



Is the Purported Thomson Reuters Corp. Deal a “Sell the News” Event?

Description

Shares of one of Canada’s largest financial news providers, **Thomson Reuters Corp.** ([TSX:TRI](#))(NYSE:TRI), traded sharply higher on Tuesday on news that the company was in talks with private equity firm **Blackstone Group LP** ([NYSE:BX](#)) to sell a purported 55% stake in the company’s Financial & Risk (F&R) business segment.

The specifics of what a potential deal would look like have not been reported, as the companies are still in talks; however, people with knowledge of the matter have indicated the deal could be worth as much as US\$20 billion — a very nice potential win for Thomson Reuters shareholders, given the company’s current market capitalization of just above \$40 billion.

The 7% gain shareholders experienced on Tuesday added to a five-year gain of more than 85%, net of dividends. Thomson Reuters has competed with other industry juggernauts for global dominance for some time now, including Bloomberg LP. This deal could provide Thomson Reuters with access to new capital to potentially consolidate the industry further in a bid to more aggressively compete in the F&R space.

This deal is unlikely to involve any investment in the company’s cost centre, its Corporate division. This business segment is responsible for the company’s media and news offerings — a segment which is reported on separately and which has churned out more than US\$300 million in losses as of the last fiscal year.

That being said, the potential investment in Thomson Reuter’s F&R business makes complete sense from the perspective of a private equity group, given the high proportion of the segment’s revenue and profit being driven by subscription-related revenue — a fact many Thomson Reuters investors have long considered to be one of the company’s key long-term growth factors. With a significant amount of growth potential looking to be capitalized on by Blackrock, investors in Thomson Reuters should consider holding on to existing positions as these discussions unfold.

Bottom line

Besides the obvious valuation bump this deal provides, the increase in shares of Thomson Reuters of

late may have priced in much of the potential gain investors could expect following the successful close of this deal. Thomson Reuters remains aggressively priced at current levels, and as such, one risk factor investors should consider is the possibility of this deal failing to go through. For investors looking to buy Thomson Reuters at these levels, I would suggest limiting a position, adding on potential weakness moving forward as the company continues along in its talks.

Stay Foolish, my friends.

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TICKERS GLOBAL

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2. NYSE:BX (The Blackstone Group L.P.)
3. TSX:TRI (Thomson Reuters)

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