Thomson Reuters Corp. Likes its Stock at $55: Should You?

Description

Earlier this year **Thomson Reuters Corp.** (TSX:TRI)(NYSE:TRI) announced that it was planning to buy back US$1.5 billion of its stock as part of its ongoing plan to reward shareholders.

On Monday, Thomson Reuters opened the piggy bank to buy 6.5 million of its shares from two arm's length third-party sellers. The total cost of the private purchase comes to US$269 million, or US$41.38 per share. In Canadian dollars that translates into $355 million, or $54.74 per share.

Using up 17% of its NCIB in one fell swoop, Thomson Reuters clearly believes its stock is worth more than $55. The question is whether or not investors should agree.

TRI stock has been on a roll since it hit a five-year low of $26.10 in December 2011. Up 16.5% on an annualized basis over the past five years, more than double the TSX, the company's move expresses confidence in its ability to maintain its momentum.

In July it announced that it was selling its Intellectual Property & Science business to **Onex Corporation** and **Baring Private Equity Asia** for $3.5 billion, so it could further narrow its focus to truly become the information source for financial professionals.

An added bonus to the deal: it will use $1 billion of the net proceeds for its share-buyback activities, including yesterday's announcement. The rest will be used to pay down debt and future working capital.

Shortly thereafter it announced second-quarter operating earnings that were 16% higher year over year at US$401 million on US$2.77 billion in revenue. It wasn't a spectacular quarter by any means, but the company did manage to squeeze more operating profits out of revenues—margins increased 130 basis points to 19.5%—which were essentially flat year over year.

Getting back to buybacks for a moment, Thomson Reuters repurchased 6.3 million of its shares in the second quarter at a cost of US$258 million, or US$40.95 per share. That's exactly where its stock trades today. Its latest buy is at exactly the same price, suggesting its stock has begun a period of stagnation before its next leg up.

It announces Q3 earnings November 1.

Analysts expect full-year 2016 earnings of $2.02 and $2.30 in 2017. Based on 2017 earnings, TRI stock is currently trading at 24 times those earnings. It's a tad pricey, but it is an industry leader, so investors are willing to pay more to own it.

There are two numbers that should make investors quite comfortable holding its stock for the long term.

First, its dividend yield of 3.2% is solid. There's nothing shabby about it. Second, it's got an EBITDA margin of 28%, which means it's generating strong operating earnings despite less-than-robust revenue growth.

So, should you like TRI at $55?

If you're looking for a short-term gain (less than a year), I'd be reluctant to bet on TRI given the run it's been on. However, its latest deal to repurchase its shares does indicate confidence farther out. If you're holding for three to five years, I'd say go ahead and buy at current prices.

CATEGORY

1. Investing

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