Canada’s Biggest Media Stock Is Crushing It Right Now

Description

When you think of hot stocks, media companies probably aren’t the first thing that comes to mind. Beset by declining newspaper circulation, stagnating TV viewership and the rise of independent media, the media sector hasn’t been flying high in recent years. But one Canadian media company has been doing very well in 2018–at least in the markets. This stock is up about 17% year-to-date; you may know it through one of its subsidiaries, which produces a huge percentage of the financial data that’s circulated in the media.

Thomson Reuters Corporation (TSX:TRI)(NYSE:TRI)

Thomson Reuters is the company that resulted when The Thomson Corporation merged with Reuters in 2008. Prior to the merger, the Thomson Corporation specialized in subscription research products and newspapers, while Reuters was known as a news agency. Around the same time that the merger happened, The Thomson Corporation sold its newspaper division. Reuters remains a news agency, but now earns 90% of its income by selling financial data.

The fact that The Thomson Corporation sold its newspaper assets may partially explain why it’s been doing well. Apart from a few big players like *The New York Times***,** newspaper circulation and earnings are down over the past decade. By concentrating its business on growing niches like legal and financial data, Thomson Reuters may have saved itself the fate of companies like **Postmedia**, which has seen three consecutive years of declining revenue.

So Thomson Reuters has a healthy business based on subscription research and financial information. The question is, is its stock worth buying? First, we can look at the valuation.

Valuation

At the time of this writing, Thomson Reuters traded at 40 times earnings and about three times its book value. This is a little pricy for a stock that’s not growing like lightning. But what if there’s some hidden gold lurking in the company’s financials that could justify a slightly frothy valuation? To see if there is, we’ll need to look at earnings.

Earnings breakdown

Thomson Reuters grew its revenue by 3% in the third quarter, which honestly isn't bad for a media company. On the profit front, the results are less encouraging. Adjusted EBITDA for the same quarter was down by 22%, which is a mighty precipitous decline. The Q3 earnings release blamed the falling earnings on lower operating profit and higher income taxes, neither of which sound like temporary conditions to me.

It's unclear whether Thomson Reuters' earnings will continue sliding like this or merely stagnate around the current level, but I don't see any reason for them to rise precipitously.

Dividend

One thing Thomson Reuters has going for it is a dividend, which yields about 2.88% at the time of writing. The dividend also rose 1.4% this year, although with sliding earnings and a payout ratio of 75%, I wouldn't expect any aggressive increases in the near future. Whatever explains Thomson Reuters' great run in 2018, I don't think earnings or dividend income is it.

The gains were possibly fueled by the deal Thomson Reuters made this year with **BlackRock**, which brought $17 billion into the company.

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