

3 High Yield Plays On Outperforming Energy High Dividend Stocks

by Robert Hauver

The Energy sector continues to lead all other sectors in 2014. As of 7/16/14, this sector, as measured by the XLE etf, was up 12.73% year to date, vs. 7.16% for the S&P500, and only 3.3% for the DOW. The XLE etf is dominated by large cap dividend stocks, such as Conoco Phillips, (COP), which is its 4th largest holding, after Exxon, Chevron, and Schlumberger.

When looking at performance, however, the majors, such as Exxon and Chevron, have greatly underperformed independent Conoco, which is up over 22% so far in 2014, vs. gains of only 5.2% for Chevron and 2.6% for Exxon.

COP also has the second highest dividend yield in the group, at 3.39%, having just raised its quarterly dividend from \$.69 to \$.73.

We screened for other dividend paying independent oil & gas stocks, to see if there are some other worthwhile outperformers in that sub-industry. We came up with Delek Logistics LP, (DKL), a relatively new, (NOV 2012 IPO), small cap high dividend stock, which we recently added to our [High Dividend Stocks By Sectors Tables](#).

Dividends/Distributions: After spinning off its refining division, Phillips 66 (PSX), in 2012, COP has gone from paying \$.66 to \$.69, and now \$.73 a quarter. DKL has raised its quarterly distribution 5 straight times since its IPO.

Ticker	Forward Dividend Yield	Quarterly Dividend	Next Ex-Dividend Date (approx.)
COP	3.39%	\$0.730	10/10/14
DKL	4.88%	\$0.4250	8/1/14

Options: Although COP just went ex-dividend, you can still earn an attractive options yield on it, via selling November 2014 covered calls, which will also allow you to either capture the next quarterly dividend, in October, or get paid even more \$ if your shares get assigned. DKL has a much higher option yield, but its shares are much closer to its strike price.

Our free [Covered Calls Table](#), which is updated daily, offers more info for this and over 30 other call trades:

Ticker	PRICE PER SHARE (7/16/14)	DIVIDEND PER SHARE \$ PAID PRIOR TO CALL EXPIRATION	ANNUAL'D DIVIDEND YIELD %	CALL OPTION EXPIRATION MONTH & STRIKE PRICE	CALL BID PREMIUM	ANNUAL'D CALL YIELD	TOTAL ANN'D STATIC YIELD	POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD	BREAK-EVEN PRICE
COP	\$86.01	\$0.73	2.46%	NOV 2014 \$87.50	\$2.00	6.74%	9.20%	5.12%	14.32%	\$83.25
DKL	\$34.81	\$0.85	7.07%	NOV 2014 \$35.00	\$1.45	12.07%	19.14%	1.58%	20.72%	\$32.51

Here are the 3 major scenarios for the DKL call trade:

SHARE PRICE	CALL OPTION PREMIUM	DIVIDENDS Pre-Expiration Date	(A): STATIC INCOME (CALL PREMIUM + DIVIDEND)	POTENTIAL ASSIGNED PRICE GAINS (STRIKE PRICE MINUS SHARE PRICE)	(B): POTENTIAL ASSIGNED PRE- EX-DIVIDEND DATE INCOME: PRICE GAIN + CALL OPTION PREMIUM, BUT NO DIVIDENDS	(C): TOTAL POTENTIAL ASSIGNED INCOME: IF ASSIGNED AFTER EX-DIVIDEND DATES
\$34.81	\$1.45	\$0.85	\$2.30	\$0.19	\$1.64	\$2.49
Nominal Yields:	4.17%	2.44%	6.61%	0.55%	4.71%	7.15%

With COP up over 22% in 2014, a more cautious strategy is to sell cash secured puts, at a strike price below its share price. This Nov. 2014 \$85 put option trade offers an 11%-plus annualized yield, and a breakeven of \$81.70. The \$3.30 put premium you'd receive is over 4 times COP's next \$.73 quarterly dividend.

You can see more info for this and over 30 other put trades, in our [Cash Secured Puts Table](#).

Earnings: DKL looks undervalued on a PEG 2014 basis, but not on a 2015 PEG basis:

Ticker	P/E	5-Year P/E Range	EST'D EPS Growth 2014	PEG: 2014	EST'D EPS Growth 2015	PEG: 2015
DKL	18.08	NOV 2012 IPO	23.32%	0.78	9.24%	1.96
	2013 Diluted EPS:	\$1.93	Est'd 2014 EPS (AVG):	\$2.38	Est'd 2015 EPS (AVG):	\$2.60

COP has a higher 2014 PEG, but it is still below 1, and indicates some undervaluation. However, analysts are forecasting slight EPS contraction of -.15% in 2015:

Ticker	P/E	5-Year P/E Range	EST'D EPS Growth 2014	PEG: 2014	EST'D EPS Growth 2015	PEG: 2015
COP	12.99	7.55 to 13.21	14.39%	0.90	-0.15%	-84.69
	2013 Diluted EPS:	\$5.70	Est'd 2014 EPS (AVG):	\$6.52	Est'd 2015 EPS (AVG):	\$6.51

Valuations: DKL currently has a negative book value, but this is due to non-cash depreciation charge.

Ticker	PRICE PER SHARE (7/16/14)	Mkt. Cap	P/E	Forward P/E	Price/Sales	Price/Book
COP	\$86.01	\$104B	13.01	13.02	1.83	1.97
DKL	\$34.84	\$844.41M	17.94	13.17	0.94	NA
Industry Averages		\$15.57B	13.01	13.02	1.83	1.97

Financials:

	Return on Assets	Return on Equity	Return on Investment	Current Ratio	Total Debt/Equity	Operating Margin
COP	7.70%	17.80%	8.70%	1.20	0.40	21.70%
DKL	18.60%	83.20%	73.40%	1.40	0.00	6.00%
Industry Averages	17.42%	22.07%	116.71%	1.81	2.09	25.87%

Performance:

Ticker	Performance Month	Performance Year-to-Date (as of 7/16/14)	52-Week High	52-Week Low
COP	1.96%	22.25%	-0.90%	39.55%
DKL	-1.49%	11.05%	-3.76%	26.13%

Disclosure: Author owned no shares of COP or DKL at the time of this writing.

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