



Tractor Supply Company (TSCO)

Updated January 31st, 2022 by Samuel Smith

Key Metrics

Current Price:	\$215	5 Year CAGR Estimate:	7.6%	Market Cap:	\$24 B
Fair Value Price:	\$177	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	02/17/22
% Fair Value:	122%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	03/08/22
Dividend Yield:	1.7%	5 Year Price Target	\$285	Years Of Dividend Growth:	11
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	38.7%

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 \$24 billion.

Tractor Supply reported its fourth-quarter earnings results on January 27th, 2022. Comparable store sales growth increased 12.7% due to comparable average ticket growth of 10.3% and comparable average transaction count growth of 2.4%. E-commerce sales experienced double-digit growth for the 38th consecutive quarter. Operating income grew 58.9% to \$293.1 million from \$184.5 million in the year-ago period. The gross margin rate decreased by 83 basis points to 33.8%. Net sales increased by 15.3% to \$3.32 billion from \$2.88 billion year-over-year. Revenue increased 15.32% to \$3.32 billion year-over-year. Meanwhile, the company provided guidance for fiscal 2022 with net sales of \$13.6 billion - \$13.8 billion, and comparable store sales growth of +3.0% - +4.5%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.90	\$2.32	\$2.66	\$3.00	\$3.27	\$3.33	\$4.31	\$4.68	\$6.87	\$8.61	\$9.31	\$15.00
DPS	\$0.22	\$0.36	\$0.49	\$0.61	\$0.76	\$0.92	\$1.20	\$1.36	\$1.50	\$2.08	\$3.68	\$6.00
Shares¹	139	140	136	134	131	125	121	117	116	114	114	102

Tractor Supply has recorded very compelling growth through the last decade. Its earnings-per-share rose by 16.3% annually from 2012-2021. 2021's earnings-per-share were roughly four-and-a-half times as high as what the company earned during 2012.

This growth was made possible by 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 positive despite the company facing very tough comparable metrics.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	23.6	25.8	25.4	29.1	25.5	19.1	19.0	20.5	19.7	26.2	23.1	19.0
Avg. Yld.	0.5%	0.6%	0.7%	0.7%	0.9%	1.4%	1.5%	1.4%	1.1%	1.0%	1.7%	2.1%

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. After slightly reducing our fair value multiple estimates to account for our expectation of declining growth in the near term as the company faces abnormally high comparable numbers, we see shares as trading above fair value.

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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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	12%	16%	18%	20%	23%	28%	28%	29%	24%	26%	40%	40%

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

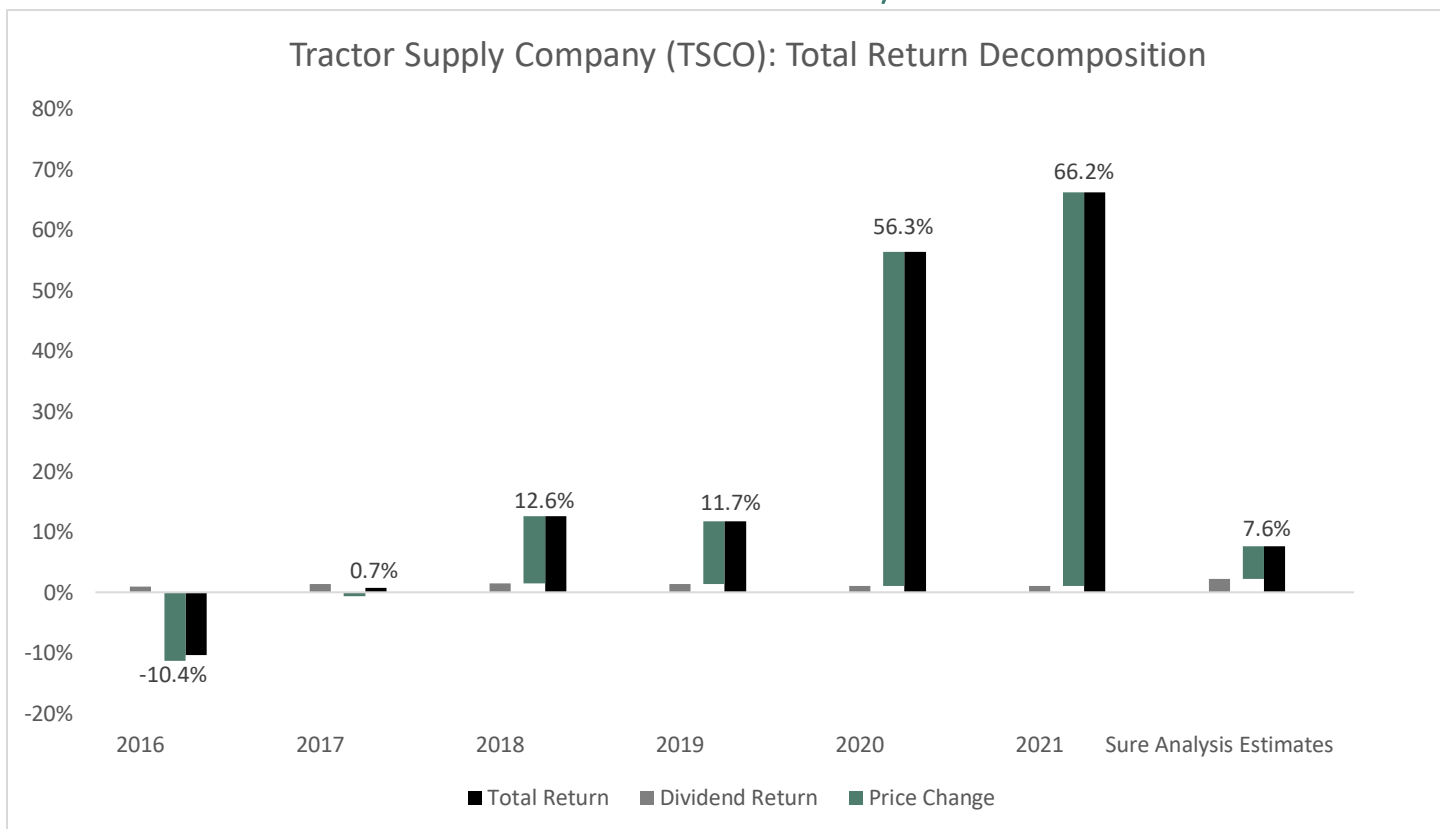
Many brick-and-mortar retailers feel the impact that Amazon (AMZN) and other online retailers are having on traffic at their stores, but Tractor Supply is relatively safe from the e-commerce threat. Many of the items the company sells are large and complex, and therefore not easily purchased online or 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 a significant growth runway still ahead of it. That said, the shares appear to be fully valued at the moment, and we expect mediocre annualized total returns moving forward of 7.6% through the next half decade as a result of multiple compression and a weakening growth rate. We therefore rate the stock as a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,664	5,165	5,712	6,227	6,780	7,256	7,911	8,352	10,620	12,731
Gross Profit	1,566	1,754	1,950	2,143	2,325	2,492	2,703	2,872	3,762	4,477
Gross Margin	33.6%	34.0%	34.1%	34.4%	34.3%	34.3%	34.2%	34.4%	35.4%	35.2%
SG&A Exp.	1,040	1,139	1,246	1,369	1,488	1,640	1,823	1,933	2,479	2,900
D&A Exp.	89	100	115	124	143	166	177	196	217	270
Operating Profit	437	515	589	651	694	686	702	743	1,066	1,307
Operating Margin	9.4%	10.0%	10.3%	10.4%	10.2%	9.5%	8.9%	8.9%	10.0%	10.3%
Net Profit	276	328	371	410	437	423	532	562	749	997
Net Margin	5.9%	6.4%	6.5%	6.6%	6.4%	5.8%	6.7%	6.7%	7.1%	7.8%
Free Cash Flow	225	115	249	220	425	381	416	594	1,101	510
Income Tax	159	186	217	237	251	250	151	161	219	283

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,707	1,903	2,035	2,371	2,675	2,869	3,085	5,289	7,049	7,767
Cash & Equivalents	139	143	51	64	54	109	86	84	1,342	878
Inventories	908	979	1,115	1,284	1,370	1,453	1,590	1,603	1,783	2,191
Goodwill & Int. Ass.	10	10	10	10	126	124	124	124	56	56
Total Liabilities	682	656	741	978	1,222	1,450	1,523	3,722	5,125	5,765
Accounts Payable	320	316	371	427	520	577	620	643	976	1,156
Long-Term Debt	-	-	-	150	274	426	407	396	984	986
Shareholder's Equity	1,025	1,247	1,294	1,393	1,453	1,419	1,562	1,567	1,924	2,003
D/E Ratio	-	-	-	0.11	0.19	0.30	0.26	0.25	0.51	0.49

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	16.7%	18.2%	18.8%	18.6%	17.3%	15.2%	17.9%	13.4%	12.1%	13.5%
Return on Equity	27.2%	28.9%	29.2%	30.5%	30.7%	29.4%	35.7%	35.9%	42.9%	50.8%
ROIC	27.2%	28.9%	29.2%	28.9%	26.7%	23.7%	27.9%	28.6%	30.7%	33.8%
Shares Out.	139	140	136	134	131	125	121	117	116	114
Revenue/Share	32.05	36.44	40.96	45.50	50.66	56.60	64.07	69.17	90.44	109.92
FCF/Share	1.55	0.81	1.78	1.61	3.17	2.97	3.37	4.92	9.37	4.41

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

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