Why Thomson Reuters Corp. Might Be a Good Buy on the Dip

Description

Thomson Reuters Corp. (TSX:TRI)(NYSE:TRI) released its third-quarter results on Wednesday, and although quarterly profits were higher than expected, an earnings miss sent the stock down as much as 7%.

With the stock on a dip after its earnings release, I'll take a closer look to see whether investors should consider buying Thomson Reuters today.

Revenue misses expectations

Revenue of $2.79 billion for the quarter missed the expected $2.82 billion that analysts were expecting. However, sales were still up 2% from the prior year and benefited from a positive impact from currency fluctuations, without which revenues would have risen by just 1%.

The challenge with Thomson Reuters and other big companies is that when you grow to its size, further growth becomes very difficult to achieve.

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Company shows an improvement in its profitability

One thing companies can do when sales growth is difficult is to control costs and improve margins, which Thomson Reuters has been able to do.

The company saw its operating profit rise 21%, but without a gain on an investment sale this quarter, the year-over-year increase would have fallen to 14%.

Segments show struggling sales growth, but improvements in EBITDA

Across its segments, the company saw the most growth in its tax and accounting division, which saw revenues rise 5%. Unfortunately, this line item contributed just 12% of the company's top line, while financial and risk, which makes up more than half, saw a growth of just 1% without the help of foreign exchange. The legal segment also saw a 1% increase in year-over-year revenues.

However, adjusted EBITDA of $849 million showed year-over-year growth of 4% across the different business units. Tax and accounting saw an increase of 8%, while the financial and risk segment improved by 6%. The company's legal operations achieved a more modest 2% improvement in adjusted EBITDA.

No change to the outlook

Thomson Reuters did not change its guidance for 2017 and believes it is still on pace to meet its expected targets, which would see the company achieve single-digit revenue growth and an adjusted EBITDA margin between 29.3% and 30.3%.

The biggest challenge for the company is how it can continue to grow

A lot of the financial information that investors use is often through Thomson Reuters and the content that it provides. However, we are seeing more of a change in the way people consume information, and the model that Thomson Reuters has may be in need of an update.

The issues I pointed out a few months ago are still valid today, and a lack of sales growth is a problem the company will likely continue to face for the foreseeable future.

Should investors consider Thomson Reuters?

From a growth perspective, the company does not offer investors much hope that its sales will be able to grow, and for dividend investors, there are better and higher-yielding options available.

Value investors may be encouraged by the company's strong bottom line, but a lack of moat may put the long-term viability of Thomson Reuters into question. However, with the stock being just a few dollars away from reaching a new low for 2017, it could be a good buy for the short term.

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