2 Reasons to Avoid Thomson Reuters Corporation and 1 Stock to Buy Instead

Description

Thomson Reuters Corporation (TSX: TRI)(NYSE: TRI) seems to be very popular among investors these days, particularly those seeking dividends. And it is easy to see why.

The company seems to have turned a corner with its Eikon product, the Legal division continues its strong performance, and margins have edged up. This has all had a great impact on the company's stock price, which has increased by 50% over the past two years.

Despite the share price increase, Thomson still has a healthy 3.5% dividend yield. So what's not to like? Well, there are still reasons to avoid the shares, and below we highlight two of them. Then we show you a company you should consider instead.

Reasons to avoid Thomson Reuters

1. Limited growth prospects

Ever since the merger between Thomson and Reuters in 2007, growth has been very difficult to come by. And the most recent quarter was no exception, with revenues up 1% year-over-year. In fact, this result was above average for the company, whose revenue declined by 8% from 2011 to 2013.

Some of the slow growth is due to secular trends. For example, the Legal division still derives significant revenue from print subscription services, which declined by 9% in the most recent quarter. The Financial and Risk division is also struggling to grow – most recently, revenue declined by 2% when factoring out currency effects.

This has made it difficult for the company to increase its payout – since early 2011, the dividend has only gone up by 6%.

2. Intense competition

Part of the reason for Thomson's slow growth is increasing competition. The most formidable is Bloomberg, which has gained market share at the expense of Thomson in recent years, with a product that is much more popular. Meanwhile, lower-cost providers like **FactSet Research Systems Inc.** and Capital IQ are also performing strongly.

Over on the legal side, Thomson appears to have the best product. But the company's main competitor, **Reed Elsevier NV**, has been known to give heavy discounts to steal market share, which doesn't help profitability for either company.

1 stock to buy instead: Telus Corporation

There are some similarities between **Telus Corporation** (TSX: T)(NYSE: TU) and Thomson. Telus has a healthy dividend yield, currently at 3.8%. The company makes money off of subscriptions. And its stock price has also performed well, up 56% over the past three years. But that's where the similarities end.

Unlike Thomson, Telus has been growing quite nicely. Its wireless business is benefiting from the increasing use of smartphones, as well as the company's best-in-class customer service. Growth is also strong in its Optik TV business, as well as fixed-line internet. Overall, revenue grew by 3.8% last year, not bad for a company in this industry (and well ahead of its two main rivals).

And Telus doesn't face particularly harsh competition, with only two other formidable competitors, both of which have generally shown good pricing discipline. So profitability should be relatively easy to come by for many years.

Tellingly, while Thomson has raised its dividend by only 6% since the beginning of 2011, Telus' has been hiked by 45% over the same time period. And the wireless provider still offers a better yield. So the choice should be clear.

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