

Disney – An Undervalued Dividend Stock With Growth

By Robert Hauver

Looking for [dividend paying stocks](#) with growth at a reasonable price? The Walt Disney Co., (DIS), which is in the fast-growing Diversified Media industry, has bettered its peers in 2012 for share performance. However, Disney still looks undervalued, on a PEG basis, due to its growth prospects:

Ticker	P/E	EPS growth Most recent Fiscal year	EPS growth next Fiscal year	PEG: NEXT FISCAL YEAR	EPS growth quarter over quarter	Sales growth quarter over quarter
DIS	15.93	23.78%	15.38%	1.04	29.08%	6.08%
Industry Avgs.	26.45	12.32%	36.23%	1.53	53.34%	32.45%

TICKER	Performance (Year To Date: THRU 5/24/12)	Beta	Variance From 52-Week High	Variance From 52-Week Low	Relative Strength Index (14)
DIS	18.51%	1.17	-2.97%	60.27%	52.66
Industry Avgs.	2.89%	1.51	-32.07%	44.15%	44.74

Disney is currently cashing in big-time on the huge hit, “The Avengers”, which has grossed \$1.18 billion so far in global ticket sales, making it Disney’s biggest grossing movie of all time, even higher than any of its successful “Pirates Of The Caribbean” films – sorry pirates... One of Disney’s major ongoing strengths is its ESPN cable franchise, which is the highest paid cable network around, netting over 4 times what other cable channels get paid.

Disney also recently acquired a controlling interest in UTV, one of India’s premier media and entertainment companies. UTV is the leading TV producer in India with distribution in 20 countries in seven languages and across 27 channels. Disney also announced a long-term, comprehensive distribution agreement with Comcast, (CMCSA), that will deliver Disney’s top quality sports, news and entertainment content to Comcast’s Xfinity TV customers into the next decade on television, online, on tablets and handheld devices.

Dividends: Disney has an annual dividend payout whose ex-dividend date is usually in December:

Ticker	Dividend Yield	Dividend Payout Ratio	Dividend (ANNUAL)	Next Ex-Dividend Date approx.	5-Year Dividend Growth Rate
DIS	1.35%	21.28%	\$0.60	12/14/12	14.12%
Industry Avgs.	0.80%	27.68%	na-	na-	5.43%

Covered Calls: Disney is a good example of how you can vastly improve the dividend yield on dividend stocks, by selling covered call options. The Jan. 2013 \$46.00 option **currently pays over 5 times Disney's annual dividend amount.**

(You can find more details on this and over 30 other high yield options trades in our [Covered Calls Table](#).)

5/24/12 PRICE PER SHARE (DIS)	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	ANNUAL'D POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD
\$44.43	\$0.60	2.11%	JAN. 2013 \$46.00	\$3.15	11.06%	13.17%	5.51%	18.68%

Cash Secured Puts: Conversely, if you're leery of Disney's current price, you can achieve a much lower cost, by selling cash secured put options below its share price. This Jan. 2013 \$44.00 pays you \$4.00 now, and has a \$40.00 break-even. Each option contract corresponds to 100 shares of the underlying stock. Here's how it works:

1. You sell the \$44.00 put option, and receive \$400.00 within 3 days of the sale.
2. Your broker holds \$4400.00 in reserve in your account.
3. If DIS shares fall below \$44.00 at or near Jan. 2013 expiration, you'll be assigned/sold 100 shares, for each put that you sold. However, your net cost will only be \$40.00, (the \$44.00 strike price minus the \$4.00 put premium you were paid when you made the sale. If DIS is above \$44.00, your broker releases your \$4400.00 cash reserve.

Many pro investors use this strategy as a way of accumulating shares at a lower price, due to its cash flow and tax deferral advantages. For example, this put option trade expires in Jan. 2013, so the taxes aren't due on it until April 2014, even if you make the sale in May 2012.

You can see more details on this and over 30 high yield Cash Secured Puts trades in our [Cash Secured Puts Table](#).

5/24/12 PRICE PER SHARE (DIS)	DIVIDEND PER SHARE \$ PAID PRIOR TO PUT EXPIRATION	PUT OPTION EXPIRATION MONTH & STRIKE PRICE	PUT BID PREMIUM	ANNUAL'D PUT YIELD	100% CASH RESERVE AMOUNT	BREAK-EVEN PRICE	52-WEEK LOW
\$44.43	\$0.60	JAN. 2013 \$44.00	\$4.00	14.18%	\$4,400.00	\$40.00	\$28.19

Financials: Disney looks in line with its peers financial ratios, and has a strong Interest Coverage ratio:

Ticker	Return on Assets	Return on Equity	Return on Investment	Current Ratio	Total Debt/Equity	Operating Margin	Interest Coverage
DIS	7.76%	13.48%	9.70%	1.14	0.42	20.55%	18.20
Industry Avgs.	6.95%	14.45%	8.95%	1.80	0.85	18.00%	8.02

Disclosure: Author had no positions in any of the above stocks at the time of this writing, but can do a wicked Jiminy Cricket impression.

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