

"High Options Yields From A Blue Chip Mouse"

Did you grow up watching Uncle Walt every Sunday night on the "wonderful World Of Disney"? Or maybe you had your own Mouseketeer hat?

These days, the Mouse hasn't been getting much respect from Mr. Market, who has been acting like a house cat, with respect to Walt Disney co., (DIS), shares.

Ticker	PRICE PER SHARE (2/13/18)	Performance (Month)	Performance (Quarter)	Performance (YTD)	Performance (Year)	52-Week High	52-Week Low
DIS	\$102.97	-8.45%	-1.69%	-4.22%	-6.44%	-11.31%	7.04%
S&P 500	\$2,666.06	13.39%	3.14%	-0.28%	14.51%	-7.20%	14.81%

The problem is cord-cutting, and how it affects ESPN, one of Disney's premier cable cash machines. As millennials opt out of bundled cable packages, ESPN has seen sales declines, and the price/share has struggled in the past year.

Revenue was flat in Fiscal 2017, and Net Income dropped -4.38%. Bright spots were that Free Cash Flow rose by 4.3%, and mgt. raised the dividends by 9.86%, while also buying in 3.7% of outstanding shares:

(\$ millions, except DIVIDENDS & COVERAGE info)	GROWTH	FISCAL 2017	FISCAL 2016
REVENUE	-0.89%	\$55,137.00	\$55,632.00
NET INCOME	-4.38%	\$8,980.00	\$9,391.00
FREE CASH FLOW	4.27%	\$8,720.00	\$8,363.00
EPS DILUTED	-0.70%	\$5.69	\$5.73
DIVIDENDS/ SHARE	9.86%	\$1.56	\$1.420
DIVIDEND PAYOUT RATIO	10.63%	27.42%	24.78%
AVG. COMMON SHARE OUTSTANDING DILUTED	-3.72%	1578.00	1639.00

In fiscal Q1 '18, which ended on 12/31/17, DIS reported a 4% rise in Revenues, and a 22% rise in EPS, after factoring out a one-time, \$1.6B benefit from the Tax Act.

	Quarter Ended		Change
	December 30, 2017	December 31, 2016	
Revenues	\$ 15,351	\$ 14,784	4 %
Segment operating income ⁽¹⁾	\$ 3,986	\$ 3,956	1 %
Net income ⁽²⁾	\$ 4,423	\$ 2,479	78 %
Diluted EPS ⁽²⁾	\$ 2.91	\$ 1.55	88 %
EPS excluding certain items affecting comparability ⁽¹⁾	\$ 1.89	\$ 1.55	22 %
Cash provided by operations	\$ 2,237	\$ 1,445	55 %
Free cash flow ⁽¹⁾	\$ 1,256	\$ 405	>100 %

(Source: Disney site)

Segments: Parks and Resorts had the best performance in Q1, rising 13% in Revenue, and 21% in Operating Income:

	Quarter Ended		Change
	December 30, 2017	December 31, 2016	
Revenues:			
Media Networks	\$ 6,243	\$ 6,233	— %
Parks and Resorts	5,154	4,555	13 %
Studio Entertainment	2,504	2,520	(1) %
Consumer Products & Interactive Media	1,450	1,476	(2) %
	<u>\$ 15,351</u>	<u>\$ 14,784</u>	4 %
Segment operating income:			
Media Networks	\$ 1,193	\$ 1,362	(12) %
Parks and Resorts	1,347	1,110	21 %
Studio Entertainment	829	842	(2) %
Consumer Products & Interactive Media	617	642	(4) %
	<u>\$ 3,986</u>	<u>\$ 3,956</u>	1 %

(Source: Disney site)

We looked at analysts' latest ratings, and they tell a different story than Mr. Market - DIS has had multiple upward earnings revisions over the past month, due to the major FOX acquisition they announced in December, a \$52.4B stock deal.

The assets include: "21st Century Fox's film and television studios, cable entertainment networks and international TV businesses, with popular entertainment properties, including X-Men, Avatar, The Simpsons, FX Networks and National Geographic. Disney's direct-to-consumer offerings will expand with the addition of 21st Century Fox's entertainment content, capabilities in the Americas, Europe and Asia; Hulu stake becomes a controlling interest. Disney will also get extensive international properties, including Star in India and Fox's 39% ownership of Sky across Europe". (Source: Disney site)

EPS Trend	Current Qtr. (Mar 2018)	Next Qtr. (Jun 2018)	Current Year (2018)	Next Year (2019)
Current Estimate	1.69	1.97	6.87	7.53
7 Days Ago	1.7	1.88	6.54	7.02
30 Days Ago	1.63	1.8	6.34	6.73
60 Days Ago	1.59	1.74	6.22	6.54
90 Days Ago	1.59	1.75	6.25	6.58
EPS Revisions	Current Qtr. (Mar 2018)	Next Qtr. (Jun 2018)	Current Year (2018)	Next Year (2019)
Up Last 7 Days	N/A	1	2	2
Up Last 30 Days	9	17	22	20

(Source: Yahoofinance)

It has also received 3 upgrades in 2018, and 1 analyst downgrade:

Feb-07-18	Reiterated	B. Riley FBR, Inc.	Buy	\$122 → \$125
Jan-09-18	Reiterated	Pivotal Research Group	Sell	\$91 → \$93
Jan-03-18	Upgrade	Rosenblatt	Neutral → Buy	
Jan-02-18	Upgrade	Macquarie	Neutral → Outperform	

Still, with its lackluster share performance, it's now 14% below analysts' average price target:

PRICE PER SHARE (2/13/18)	ANALYSTS LOW PRICE TARGET	ANALYSTS AVG. PRICE TARGET	ANALYSTS HIGH PRICE TARGET
\$102.97	\$94.00	\$119.67	\$144.00
UPSIDE VARIANCE	-9.54%	13.96%	28.49%

Dividends:

DIS has never been part of our [High Dividend Stocks By Sector Tables](#), for good reason - its trailing yield is just 1.62%. Disney pays 2 semi-annual dividends, and goes ex-dividend in July and December.

Ex/Eff Date	Type	Cash Amount	Declaration Date	Record Date	Payment Date
12/8/2017	Cash	0.84	11/29/2017	12/11/2017	1/11/2018
7/6/2017	Cash	0.78	6/29/2017	7/10/2017	7/27/2017
12/8/2016	Cash	0.78	12/1/2016	12/12/2016	1/11/2017
7/7/2016	Cash	0.71	6/29/2016	7/11/2016	7/28/2016
12/10/2015	Cash	0.71	12/3/2015	12/14/2015	1/11/2016
7/1/2015	Cash	0.66	6/25/2015	7/6/2015	7/29/2015
12/11/2014	Cash	1.15	12/4/2014	12/15/2014	1/8/2015
12/12/2013	Cash	0.86	12/5/2013	12/16/2013	1/16/2014
12/6/2012	Cash	0.75	11/28/2012	12/10/2012	12/28/2012

(Source: NASDAQ)

Options:

However, thanks to its options yields, you can still create some attractive income from DIS.

We added this July Covered Call trade to our [Covered Calls Table](#), which also tracks over 30 other call-selling trades daily.

PRICE PER SHARE (2/13/18)	DIVIDEND PER SHARE \$ PAID PRIOR TO CALL EXPIRATION	ANNUAL'D DIVIDEND YIELD %	CALL OPTION EXPIRATION DATE & STRIKE PRICE	CALL BID PREMIUM	ANNUAL'D CALL YIELD	TOTAL ANN'D STATIC YIELD	POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD
\$102.97	\$0.7800	1.75%	7/21/2018 \$105.00	\$5.30	11.89%	13.64%	4.55%	18.19%

We chose the July call expiration, since it includes the next semi-annual dividend, which was \$.78 in July 2017. *The \$105.00 call strike pays \$5.30, over 6X Disney's July dividend.*

This table gives you the 3 main profitable scenarios for this trade:

Static - in which you collect dividend and option \$, and your shares don't get assigned. You'd collect \$6.08, (the \$5.30 in option \$, plus the prospective \$.78 dividend).

Assigned pre ex-dividend date- where your shares get assigned/sold prior to the July ex-dividend date, so you'd collect \$2.03/share in price gains, plus the \$5.30 in call option \$, for a total of \$7.33.

The 3rd scenario is the least likely, in which your shares get assigned after the early July ex-dividend date.

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
\$102.97	\$5.30	\$0.7800	\$6.08	\$2.03	\$7.33	\$8.11
Nominal Yields:	5.15%	0.76%	5.90%	1.97%	7.12%	7.88%

If you'd rather just "nibble at the edges", instead of owning DIS outright at the current price, this July put pays \$4.20, and gives you a *breakeven of \$95.80, just shy of Disney's 52-week low of \$96.20.*

You can see more details on our [Cash Secured Puts Table](#), for this trade and over 30 other put-selling trades, which we update on a daily basis.

PRICE PER SHARE (2/13/18)	DIVIDEND PER SHARE \$ EX-DATES BEFORE PUT EXPIRATION	ANNUAL'D DIVIDEND YIELD %	PUT OPTION EXPIRATION DATE & STRIKE PRICE	PUT BID PREMIUM	ANNUAL'D PUT YIELD	100% CASH RESERVE AMOUNT	BREAK-EVEN PRICE	52-WEEK LOW
\$102.97	\$0.7800	1.75%	7/21/2018 \$100.00	\$4.20	9.70%	\$10,000.00	\$95.80	\$96.20

Valuations: Disney's current P/E of 14.61 includes the benefit of the tax bill in its Q1 earnings, and is below the low end of its historic 5-year P/E range. Removing the tax benefit from the EPS, gives DIS a trailing P/E of 17.08, which is still closer to the low end of its 5-year P/E range, and is much lower than broad industry averages.

Ticker	PRICE PER SHARE (2/13/18)	Mkt. Cap	P/E	Forward P/E	5-Year P/E Range	P/Sales	P/Book	EV/ EBITDA
DIS	\$102.97	\$156.16	14.61	13.76	16.21 to 21.00	2.79	3.58	10.43
		Industry Avgs.	24.88	NA	18.59 to 51.83	6.44	1.93	NA

Financials: DIS has much better ROA and ROE figures than industry averages, but its Operating Margin is lower. Its .60 Debt?Equity is slightly higher, but still conservative.

Ticker	Return on Assets	Return on Equity	Total Debt/Equity	NET DEBT/ EBITDA	Operating Margin
DIS	11.99%	25.26%	0.60	1.27	25.09%
Industry Avgs.	6.50%	10.03%	0.42	NA	32.89%

Summary: Disney's attractive option premiums have been boosted by the recent volatility, which gives income investors a chance to capture increased option income.

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

Disclosure: Author owned no shares of DIS at the time of publication, but may initiate a short put position in the next week(s).

Disclaimer: This article was written for informational purposes only and is not intended as personal investment advice. Please practice due diligence before investing in any investment vehicle mentioned in this article.

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