Thompson Reuters Corp.: A Great Candidate for a Core Portfolio Holding

Description

Thompson Reuters Corp. (TSX:TRI)(NYSE:TRI) has been consistently reporting improvements on core financial metrics over the last five years since 2012, and there are several compelling reasons why investors should consider making the media giant a core holding in their portfolios.

The parent company, Thompson Reuters Corporation, was formed in 2008 when Thomson Corp. of Canada bought Britain's Reuters Group. The company is very popular across the world for its news agency *Reuters News*, which is, interestingly, the smallest segment and the least profitable.

In 2016, the company sold off its Intellectual Property and Science (IP&S) segment for $3.55 billion in cash to **Onex Corporation** and Baring Private Equity Asia and is currently buying back some six million shares.

Diversified revenue sources

Firstly, what attracts investors is the fact that Thompson Reuters has a diversified global portfolio with operations in over a hundred countries, revenues streaming from three different main businesses, and a corporate centre that runs the *Reuters News* segment.

The biggest segment as of December 2016, is the Financial & Risk segment, bringing in 54.25% of revenues, followed by the Legal segment at 30.15%. The Tax & Accounting segment contributes 13% to group revenue and the corporate centre, which houses the Reuters News segment, has the least contribution at 2.6%.

While most business (about 60%) is conducted in the Americas, Europe, the Middle East, and Africa contribute a significant proportion, almost 30%, of group revenues with Asia and the Pacific region bringing in about 10%.

Reliable revenue composition

Thompson Reuters revenue is mainly composed of a high proportion of recurring revenues. About 87% of the revenues come from client subscriptions. The less reliable transactional revenues just make up for a small proportion.

Better still, with the ongoing digital revolution and growth in online services consumption, only 7% of corporate revenues came from print sources in 2015, and it was under 4.5% in 2016. The media giant is therefore well ahead the curve, and investors need not worry about future declines in the declining print media business model.

A healthy dividend

The corporation has increased the quarterly dividend by a constant half cent since 2014. At a current payout of $0.345, the dividend is yielding a hefty 3.12% per year at the current $57.80 stock price, which is great for regular dependable income.

Furthermore, the dividend-to-free-cash flow payout rate has averaged at below 60% since 2015, making for a reliable dividend payout in the future.

A decade of positive cash flows

Most noteworthy, Thompson Reuters can boast of having achieved what some corporate giants can only dream of: a full decade of positive free cash flows. The corporation has been generating north of a billion dollars in free cash flow for all but just one year since 2006. Free cash flow has averaged about $1.5 billion dollars per annum over the decade.

As of March 2017, Thompson Reuters is currently distributing a windfall of cash to investors through a buyback of six million share through private negotiations after selling off the IP&S segment for $3.5 billion last year. The huge cash flow boost will enable the corporation to further reduce its debt levels and grow the business.

Investor takeaway

With a strong portfolio of great global brands across a seemingly healthy range of attractive media segments, Thompson Reuters Corp. has a great appeal to long-term investors. Making the stock a core holding in a portfolio could be a very wise and rewarding decision.

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Author
brianparadza