



## Should You Go Long Thomson Reuters Corporation After Its Strong Q3 Report?

### Description

**Thomson Reuters Corporation** ([TSX: TRI](#))(NYSE:TRI), one of the world's leading providers of "intelligent information," announced third-quarter earnings results on October 30 and its stock has reacted by remaining relatively unchanged. Let's take a closer look at the results to determine if this lack of movement is an opportunity to buy the stock and its bountiful 3.5% dividend or if it is a warning sign to stay away.

#### The quality Q3 results

Thomson Reuters' results satisfied analysts' expectations. Here's a summary of the key metrics compared to what analysts expected and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	\$0.45	\$0.45	\$0.48
Revenue	\$3,107 million	\$3,102 million	\$3,073 million

Source: *Estimize*.

Earnings per share decreased 6.3% and revenue increased 1.1% compared to the third quarter of fiscal 2013, driven by growth in three of the company's four major segments. Here's a breakdown of its revenues and revenue growth by segment (in millions of dollars):

Segment	Q3 2014 Revenues	Q3 2013 Revenues	Change
Financial & Risk	\$1,628	\$1,640	(0.7%)
Legal	\$854	\$843	1.3%
Tax & Accounting	\$301	\$270	11.5%
Intellectual Property & Science	\$248	\$240	3.3%
Other	\$76	\$80	(5%)

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<b>Total</b>	\$3,107	\$3,073	1.1%
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*Source: Thomson Reuters.*

On a sour note, Thomson Reuters' underlying operating profit decreased 3.3% to \$530 million and its operating margin took a hit, contracting 70 basis points to 17.1%; these weak results can be attributed to total operating expenses jumping 2.1%, outpacing the company's 1.1% revenue growth.

For the quarter, Thomson Reuters' reported \$585 million in net cash provided by operations and \$227 million in capital expenditures, resulting in free cash flow of a healthy \$358 million. The company utilized its free cash, and its cash on hand to begin the quarter, to return approximately \$109 million to shareholders in the third quarter through the repurchase of 2.9 million shares of its common stock and by paying out a quarterly dividend of \$0.33 per share. Thomson Reuters added that it will be maintaining its quarterly dividend of \$0.33 per share and the next payment will come on December 15 to shareholders of record on November 20.

Lastly, as a result of its performance year to date, Thomson Reuters reaffirmed its full-year outlook on fiscal 2014. Here's an overview of this outlook:

- Revenue of about \$12.5 billion, even to that of fiscal 2013.
- Underlying operating profit margin of 17%-18% compared to 15% in fiscal 2013.
- Adjusted EBITDA margin of 26%-27% compared to 24.5% in fiscal 2013.
- Free cash flow of about \$1.3 billion-\$1.5 billion compared to \$1.2 billion in fiscal 2013.

Overall, it was a good quarter for Thomson Reuters, but there was nothing that stuck out as impressive. I think this is exactly why the stock has not shown any significant reaction in the trading sessions since.

### **Should you consider initiating a position today?**

Thomson Reuters is one of the world's largest and most important information providers, but this did not lead to a strong performance in the third quarter. The company met earnings per share expectations and exceeded revenue expectations, but there was no specific growth metric that stuck out as impressive, causing its stock to trade sideways. Even though this quarter was lacking a wow factor, I think the long-term potential of Thomson Reuters is great, so investors should consider initiating positions, as its stock trades at just 19 times fiscal 2015's estimated earnings per share of \$2.22 and carries a very large and safe dividend yield of about 3.5%.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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**Author**

jsolitro

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