Why Thomson Reuters Stock Is up Over 40% in 2021

Description

Despite the pullback yesterday, the stock markets have gained significant momentum in 2021. The TSX has gained 20.8% year to date on the back of an economic recovery, quantitative easing programs, and reopening of businesses. One TSX giant that has outpaced the index is **Thomson Reuters** (TSX:TRI)(NYSE:TRI), which has returned over 40% to investors this year. Let's see what drove the stock to its record highs.

Stellar quarterly results for Thomson Reuters

A company valued at a market cap of $57 billion, Thomson Reuters provides business information services all around the world. It has five primary business segments: Legal Professionals, Reuters News, Global Print, Corporates, and Tax & Accounting Professionals.

In the second quarter of 2021, its sales grew by 9% to $1.53 billion, while organic growth was marginally lower at 7% compared to the year-ago period. Thomson Reuters's adjusted EBITDA rose by 5% to $502 million, and adjusted earnings per share stood at $0.48, indicating year-over-year growth of 9%. The company managed to increase its free cash flow by 25% to $379 million.

The media heavyweight has managed to increase its sales from $5.5 billion in 2018 to $5.98 billion in 2020. Its operating income has increased from $775 million to $1.91 billion in this period.

Analysts tracking the stock expect sales to rise by 4.9% to $6.28 billion this year and by 4.7% to $6.57 billion in 2022. Comparatively, its earnings per share are forecast to grow at an annual rate of 15% in the next five years.

Given these forecasts, we can see that Thomson Reuters stock is trading at a forward price-to-2021-sales multiple of more than nine, while its price-to-earnings multiple is also steep at 60. It seems that Thomson Reuters stock is trading at a premium and will remain vulnerable in a market meltdown.

While the TSX has returned 68% to investors in dividend-adjusted returns in the last five years, Thomson Reuters is up by an impressive 186% since September 2016.

Strong financials

Thomson Reuters's valuation is sky high, but its fundamentals remain strong. It ended Q2 with a cash balance of $2.42 billion and carries $4 billion of debt on its balance sheet. The company has generated $2 billion in operating cash flows over the past year, allowing it to offer investors a dividend yield of 1.4%. A low payout ratio of less than 12% suggests the company has enough room to grow its dividends going forward.

Thomson Reuters has also enhanced shareholder value via a buyback program. It recently announced a share-repurchase program worth $1.2 billion. The company has already returned $800 million to investors in the first six months of 2021 through dividends and buybacks.

Thomson Reuters expects to save $600 million in operating expenses by 2023. It aims to reinvest $200 million into the business, resulting in net savings of $400 million.

While Thomson Reuters has crushed the broader markets in the past decade, the stock remains vulnerable due to its frothy valuation and a volatile equity market. Analysts tracking the stock have a 12-month average price target of $113 on Thomson Reuters, which is 20% below its current trading price.

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araghunath