

This Brand New High Dividend Stock Offers Good Price Gain Potential And A 6.7% Dividend Yield

By Robert Hauver

Who says you can't have it both ways? Preferred shares, often pooh-poohed as being stodgy, with minimal price gains, are having a good year in 2014, with many issues outperforming the market via price gains alone.

If you want well-covered dividend income, but, also some potential for price gains, you ought to consider buying the newest preferred shares issued by CHS Inc., (CHSCM), a large cooperatively-owned Midwestern US company which deals in both Energy and Agriculture.

CHS is a bit different from most publicly traded companies - they don't have common stock. Instead, they issue preferred shares, which trade on the NASDAQ.

Profile: CHS Inc. is a globally integrated Fortune 100 company supplying energy, crop nutrients, grain marketing services, animal feed, insurance, financial & risk management services and food & food ingredients. CHS employs over 10,000 people across North America and in 24 other countries around the globe.

CHS is committed to a cooperative business model, as reflected by its ownership, made up of 600,000 producers, the majority whom are throughout 1,100 member cooperatives and 77,000 are served through CHS local service centers. CHS also has 16,000 preferred stockholders. (CHS doesn't have any common shares). The company is governed by a 17-member board of farmers and ranchers, who are elected by its cooperative-owners and producer-owners.

Dividends: We've had our sights on CHSCP for years, having listed it in our [High Dividend Stocks By Sector Tables](#), (and all of the CHS preferred shares are now listed in the Consumer Staples section). The thing is, we've never been able to buy any of its shares near their \$25 liquidation price, due to price gains on them...until now.

Last week, CHS issued its newest series of preferred shares - 6.75% Class B Reset Rate Cumulative Redeemable Preferred Stock Series 3. Luckily, they're still trading near \$25, under the ticker symbol CHSCM.

The phrase "Reset Rate" is part of their description, because, after 9/30/24, CHS will reset the dividend rate "at an annual rate equal to three-month LIBOR, as determined for the applicable quarterly period, plus a spread of 4.155%, but in no event will the sum of such annual rate and spread be greater than 8% per annum."

(Source: CHS [website](#))

Name	Ticker	PRICE PER SHARE (9/17/14)	Quarterly Dividend	Current Dividend Yield	Next Ex-Dividend Date (approx.)	CALL DATE
6.75% Class B Reset Rate Cumulative Redeemable Preferred Stock Series 3	CHSCM	\$25.23	\$0.421875	6.69%	12/12/14	9/30/24
7.10% Class B Reset Rate Cumulative Redeemable Preferred Stock Series 2	CHSCN	\$26.53	\$0.443750	6.69%	12/12/14	3/31/24
7.875% Class B Cumulative Redeemable Preferred Stock Series 1	CHSCO	\$28.40	\$0.492188	6.93%	12/12/14	9/26/23
8% Cumulative Redeemable Preferred Stock	CHSCP	\$30.52	\$0.500000	6.55%	12/12/14	2/1/08

All of CHS's preferred shares qualify for the 15 to 20% lower tax rate, and they're also cumulative, meaning that, CHS must pay you any skipped dividends when it calls these shares in. CHS's previous preferred issues have had good price gains, which coupled with their dividends, have produced attractive returns. Please note, though, that, unlike the other 3 issues, CHSCP is already past its call date, so there's a price risk there, if it gets called, since it's \$5.52 over its \$25 liquidation price.

Ticker	PRICE PER SHARE (9/17/14)	IPO OPENING PRICE	NOMINAL PRICE GAINS	ISSUE DATE	DIVIDENDS PAID	TOTAL ANNUALIZED RETURN AS OF 9/17/14
CHSCM	\$25.23	\$24.92	1.24%	9/8/14	\$0.00	1.24% (NOMINAL RETURN)
CHSCN	\$26.53	\$25.37	4.57%	3/5/14	\$0.991	15.79%
CHSCO	\$28.40	\$25.01	13.55%	9/19/13	\$1.996	21.65%
CHSCP	\$30.52	\$25.39	20.20%	1/28/03	\$23.340	9.63%

Long term future yields: Even though CHSCM's coupon rate of 6.75% is lower than that of CHSCN, (7.10%), and CHSCO, (7.875%), your ability to buy at or close to \$25 more than compensates for this in the long term.

Three of these issues are callable far out into the future - 2023 to 2024, but with CHSCO trading at \$28.40, \$3.40 over the \$25 liquidation price, and CHSCN at \$26.53, \$1.53 above \$25, CHSCM currently offers the best long term yield, in addition to potential future price gains:

Ticker	PRICE PER SHARE (9/17/14)	Quarterly Dividend	LIQUIDATION PRICE	Pre-Call Date Dividends	BREAKEVEN: Dividends + Price Gains vs. Liquidation Price	CURRENT PRICE VS. CALL PRICE	CALL DATE	TOTAL LIQUIDATION PROFIT AT CALL DATE	ANNUALIZED YIELD
CHSCM	\$25.23	\$0.421875	\$25.00	\$16.458	\$8.77	\$0.23	9/30/24	\$16.23	6.40%
CHSCN	\$26.53	\$0.443750	\$25.00	\$16.870	\$9.66	\$1.53	3/31/24	\$15.34	6.06%
CHSCO	\$28.40	\$0.492188	\$25.00	\$17.720	\$10.68	\$3.40	9/26/23	\$14.32	5.58%

Options: Our [Covered Calls Table](#) and [Cash Secured Puts Table](#) don't feature any CHS options trades. Since CHS has no common shares, there are no options available yet.

Earnings: Here's a breakdown of CHS's revenues and pre-tax earnings by segment. Although its Agriculture segment contributed over 71% of total revenue, 75% of CHS's pre-tax income came from its smaller Energy division in 2013. This is way up from 2011, when the Energy division only contributed 55% of pre-tax income. In 2012, this figure was 73%. (CHS's fiscal year ends on August 31st.)

SEGMENT (\$ thousands)	2013	% of Total Revenue	Pre-Tax Income	% of Total Pre-Tax Income
Energy	\$12,982,293.00	29.19%	\$816,690.00	75.13%
Agriculture	\$31,909,791.00	71.74%	\$199,346.00	18.34%
Corp. & Other (Wheat milling, Pkgd. foods, Bus. Solutions Ops.)	\$69,238.00	0.16%	\$69,958.00	6.44%
Intersegment Revenues	\$481,465.00	-1.08%		
Total Net Revenues	\$44,479,857.00	Total Pre-Tax Income	\$1,085,994.00	

CHS had a bang-up year in 2012, recording record revenues and profits. Fiscal 2013 saw more record revenues, but pre-tax income declined in the Energy segment, mainly due to a major maintenance turnaround at its Laurel, Montana refinery, and declines in its propane business. In 2013, the Agriculture division suffered reduced export grain marketing margins as a result of the 2012 severe drought that affected the 2012 U.S. crop.

SEGMENT (\$ thousands)	2013 vs. 2012 Revenue Growth	2013 vs. 2012 Pre-Tax Income Growth	2012 vs. 2011 Revenue Growth	2012 vs. 2011 Pre-Tax Income Growth
Energy	1.29%	-20.52%	11.77%	63.12%
Agriculture	13.23%	-39.12%	9.37%	-24.69%
Corp. & Other (Wheat milling, Pkgd. foods, Bus. Solutions Ops.)	0.52%	13.51%	6.28%	-25.72%
Totals	7.09%	-23.34%	12.51%	23.43%

Looking back further, CHS management shows a strong history of returning cash to shareholders, having grown 153%, to \$598.9 million in 2013, from \$237 million in 2010:

CHS Inc.	2013	2012	2011	2010
REVENUE: billions	\$44.50	\$40.60	\$36.90	\$25.30
NET INCOME: millions	\$992.40	\$1,260.60	\$961.40	\$502.20
Owners Return On Equity	22.30%	32.20%	28.80%	16.20%
Cash Returns: millions	\$598.90	\$430.90	\$227.30	\$237.00

Extremely well-covered dividends: Even with the ups and downs associated with Energy and Agriculture, CHS's coverage of its preferred dividend payouts is impressive, and offers a huge safety net to shareholders. Indeed, you'd probably be hard-pressed to find coverage of 39x among many preferred dividend paying stocks:

(\$ thousands)	2013	2012	2011
NET INCOME	\$996,328.00	\$1,355,719.00	\$1,061,026.00
PREFERRED DIVIDENDS PAID	\$25,444.00	\$25,444.00	\$25,444.00
PREFERRED DIVIDEND COVERAGE	39.16	53.28	41.70

Dependable Dividends, Even In Bad Conditions: CHS steadily paid its preferred dividends to shareholders of its oldest series, CHSCP, right through the financial crisis, never missing a quarter. Please note, though, that, unlike the other 3 issues, CHSCP is already past its call date, so there's price risk there, if it gets called.

All tables furnished by DoubleDividendStocks.com, unless otherwise noted.

Disclosure: Author owned shares of CHSCM at the time of this publication

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