3 Reasons Why Thomson Reuters Corporation Should Be in Your Portfolio

Description

Thomson Reuters Corporation (TSX:TRI)(NYSE:TRI) is a global information juggernaut, with market-leading positions in several industry sectors, including finance, legal, and tax and accounting. The company used to be a conglomerate with little focus until it acquired news and data provider Reuters in 2008 and decided to go after similar professional publishing and information assets with high-growth potential. That strategy has been a winner for Thomson Reuters, with the stock rising 34% over the past five years. Here are a few reasons why the information company has done so well.

Recurring Fees

Thomson Reuters derives the majority of its revenue (more than 85%) from recurring subscription-based arrangements, creating steady and consistent cash flow. However, the financial data market is notoriously cyclical, said *Morningstar* analyst Peter Wahlstrom in a recent commentary, and a prolonged economic slowdown could reduce subscriptions in that sector. Wahlstrom expects an increased focus on research and development and new platform features to protect and widen the company's current advantages.

To that end, CEO James Smith said recently he has simplified the conglomerate, with a focus on clients and their requirement to deal with complex legal and regulatory issues across separate channels. "Increasingly, the needs of our customers transcend industries," he said at the company's annual shareholder meeting. "Lawyers need access to financial information, tax professionals need legal precedents, media need access to data and traders act on news, legal verdicts and even social-media sentiment."

Dividends & Acquisitions

The company has historically used most of its free cash flow toward dividends and acquisitions. Over the past five years, the firm spent more than $3.9 billion on dividends, while acquisitions, including Reuters in 2008, amounted to $11.2 billion. The company has a dividend yield of 3.3% and has a 22-year history of raising dividends.

Share Buybacks

Earlier this month, Thomson Reuters said it plans to spend up to $1 billion on a share repurchase program, with Smith stating that the company is putting the brakes on acquisitions for the time being and focusing instead on organic growth. Smith, appointed in 2012, has changed Thomson Reuters' corporate culture, says portfolio manager Stephen Groff of Cambridge Global Asset Management. "Thomson was always a very strong business, but wasn't necessarily run in the best interests of shareholders," Groff said recently on *BNN*. "The new CEO has changed his focus to execution, cutting unnecessary costs, focusing on the right things and also taking capital and redeploying it into the business."

Thomson Reuters' most recent quarterly results appear weak on the surface, with revenue falling 3% to $3.04 billion mainly because of the strength of the U.S. dollar. Stripping away currency effects, revenue would have risen about 2% and earnings per share would have climbed nearly 9%. For Thomson, this is nothing more than a bump in the road. For fiscal 2015 the company expects positive organic revenue growth, operating profit margin near 20% and free cash flow in the range of $1.55 billion to $1.75 billion. All this adds up to a stock that would stand up well in any diversified portfolio.

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
2025/08/23
Date Created
2015/05/28
Author
dwatt