Thomson Reuters Corporation (TRI)

Updated May 3rd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$99	**5 Year CAGR Estimate:**	2.6%	**Market Cap:**	$49 B
Fair Value Price:	$74	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	05/25/2022
% Fair Value:	135%	**5 Year Valuation Multiple Estimate:**	-5.8%	**Payment Date:**	06/15/2022
Dividend Yield:	1.8%	**5 Year Price Target**	$103	**Years of Dividend Growth:**	29
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

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 first quarter results on May 3rd, 2022 for the period ending March 31st, 2022. For the quarter, total company revenue was up 6% to $1.67 billion. The majority of total revenues is recurring revenues (78%). The company produced adjusted EPS of $0.66 per share, compared to adjusted EPS of $0.58 in 2021. The increase is due primarily to higher adjusted EBITDA, as a result of growth in recurring and transaction revenues.

In February 2022, Thomson Reuters announced a 10% increase to the dividend to $1.78 per share, which marked the 29th consecutive annual dividend increase.

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 reaffirmed their detailed outlook out to 2023, at which point they anticipate 5.8% total revenue growth. In 2022, they expect roughly 5.5% total revenue growth (up from 5% at prior guidance), with a 35% adjusted EBITDA margin, and $1.3 billion free cash flow.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.11	$1.54	$1.85	$2.13	$1.79	$2.51	$0.75	$3.11	$2.25	$11.50	***$2.45***	***$3.44***
DPS	$1.28	$1.30	$1.32	$1.34	$1.36	$1.38	$1.39	$1.44	$1.52	$1.52	***$1.78***	***$1.97***
Shares[1]	830.0	831.0	811.0	784.0	749.0	720.0	550.0	503.0	490.0	490.0	***486.0***	***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 $600 million in investments, but by 2023 should achieve organic revenue growth of around 5.8%, adjusted EBITDA margins of 39.5%, and free cash flow of $1.95 billion. At the end of Q1 2022, they held roughly $665 million in cash and cash equivalents 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 in the intermediate term. Finally, the large position in LSEG shares should prove fruitful as LSEG has a healthy track record of earnings growth. Between 2022 and 2027, we expect Thomson Reuters to grow its earnings-per-share by 7% annually.

[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.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.5	24.4	21.8	23.9	29.9	23.2	64.4	8.9	33.1	15.3	***40.4***	***30.0***
Avg. Yld.	4.5%	3.5%	3.3%	2.6%	2.5%	2.4%	3.2%	2.4%	1.9%	1.6%	***1.8%***	***1.9%***

We see fair value for this stock at 30 times earnings and today, shares trade for 40.4 times estimated earnings, significantly higher than the 5-year average of 29.0 and 10-year average of 26.0. We therefore estimate a significant 5.8% headwind to total returns annually as the valuation moderates over time. We are forecasting mediocre dividend growth as the company is targeting a 50% to 60% dividend payout ratio, and they are projected to surpass this in 2022.

Safety, Quality, Competitive Advantage, & Recession Resiliency

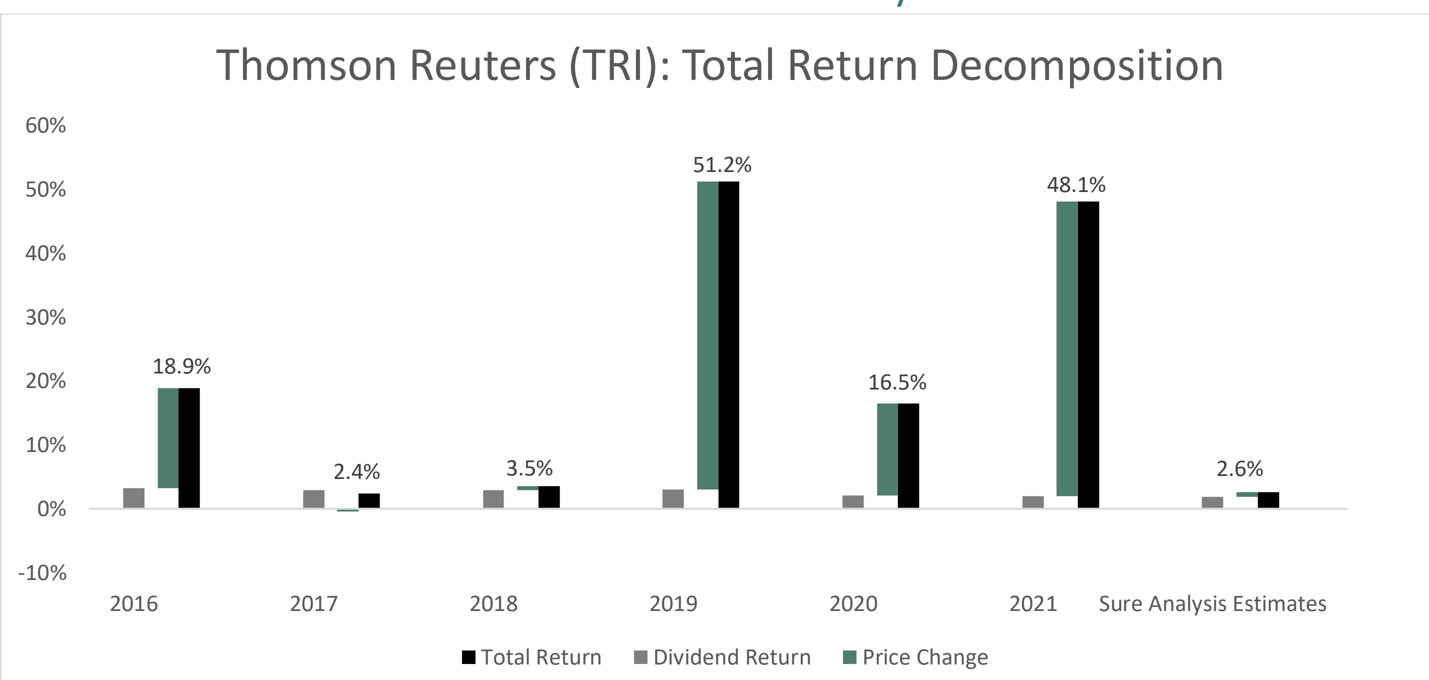
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	61%	84%	71%	63%	76%	55%	185%	46%	68%	13%	***73%***	***57%***

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 29-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 78% 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 at 2.6%, which is underwhelming, and 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 already pricing in much of that benefit. We are maintaining our sell recommendation on Thomson Reuters given the unattractive valuation. Shares are trading at 135% of our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	13,132	12,702	12,607	11,257	11,166	5,297	5,501	5,906	5,984	6,348
Gross Profit	7,781	7,327	7,626	6,832	6,566	2,844	2,805	3,475	3,715	
D&A Exp.	1,735	1,830	1,822	1,582	1,552	605	619	717	792	770
Operating Profit	2,606	1,502	2,454	1,520	1,410	1,034	775	1,199	1,919	1,242
Op. Margin	19.8%	11.8%	19.5%	13.5%	12.6%	19.5%	14.1%	20.3%	32.1%	19.6%
Net Profit	1,989	137	1,909	1,255	3,098	1,395	3,933	1,564	1,122	5,689
Net Margin	15.1%	1.1%	15.1%	11.1%	27.7%	26.3%	71.5%	26.5%	18.8%	89.6%
Free Cash Flow	1,694	1,099	1,446	1,887	2,079	1,510	1,486	197	1,241	1,286
Income Tax	126	848	62	34	-15	-134	136	-1198	71	1607

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	32,537	32,439	30,597	29,112	27,852	26,480	17,018	17,295	17,881	22,149
Cash & Equivalents	1,283	1,316	1,018	966	2,368	874	2,706	825	1,787	778
Acc. Receivable	1,795	1,733	1,792	1,714	1,327	1,415	1,069	1,120	1,122	1,057
Inventories	55	46	37	33	32	31	33	23	26	
Goodwill & Int.	26,044	26,383	25,056	23,781	21,534	21,815	9,308	10,271	10,233	10,093
Total Liabilities	15,039	16,009	15,938	16,012	14,596	12,905	7,808	7,735	7,901	8,315
Accounts Payable	461	406	411	282	311	307	326	265	217	1,363
Long-Term Debt	7,231	8,066	8,110	8,424	7,389	7,026	3,216	3,255	3,772	3,786
Total Equity	17,035	15,926	14,068	12,503	12,663	12,967	9,100	9,450	9,870	13,834
LTD/E Ratio	0.42	0.50	0.57	0.67	0.58	0.54	0.35	0.34	0.38	0.27

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.1%	0.4%	6.1%	4.2%	10.9%	5.1%	18.1%	9.1%	6.4%	28.4%
Return on Equity	11.9%	0.8%	12.7%	9.4%	24.6%	10.9%	35.6%	16.9%	11.6%	48.0%
ROIC	8.1%	0.6%	8.1%	5.7%	14.7%	6.8%	23.8%	12.4%	8.4%	36.3%
Shares Out.	830.0	831.0	811.0	784.0	749.0	720.0	550.0	503.0	490.0	490.0
Revenue/Share	17.44	16.84	17.12	15.81	16.42	8.10	8.23	11.75	12.02	12.84
FCF/Share	2.25	1.46	1.96	2.65	3.06	2.31	2.22	0.39	2.49	2.60

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