Should Investors Buy Thomson Reuters Corporation Near its 52-week High?

Description

When considering companies with solid dividend records, Canadian banks, utilities, and perhaps telecommunication companies often come to mind. However, among the top five Canadian companies with the longest history of paying growing dividends is **Thomson Reuters Corporation** (TSX:TRI)(NYSE:TRI). It is proud of raising its dividends for 22 years in a row.

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About Thomson Reuters
Thomson Reuters was established in 2008 when Thomson Corporation, a Canada corporation, and Reuters Group, a United Kingdom company, merged. Today, Thomson Reuters is a global provider of information for businesses and professionals across areas of financial, legal, tax and accounting, scientific, and healthcare. The company has a solid business model based primarily on subscription revenues, resulting in consistent cash flow generation.

Financially, the company seems to be focused on creating free cash flow, balancing investing in the business and returning capital to shareholders while maintaining an investment-grade rating. Currently, it sports a S&P credit rating of BBB+.

Looking into the near future
Heading into 2015 and 2016, Thomson Reuters is focusing on organic revenue growth. It has a clear, customer-focused growth strategy, including investing in go-to-market capabilities via sales training, retention, and development. Thomson Reuters expects 2015 to mark its first year of organic growth since 2011.

Dividend safety and history
With Thomson Reuters' focus on free cash flow, track record of growing dividends, and a payout ratio at 56%, its dividend looks safe. I also expect it to increase the dividend in accordance with the company's organic growth.

Note that its dividends are paid out in USD, so the foreign exchange rate plays a role. Right now, USD is high compared to CAD (about $1USD = $1.25 CAD), so it is favourable for Canadian dividend investors in the current environment. However, that is likely to change when the oil price recovers and the Canadian dollar becomes stronger.

Since history gives some indication of the future, let’s review Thomson Reuters’ dividend history. In 2005, it paid out US$0.79 per share. This year, it is expected to payout a total of US$1.34 per share. This is a growth of 5.4% per year in that 10-year span.

Further, its dividend growth rate has slowed down notably in recent years. Its five-year dividend growth rate was 3.3%, the three-year rate was 2.1%, and it grew 1.5% in the past year.

What can investors expect in the future?
With a sustainable payout ratio, Thomson Reuters’ 3.2% dividend appears to be safe. After the company completes the remaining platform migration, the firm should experience more accelerated growth.

If the organic growth described by the company materializes, we could see the price reaching $68 level in the next year or two, as well as a faster growing dividend. From its current price of $52, this would be a gain of 30.8%. With the dividend, investors could see an estimated total return of 34%.

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Date
2025/08/22
Date Created
2015/04/07
Author
kayng

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