

Standard Motor Parts Has Very High Options Yields

By Robert Hauver

Standard Motor Parts, (SMP), had been beaten up after its disappointing 2nd quarter earnings release on May 3rd, but the market has gotten much more revved up about this Industrial dividend stock this summer. SMP received an analyst upgrade in early June, which certainly helped its share price:

As of 7/19/12 Close:	Performance Since June 4th Lows	Performance YTD
SMP	12.97%	-26.63%
S&P 500	7.69%	9.46%
DJIA	6.96%	5.94%

Maybe this is why – even after its recent price gains, SMP still looks very undervalued on PEG basis. SMP has also acquired CompressorWorks, a manufacturer of Temperature Control products with an annual volume of approximately \$60 million, which will be accretive to 2012 earnings:

SMP's other valuations are also way below its Auto Parts peers. In fact, its Price/Free Cash Flow is among the lowest for small cap dividend paying stocks:

Ticker	Price/Sales	Price/Book	Price/Free Cash Flow
SMP	0.39	1.19	5.57
Industry Avg.	0.79	2.46	28.77

Dividends: After eliminating its quarterly dividend in 2009, during the recession, SMP reinstated it in 2010, at \$.05/share, and has nearly doubled it over the past two years, to \$.09/share:

Ticker	Dividend Yield	Dividend Payout Ratio (Trailing 12 Mths)	Quarterly Dividend	Next Ex- Dividend Date approx.
SMP	2.47%	10.91%	\$0.09	8/10/12

SMP's High Options Yields: Selling Covered Calls offers you a way to greatly increase the dividend yield of dividend stocks you own or are planning to buy. The closer in time you sell a call option, the higher the annualized yield is. Conversely, sell call options further out in time will usually get you a higher price, but a lower annualized yield.

Since this August \$15.00 call option expires in just a month, the annualized call yield is very high, over 35%. In addition, SMP's next ex-dividend date falls before this call's expiration date, so you'd qualify for one \$.09/share dividend. Thirdly, there's the potential for an additional \$.45/share price gain, (the difference between SMP's \$14.55 stock price and this call option's \$15.00 strike price). Add these 3 gains up and you have a very high total potential yield of over 84%

You can see more details on this and over 30 other high yield options trades in our [free Covered calls Table](#):

SMP 7/19/12 PRICE PER SHARE	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
\$14.55	\$0.09	8.06%	AUG. 2012 \$15.00	\$0.40	35.84%	43.90%	40.32%	84.22%

Financials: Many auto parts companies suffered greatly during the recession, which is why the industry avgs. look so anemic. SMP, on the other hand, has some of the highest Mgt. Efficiency ratios and has one of the lower debt loads in its industry:

Ticker	Return on Assets	Return on Equity	Return on Investment	Total Debt/Equity	Operating Margin	Interest Coverage
SMP	11.35%	25.20%	20.35%	0.28	7.18%	11.35%
Industry Avgs.	0.71%	1.09%	0.34%	1.11	-3.39%	0.71%

Disclosure: Author had no positions in SMP at the time of this writing.

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