Thomson Reuters Corporation (TRI)

Updated February 23rd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	-1.7%	**Market Cap:**	$44B
Fair Value Price:	$57	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/03/2021
% Fair Value:	155%	**5 Year Valuation Multiple Estimate:**	-8.4%	**Payment Date:**	03/17/2021
Dividend Yield:	1.8%	**5 Year Price Target**	$73	**Years of Dividend Growth:**	28
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	6.6%

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 fiscal year 2020 earnings on February 23rd, and revenues grew 2% to $1.62 billion. The majority of total revenue is recurring revenues (80%). Diluted earnings per share fell to $2.25 from $3.11 in the prior year, due to a $1.2 billion non-cash deferred tax benefit. However, on an adjusted basis, EPS increased 43% to $1.85 from $1.29 in 2019. Adjusted EBITDA grew 32% to $1.98 billion, while adjusted EBITDA margins grew 770 basis points to 33%. Free cash flow rose to $1.33 billion from $159 million last year.

The company announced a $0.10 increase to the annual dividend to $1.62, a 6.6% raise. This is the 28th consecutive annual dividend increase. Under its NCIB, the company repurchased $200 million of common shares. No further share repurchases are anticipated for 2021, but TRI aims to maintain 500 million common shares outstanding by offsetting any dilution due to dividend reinvestments and equity incentive plans.

The sale of Refinitiv to LSEG in an all-share transaction was completed on January 29th, 2021. TRI owns roughly 82.5 million LSEG shares, which as of February 22nd, have a market value of $11.2 billion. The LSEG shares are held in an entity jointly owned by Blackstone and Thomson Reuters.

As Thomson Reuters generates most of their revenue from selling information and software solutions electronically and on a subscription basis, the business has historically been resilient, and this resiliency has benefited them throughout the pandemic impact. Thomson Reuters provided detailed outlook out to 2023, at which point they anticipate 5.5% total revenue growth. In 2021, they expect 3.5% revenue growth, with a 31.5% adjusted EBITDA margin, and $1.05 billion free cash flow.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.05	$2.11	$1.54	$1.85	$2.13	$1.79	$2.51	$0.75	$3.11	$2.25	**$2.05**	**$2.62**
DPS	$1.24	$1.28	$1.30	$1.32	$1.34	$1.36	$1.38	$1.39	$1.44	$1.52	**$1.62**	**$1.70**
Shares[1]	833.0	830.0	831.0	811.0	784.0	749.0	720.0	550.0	503.0	490.0	**500.0**	**450.0**

Just as the sale of Refinitiv to LSEG comes to completion, Thomson Reuters sets off on a two-year Change Program to become an operating company from a holding company, and to position themselves as a content-driven technology company rather than a content provider. The program will take 24 months and require roughly $550 million in investments, but by 2023 should achieve organic revenue growth of around 5.5%, adjusted EBITDA margins of 39%, and

[1] 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.

free cash flow of $1.9 billion. They hold roughly $1.8 billion in cash to target acquisitions that strengthen the value proposition; and no debt maturities until 2023.

In addition, the company has made it clear that share repurchases are a priority, which will help drive earnings-per-share higher as well, though this will return after 2021. Finally, the 82.5 million LSEG shares should prove fruitful as LSEG has a healthy track record of earnings growth. Between 2021 and 2026, we expect Thomson Reuters to grow its earnings-per-share by 5% annually.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.8	13.5	24.4	21.8	23.9	29.9	23.2	64.4	8.9	33.1	**43.4**	**28.0**
Avg. Yld.	3.6%	4.5%	3.5%	3.3%	2.6%	2.5%	2.4%	3.2%	2.4%	1.9%	**1.8%**	**2.3%**

We see fair value for this stock at 28 times earnings and today, shares trade for 43.4 times earnings, significantly higher than the 10-year average of 32. We therefore see a significant 8.4% headwind to total returns annually as the valuation moderates over time. A moderating valuation should see the yield rise over time as the dividend increases. We are forecasting mediocre dividend growth as the company is targeting a 50% to 60% dividend payout ratio, which it is far from in 2020.

Safety, Quality, Competitive Advantage, & Recession Resiliency

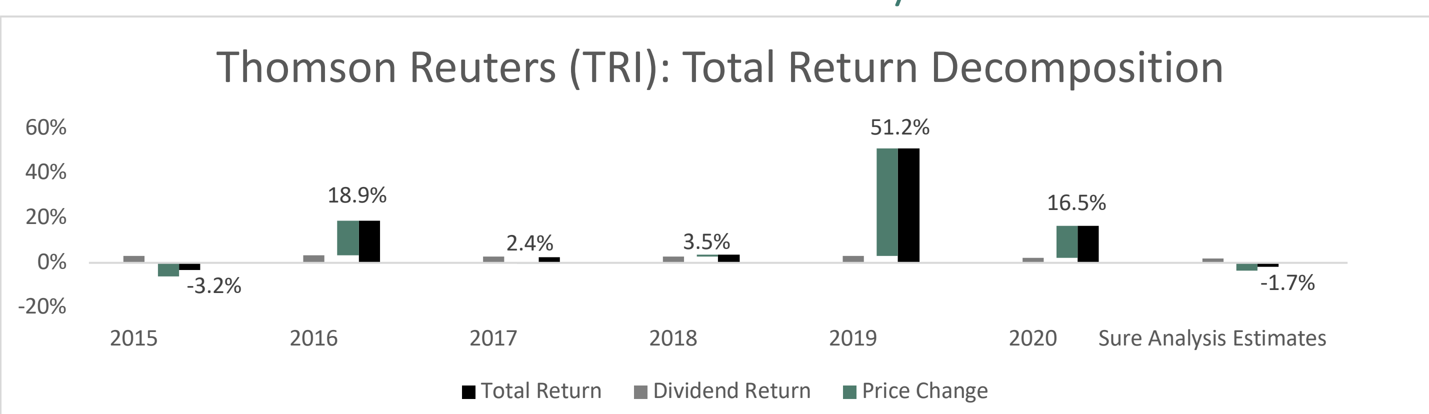
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	60%	61%	84%	71%	63%	76%	55%	185%	46%	68%	**79%**	**65%**

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 appears to be safe today, and we expect the 28-year annual dividend streak to continue. TRI was founded during the last recession, so it is difficult to know exactly how much its business was impacted. However, since over 75% of revenues are subscription-based, the company has some built-in defense to the current pandemic.

Final Thoughts & Recommendation

We see total returns for Thomson Reuters coming in negative at -1.7%, entirely due to an expected negative unwinding of the valuation level. The expected results of the two-year Change Program are a net positive, but the stock today is at its all-time high, and is already pricing in much of that benefit. We are maintaining our sell recommendation on Thomson Reuters given the unattractive valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	13070	13807	13132	12702	12607	11257	11166	11333	5906	5984
Gross Profit	3009	3810	3422	3148	3398	3095	2934	3254	1878	
D&A Exp.	1574	1709	1735	1830	1822	1582	1552	1463	717	792
Operating Profit	1419	2305	2570	1516	2545	1526	1390	1755	1199	1929
Op. Margin	10.9%	16.7%	19.6%	11.9%	20.2%	13.6%	12.4%	15.5%	20.3%	32.2%
Net Profit	909	-1390	1989	137	1909	1255	3098	1395	15464	1122
Net Margin	7.0%	-10.1%	15.1%	1.1%	15.1%	11.1%	27.7%	12.3%	26.5%	18.8%
Free Cash Flow	1558	1556	1694	1099	1446	1887	2079	1079	197	1241
Income Tax	139	293	126	848	62	34	-15	-274	-1198	71

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	35531	32476	32537	32439	30597	29112	27852	26480	17295	17881
Cash & Equivalents	864	422	1283	1316	1018	966	2368	874	825	1787
Acc. Receivable	1854	1966	1795	1733	1792	1714	1327	1415	1120	1151
Inventories	N/A	66	55	46	37	33	32	31	23	
Goodwill & Int.	27606	26043	26044	26383	25056	23781	21534	21815	10271	10233
Total Liabilities	15856	15726	15039	16009	15938	16012	14596	12905	7735	7901
Accounts Payable	N/A	508	461	406	411	282	311	307	265	
Long-Term Debt	7518	7594	7231	8066	8110	8424	7389	7026	3255	3772
Total Equity	19322	16295	17035	15926	14068	12503	12663	12967	9450	9980
D/E Ratio	0.39	0.46	0.42	0.50	0.57	0.67	0.58	0.54	0.34	0.38

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.6%	-4.1%	6.1%	0.4%	6.1%	4.2%	10.9%	5.1%	9.1%	6.4%
Return on Equity	4.7%	-7.8%	11.9%	0.8%	12.7%	9.4%	24.6%	10.9%	16.9%	11.5%
ROIC	3.4%	-5.4%	8.1%	0.6%	8.1%	5.7%	14.7%	6.8%	12.4%	8.4%
Shares Out.	838	833	830	831	811	784	749	720	503	490
Revenue/Share	17.21	18.25	17.44	16.84	17.12	15.81	16.42	17.33	11.75	12.02
FCF/Share	2.05	2.06	2.25	1.46	1.96	2.65	3.06	1.65	0.39	2.49

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

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