cap of $16.8 billion.

Tractor Supply reported its second-quarter earnings results on July 23rd. Comparable store sales growth surged by a whopping 30.5% year-over-year due to comparable transaction count growth of 14.6% and comparable average ticket growth of 15.8%. E-commerce sales exploded by triple digits. The gross margin rate increased by a healthy 155 basis points to 36.4% thanks to less spend on sales promotions as well as a favorable product mix and lower transportation costs. Tractor Supply also continued its store growth streak by opening 18 new stores as well as 3 new Petsense locations during the quarter.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.13	$1.51	$1.90	$2.32	$2.66	$3.00	$3.27	$3.33	$4.31	$4.70	***$5.72***	***$8.21***
DPS	-	$0.14	$0.22	$0.36	$0.49	$0.61	$0.76	$0.92	$1.20	$1.36	***$1.40***	***$2.00***
Shares[1]	146	143	139	140	136	134	131	125	123	121	***120***	***108***

Tractor Supply has recorded very compelling growth through the last decade. Its earnings-per-share rose by ~20% annually from 2009-2019. 2019's earnings-per-share were roughly six-and-a-half 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 remains solid, at 7.5% annualized.

We are, however, reducing our growth guidance down from its previous 9.5% level due to likely headwinds to come from the disruption caused in the energy markets and the broader economy from the coronavirus outbreak. That being said, the company has been able to keep its stores open during the crisis as it is deemed an essential business, which will help to reduce some of the negative impact.

We expect the company to continue opening stores at a brisk pace (80+ stores forecast for 2020) and repurchasing shares, which should continue to drive growth in the face of headwinds.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.4	20.7	23.6	25.8	25.4	29.1	25.5	19.1	19.0	20.5	***25.5***	***19.0***
Avg. Yld.	0.8%	0.7%	0.8%	0.8%	0.9%	0.9%	1.1%	1.7%	1.4%	1.5%	***1.0%***	***1.3%***

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

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.

a comparatively high valuation relative to how other brick and mortar retailers are valued. After slightly reducing our fair value multiple estimate to account for short and medium term impacts from COVID-19 and a broader economic downturn, we see shares as trading far in excess of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	9%	12%	16%	18%	20%	23%	28%	28%	29%	***25%***	***24%***

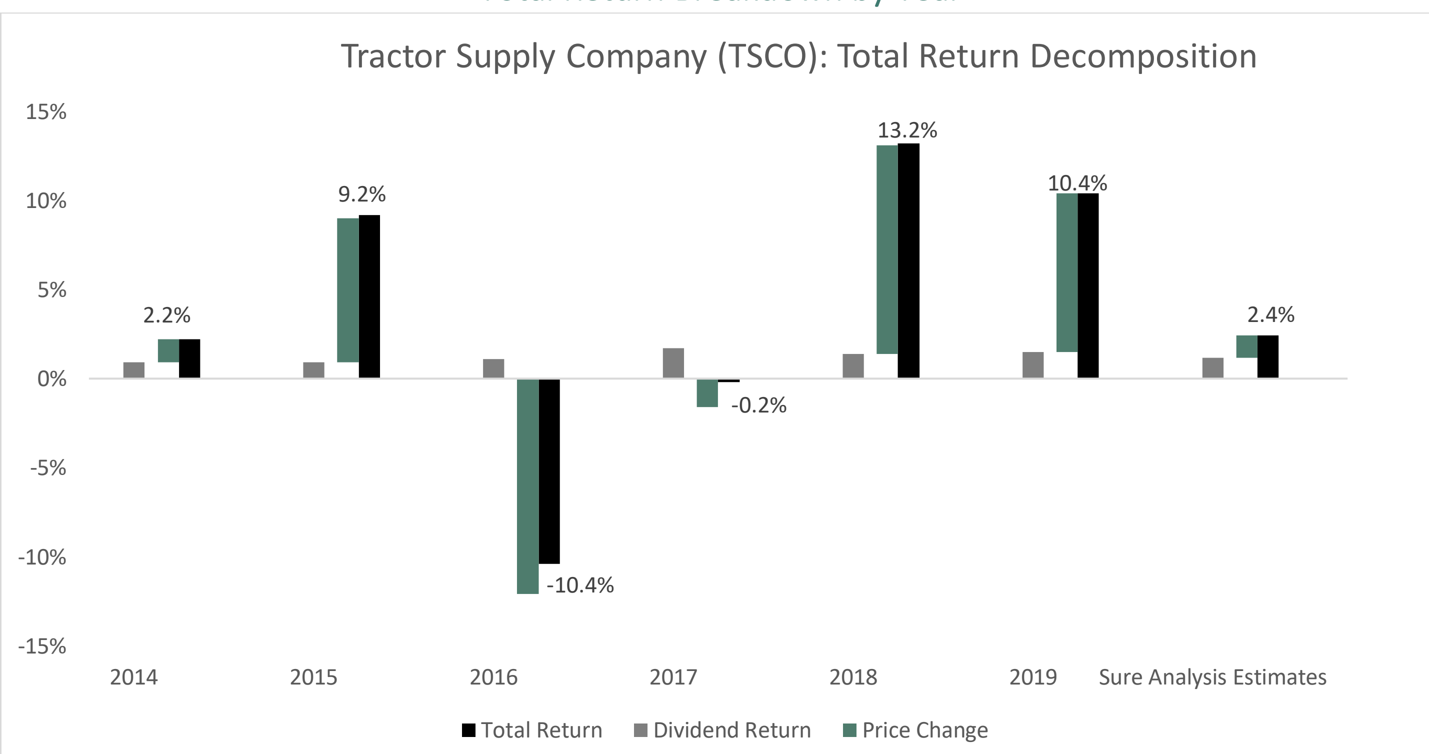
Since 2011, Tractor Supply has paid dividends, and the payout has risen considerably since. This was possible due to a combination of earnings growth, share buybacks, and a rising payout ratio.

Many brick-and-mortar retailers feel the impact that Amazon (AMZN) 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 is a strong company with continued growth runway ahead of it. That being said, growth will slow somewhat as the economy takes a hit from the coronavirus and energy price war disruptions. Additionally, the share price appears to be richly valued at the moment, and we expect meager 2.4% annualized total returns moving forward through the next half decade. We therefore rate the stock as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,638	4,233	4,664	5,165	5,712	6,227	6,780	7,256	7,911	8,352
Gross Profit	1,204	1,407	1,566	1,754	1,950	2,143	2,325	2,492	2,703	2,872
Gross Margin	33.1%	33.2%	33.6%	34.0%	34.1%	34.4%	34.3%	34.3%	34.2%	34.4%
SG&A Exp.	868	974	1,040	1,139	1,246	1,369	1,488	1,640	1,823	1,933
D&A Exp.	70	80	89	100	115	124	143	166	177	196
Operating Profit	266	353	437	515	589	651	694	686	702	743
Operating Margin	7.3%	8.3%	9.4%	10.0%	10.3%	10.4%	10.2%	9.5%	8.9%	8.9%
Net Profit	168	223	276	328	371	410	437	423	532	562
Net Margin	4.6%	5.3%	5.9%	6.4%	6.5%	6.6%	6.4%	5.8%	6.7%	6.7%
Free Cash Flow	126	88	225	115	249	220	425	381	416	594
Income Tax	97	128	159	186	217	237	251	250	151	161

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1,463	1,595	1,707	1,903	2,035	2,371	2,675	2,869	3,085	5,289
Cash & Equivalents	257	177	139	143	51	64	54	109	86	84
Inventories	737	831	908	979	1,115	1,284	1,370	1,453	1,590	1,603
Goodwill & Int. Ass.	10	10	10	10	10	10	126	124	124	124
Total Liabilities	530	587	682	656	741	978	1,222	1,450	1,523	3,722
Accounts Payable	247	266	320	316	371	427	520	577	620	643
Long-Term Debt	-	-	-	-	-	150	274	426	407	396
Shareholder's Equity	933	1,008	1,025	1,247	1,294	1,393	1,453	1,419	1,562	1,567
D/E Ratio	-	-	-	-	-	0.11	0.19	0.30	0.26	0.25

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	12.3%	14.6%	16.7%	18.2%	18.8%	18.6%	17.3%	15.2%	17.9%	13.4%
Return on Equity	19.6%	22.9%	27.2%	28.9%	29.2%	30.5%	30.7%	29.4%	35.7%	35.9%
ROIC	19.6%	22.9%	27.2%	28.9%	29.2%	28.9%	26.7%	23.7%	27.9%	28.6%
Shares Out.	146	143	139	140	136	134	131	125	123	121
Revenue/Share	24.36	28.63	32.05	36.44	40.96	45.50	50.66	56.60	64.07	69.17
FCF/Share	0.84	0.60	1.55	0.81	1.78	1.61	3.17	2.97	3.37	4.92

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