

"These Undervalued Refining Dividend Stocks Have High Options Yields And More Room To Run"

by Robert Hauver

As the price of crude oil has fallen this year, most energy-related stocks have gotten hammered...except for some refining stocks. Why? Because lower crude prices mean lower feedstock costs for refiners, and actually pump up refiners' profit margins. This fact has not gone unnoticed by the market, which has favored some refiners over other energy-related stocks in recent weeks.

This article covers 2 dividend stocks which are beneficiaries of this turn in fortunes - Marathon Petroleum, (MPC), and Phillips 66, (PSX). While these aren't [high dividend stocks](#), they do have high options yields, which we'll cover later on in the article. MPC has done much better than PSX in all of the following time periods:

Ticker	Performance (Month)	Performance (Quarter)	Performance (52 Weeks)	Performance (YTD)	52-Week High	52-Week Low
MPC	17.06%	3.38%	23.79%	4.49%	-2.47%	26.35%
PSX	2.92%	-14.01%	12.74%	-1.77%	-13.29%	17.89%

However, PSX's fortunes may be about to change - Goldman Sachs analyst Neil Mehta just added PSX and MPC to his recommended Buy list on 11/18/14, and PSX is up over 3.7% over the last week.

Profiles: **MPC** is engaged in refining, transporting, and marketing petroleum products primarily in the US. It operates through 3 segments: Refining & Marketing, Speedway, and Pipeline Transportation. MPC refines crude oil and other feed stocks at its 7 refineries in the Gulf Coast and Midwest regions of the US; and purchases ethanol and refined products for resale. Its refined products include gasoline, distillates, propane, feed stocks and special products, heavy fuel oil, and asphalt. MPC also sells transportation fuels and convenience products in the retail market through Speedway convenience stores, and transports crude oil and other feedstocks to its refineries and other locations. MPC markets its refined products to resellers, consumers, independent retailers, wholesale customers, marathon-branded jobbers, its Speedway convenience stores, airlines, transportation companies, and utility companies, as well as exports its refined products. As of 2/4/14, MPC owned, leased, and had ownership interests in approximately 8,300 miles of pipeline, as well as owned and operated 1,480 convenience stores in 9 states of the United States; and operated 5,200 independently owned retail outlets in the 18 states of the United States.

PSX - PSX Phillips 66 operates as an energy manufacturing and logistics company, operating in 4 segments: Midstream, Chemicals, Refining, Marketing and Specialties. Refining buys, sells, and refines crude oil and other feedstocks into petroleum products, such as gasolines, distillates, and aviation fuels in the United States, Europe, and Asia. Marketing and Specialties purchases for resale and markets refined petroleum products comprising gasolines, distillates, and aviation fuels in the United States and Europe. This segment manufactures and sells specialty products, such as petroleum coke, waxes, solvents, and polypropylene. Midstream transports crude oil and other feedstocks to its refineries and other locations, as well as delivers refined and specialty products, also gathers, processes, transports, and markets natural gas; and transports, fractionates, and markets natural gas liquids in the United States. Chemicals produces and markets ethylene, propylene, and other olefin products. It also manufactures and markets aromatics products, such as benzene, styrene, paraxylene, and cyclohexane, as well as polystyrene and styrene-butadiene copolymers.

Dividends: Coincidentally, both of these stocks pay \$.50 quarterly. PSX has a slightly shorter dividend history than MPC, as it was only spun off from Conoco Phillips in 2012. Since 2012, it has more than doubled its dividend, from \$.20, to the current \$.50. MPC started paying dividends in 2011, and has also raised its payout from \$.20 to \$.50 per quarter. Both stocks have a low dividend payout ratio.

Ticker	Forward Dividend Yield	Most Recent Quarterly Dividend	Next Ex-Dividend Date (approx.)	Dividend Payout Ratio
MPC	2.13%	\$0.500	2/17/15	21.60%
PSX	2.64%	\$0.500	2/12/15	14.40%

Options: Although neither stock has a high dividend yield, you can dramatically improve upon their dividends by selling options. This MPC covered call trade expires in April 2015, and has a \$95.00 strike price, which offers you \$1.20 in potential price gains.

The PSX trade expires in May 2015, just long enough for you to qualify for a second quarterly dividend. You can find more details on our [free Covered Calls Table](#) for these and over 25 other trades.

Ticker	PRICE PER SHARE (11/19/14)	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
MPC	\$93.80	\$0.50	1.31%	4/18/2015 \$95.00	\$5.90	15.41%	16.71%	3.13%	19.85%	\$87.40
PSX	\$75.77	\$1.00	2.72%	5/16/2015 \$77.50	\$3.80	10.34%	13.06%	4.71%	17.77%	\$70.97

We've detailed the 3 main income scenarios for the MPC trade below:

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
\$93.80	\$5.90	\$0.50	\$6.40	\$1.20	\$7.10	\$7.60
Nominal Yields:	6.29%	0.53%	6.82%	1.28%	7.57%	8.10%

An alternative strategy would be to sell cash secured puts below the stock's price/share. Both of these trades' put options offer you a much higher payout than the quarterly dividends - MPC's pays \$5.90, over 11 times its \$.50 quarterly dividend, while PSX's \$75.00 put would pay you \$5.40, over 5 times PSX's next 2 dividends.

Our [free Cash Secured Puts Table](#) gives you more details on these and over 25 other put-selling trades.

Ticker	PRICE PER SHARE (11/19/14)	DIVIDEND PER SHARE \$ EX-DATES BEFORE PUT EXPIRATION	ANNUAL'D DIVIDEND YIELD %	PUT OPTION EXPIRATION MONTH & STRIKE PRICE	PUT BID PREMIUM	ANNUAL'D PUT YIELD	100% CASH RESERVE AMOUNT	BREAK-EVEN PRICE	52-WEEK LOW
MPC	\$93.80	\$0.50	1.31%	4/18/2015 \$92.50	\$5.90	15.62%	\$9,250.00	\$86.60	\$74.64
PSX	\$75.77	\$1.00	2.72%	5/16/2015 \$75.00	\$5.40	14.85%	\$7,500.00	\$69.60	\$65.84

Undervalued Earnings: Both stocks look undervalued on a 2015 PEG basis - MPC has a very low .51 PEG, and PSX has a low .65 PEG:

Ticker	P/E	5-Year P/E Range	EST'D EPS Growth 2014	PEG: 2014	EST'D EPS Growth 2015	PEG: 2015
MPC	11.71	4.99 to 13.79	17.25%	0.68	22.82%	0.51
	2013 Diluted EPS:	\$6.84	Est'd 2014 EPS (AVG):	\$8.02	Est'd 2015 EPS (AVG):	\$9.85
Ticker	P/E	5-Year P/E Range	EST'D EPS Growth 2014	PEG: 2014	EST'D EPS Growth 2015	PEG: 2015
PSX	11.65	8.30 to 13.04	7.81%	1.49	17.95%	0.65
	2013 Diluted EPS:	\$5.89	Est'd 2014 EPS (AVG):	\$6.35	Est'd 2015 EPS (AVG):	\$7.49

Both firms had blowout earnings in their most recent quarter, even with lower sales figures, thanks to expanding margins, as the crude price was much cheaper than Q3 2013:

Ticker	EPS growth quarter over quarter	Sales growth quarter over quarter	EPS growth next year	EPS growth next 5 years
MPC	337.00%	-3.00%	13.32%	16.90%
PSX	148.80%	-8.40%	17.41%	14.05%

Valuations: Both stocks also look undervalued for most of the following metrics:

Ticker	PRICE PER SHARE (11/19/14)	Mkt. Cap	P/E	Forward P/E	5-Year Forward PEG	Price/Sales	Price/Book	Enterprise Value/EBITDA
MPC	\$93.80	\$26.3B	11.62	10.33	0.69	0.26	2.44	6.11
PSX	\$75.77	\$4.99B	11.52	9.93	0.82	0.24	1.88	11.39
Industry Averages		\$6.25B	19.62	17.42	2.29	0.54	2.33	NA

Financials: In addition, they both have significantly better than average mgt. efficiency ratios, and carry less debt:

	Return on Assets	Return on Equity	Return on Investment	Current Ratio	Total Debt/Equity	Operating Margin
MPC	7.90%	22.00%	16.10%	1.20	0.58	3.80%
PSX	14.60%	33.90%	2.50%	1.30	0.29	1.70%
Industry Averages	3.09%	8.42%	5.71%	1.02	0.85	2.75%

Disclosure: Author had no positions in MPC or PSX yet at the time of this publication

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