Should You Buy Thomson Reuters Corporation for the Dividend?

Description

Thomson Reuters Corporation (TSX: TRI)(NYSE: TRI) is a leading global provider of information, data and analytical software to professionals in the financial services, legal, tax, accounting and pharmaceutical and life sciences industries. While third-quarter 2014 reflected reasonable results for the overall business, the main challenge remains to improve the performance of its financial and risk division.

A reasonable third-quarter financial result

(Please note that Reuters reports results in U.S. dollars and all currency references below are in U.S. dollars.)

Reuters announced adjusted earnings per share of $0.45 for the third quarter, which was 6.3% lower than the comparable quarter last year. Revenues from ongoing operations increased by 1% while earnings before interest, tax, and depreciation declined by 3% against the comparable period one year ago.

The performance of the largest division, financial and risk, was again disappointing, with an 8% decline in operating profits and poor performances from Europe, a decline in organic transaction related revenues and the headwind of a strong U.S. dollar. On the positive side, net sales for the quarter were higher for all regions with a positive implication for 2015.

The tax and accounting division had a stellar quarterly performance, with a 26% jump in operating profit on the back of higher revenues and an improved operating margin. The legal division also improved with a 1% jump in revenue and a 2% increase in operating profit while the smaller intellectual property and science division had an 11% decline in operating profit as a result of contracting margins.

Healthy cash flow and a sound balance sheet

The cash flow of the business remains healthy, with 17% of revenues converting to operating cash flow while free cash flow (that is operating cash flow minus capital expenditures) amounted to $875 million for the first nine months of the year. The balance sheet remains in good shape, with net debt of $8.0

billion representing a very manageable 34% of total capital.

The company declared a dividend of $0.33 per share payable in December. This brings the total dividend for the year to $1.32 for a growth rate in the dividend over the past five years of 4% per year.

Reuters purchased 28.4 million shares (3.5% of current outstanding shares) from the market for cancellation over the past year and also recently renewed the purchase authorization for another $1.0 billion.

Outlook unchanged

The full-year 2014 prediction for revenues, profit margins, cash flow, and capital expenditures have been reconfirmed by management, indicating that analysts would, in all likelihood, only make marginal adjustments to the full-year profit predictions. Consensus estimates indicate an adjusted full-year earnings per share only slightly higher than last year's, with solid growth of 16% predicted for 2015.

The company previously indicated that the corrective measures taken in 2012-13 should provide US$300 million of ongoing savings by 2015, which will support an improvement in the gross profit margin of the financial and risk division to around 30% by 2015. Based on our estimates, the achievement of this target could have a substantial positive impact on the overall company profits.

Dividend safe but growth and price performance dependent on profit growth

The stock trades on a 2014 forward price/earnings ratio of 19.5 times, an enterprise value/EBITDA of 10.8 times, and a dividend yield of 3.5%. Apart from the nice-looking dividend yield, the stock is not cheap but is priced in line with listed peers with an implied expectation that 2015 will deliver an improved financial performance.

Although the stock is still not cheap, the attractive dividend yield, solid cash flow, and ongoing share buybacks should support the stock price. In addition, the stock offers exposure to a high-quality global footprint, significant financial strength, and the possibility of a strong improvement in the profitability of its largest division over the next few years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:TRI (Thomson Reuters)
2. TSX:TRI (Thomson Reuters)

Category

1. Dividend Stocks
2. Investing

Date
2025/08/20
Date Created

2014/10/31

Author

deonvernooy