Thomson Reuters Corp. Is Buying Back Millions of its Own Shares

Description

Thomson Reuters Corp. (TSX:TRI)(NYSE:TRI) describes itself as "the world's leading source of intelligent information for businesses and professionals." In late September it showed its confidence in that belief by sinking millions of dollars back into company shares.

In total it lined up agreements to purchase up to 6.5 million of its common shares through private transactions. That equates to roughly $350 million.

The latest agreements are just a drop in the bucket for Thomson Reuters's bigger buyback plans. Already, it has an existing normal course issuer bid, which allows it to buy back up to 37.5 million common shares between May 30, 2016 and May 29, 2017.

If the company reaches its target, it will have bought back just over $2 billion worth of shares in just 12 months. That's 5% of the entire $40 billion company.

Thomson Reuters's management team is clearly bullish on its long-term prospects. Should you be?

Rewarding shareholders for years

Since 2004 Thomson Reuters has returned about $14 billion to shareholders through dividends and buybacks. Whether it's through capital appreciation or dividend income, long-term investors have done well holding the company's stock.

Even after a multi-year rise, shares still yield 3.2%. With a big buyback also in place, shareholders are gaining from two effective ways to tap into Thomson Reuters's growing earnings. Guidance for 2016 calls for single-digit revenue growth, EBITDA margins of 27.3-28.3%, and free cash flow of $1.7-1.9 billion.

The company is going through a bit of a transition, but the core business remains strong. Profitability is slowly improving, helping push higher free cash flow generation. With nearly 90% of its business recurring, there's plenty of stability.

How are shares priced?

Analysts expect full-year 2016 earnings of $2.02 and $2.30 in 2017. That means Thomson Reuters stock is trading at 23.4 times next year's earnings. That's certainly not a bargain, but it appears as if investors are willing to pay a premium for a high-quality, growing business that has a proven history of rewarding shareholders.

Still, it's tough to argue that the stock isn't pricey. Much of its gains in recent years have also stemmed from a higher valuation, not necessarily the underlying financials.

For example, over the last 12 months, Thomson Reuters stock has grown by 5.73%. It's EV/EBITDA valuation, however, has shot up by 14.89%. That means that the increase in multiple that investors were willing to pay expanded far faster than the underlying fundamentals.

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If you're looking to invest in Thomson Reuters, it's best that you wait until things cool down. Don't wait until things get too cheap, however; a high-quality business like this hardly ever falls far.

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Date
2025/08/21
Date Created
2016/09/28
Author
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