Thomson Reuters Corp. Takes a Hit on Earnings: Should You Buy on the Dip?

Description

Thomson Reuters Corp. (TSX:TRI)(NYSE:TRI), the world's leading source of intelligent information for businesses and professionals, announced third-quarter earnings results on the morning of October 23, and its stock responded by falling nearly 2% in the day's trading session. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity or a warning sign to avoid the stock for the time being.

Currency headwinds lead to a quarter of mixed growth

Here's a summary of Thomson Reuters's third-quarter earnings results compared with what analysts had expected and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted earnings per share	$0.52	$0.49	$0.45
Revenue	$2.98 billion	$3.04 billion	$3.11 billion

Source: Financial Times

Thomson Reuters's adjusted earnings per share increased 15.6% and its revenue decreased 4.1% compared with the third quarter of fiscal 2014. However, it is very important to note that the company was negatively impacted by foreign exchange, which reduced its earnings per share by $0.04 and its revenue by 5%. Excluding this impact, its earnings per share increased 24.4% and its revenues increased 1%.

Here's a quick breakdown of some other notable statistics from the report compared with the year-ago period:

1. Adjusted net earnings increased 12.2% to $405 million
2. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 1.9% to $838 million and its adjusted EBITDA margin expanded 160 basis points to 28.1%
3. Excluding the impact of currency, adjusted EBITDA increased 7% and its adjusted EBITDA

margin expanded 160 basis points

4. Underlying operating profit increased 6.6% to $565 million and its underlying profit margin expanded 190 basis points to 19%
5. Excluding the impact of currency, underlying operating profit increased 13% and its underlying profit margin expanded 200 basis points
6. Free cash flow increased 25.4% to $449 million

Thomson Reuters also made two other important announcements. First, it reiterated its full-year outlook on fiscal 2015, calling for positive organic revenue growth, an adjusted EBITDA margin in the range of 27.5-28.5%, an underlying profit margin in the range of 18.5-19.5%, and free cash flow in the range of $1.55-1.75 billion, all excluding the impact of foreign exchange.

Second, the company announced that it will be maintaining its quarterly dividend of $0.335 per share, and the next payment will come on December 15 to shareholders of record at the close of business on November 19.

Should you buy shares of Thomson Reuters on the dip?

It was a solid quarter overall for Thomson Reuters, but its revenue did fall short of expectations, so I think the post-earnings weakness in its stock is warranted. However, I also think it represents a great long-term buying opportunity, because the stock trades at inexpensive forward valuations, because it is a high dividend and dividend-growth play, and because it has been actively repurchasing its shares.

First, Thomson Reuters's stock trades at just 20.4 times fiscal 2015's estimated earnings per share of $2.03 and only 18 times fiscal 2016's estimated earnings per share of $2.30, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 43.5 and its industry average multiple of 21.8.

I think the company's stock could consistently trade at a fair multiple of at least 25, which would place its shares upwards of $57 by the conclusion of fiscal 2016, representing upside of more than 37% from today's levels.

Second, Thomson Reuters pays an annual dividend of $1.34 per share, which gives its stock a bountiful 3.2% yield. It has also raised its dividend for 22 consecutive years, and its increased amount of free cash flow, including 24.9% year-over-year growth to $1.09 billion in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

Third, Thomson Reuters has been actively repurchasing its shares, including the repurchase of 14.4 million shares in the third quarter for a total cost of approximately $550 million and 31.7 million shares in the first nine months of fiscal 2015 for a total cost of approximately $1.25 billion, and this continues to play a significant role in its earnings-per-share growth.

There is still $350 million remaining for repurchase under its current $1 billion share-repurchase program that it announced back in May of this year, and I think it will complete this program and announce a new one in the fourth quarter.

With all of the information provided above in mind, I think Thomson Reuters represents one of the best investment opportunities in the technology sector today. Foolish investors should strongly consider using the post-earnings weakness to begin scaling in to long-term positions.

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