

The Top Dow Dividend Stocks For First Quarter 2012 Earnings

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25 of the 30 Dow Jones Industrials have reported 1st quarter 2012 earnings so far. 18 firms have reported positive growth, and 7 have reported negative growth, with the range running from Boeing, (BA), with 54% year-over-year 1st quarter growth, down to beleaguered Bank of America, (BAC), with -82%. These 2 Dow dividend stocks reported the best 1st quarter 2012 earnings growth year-over-year:

Boeing and Caterpillar:

Ticker	Company	Sector	Q1-2012 EPS Growth	Q1-2012 Revenue Growth	Share Performance Since Earnings Report
BA	Boeing Co.	Industrial Goods	54.43%	30.00%	4.96%
CAT	Caterpillar Inc.	Conglomerate	28.80%	23.40%	-7.13%

CAT's share price has fallen over 7% since its 4/25/12 report, as of 5/3/12, even though it beat earnings estimates by over 11%, by posting a record \$1.586 billion in earnings, and also raised its 2012 guidance from a \$9.25 EPS midpoint range, up to a \$9.50 EPS midpoint. CAT says that this \$9.50 EPS will give them their 2nd record earnings year in a row.

CEO Oberlmann stated, "“These outstanding results demonstrate our continued focus on execution and controlling costs as we increase production and expand capacity to meet increasing demand from our customers. We’re seeing strong global demand for most mining products and significant growth in replacement demand for products in the United States, which more than offset slowing in China and Brazil”. (Source: CAT website)

The acquisition of mining equipment giant Bucyrus added over \$1 billion to quarterly sales, and the Motoren-Werke acquisition added \$143 million in sales. These acquisitions added approx. \$53 million in quarterly profits, mostly attributed to Bucyrus.

CAT's global reach has given them a diverse geographic sales base:

Revenue by Geographic Area	N.America	Asia Pacific	Latin America	Europe/Africa/M.East (EAME)
Q1 2012 Sales Growth	24%	32%	7%	24%
% of Total Revenues	38.18%	25.14%	12.40%	24.27%

CAT's 3 major segments all had significant revenue increases:

Revenue By Segment	Construction Industries	Resource Industries	Power Systems	Financial Products	All Other Segments
Q1 2012 Sales Growth	13%	73%	12%	4%	-20%
% of Total Revenues	31.68%	29.90%	31.21%	4.34%	2.88%

Earnings Valuations: With their strong earnings, CAT and BA both look undervalued on a P/E and PEG basis vs. their industries. BA is near the low end of its 5-year P/E range of 11.70 to 28.93. CAT's current 13.87 P/E is also much closer to the low end of its 5-year P/E range of 7.89 to 39.86:

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
BA	13.44	19.73%	24.62%	0.55	54.43%	30.00%
Industry Avgs.	20.30	34.99%	16.22%	1.25	-59.14%	16.61%
CAT	13.87	78.22%	28.38%	0.49	28.80%	23.41%
Industry Avgs.	15.99	40.50%	18.69%	0.86	6.68%	8.94%

Cash Secured Puts: , If the market hasn't rewarded CAT's share price, even with all of this positive news, how should you play it?

One conservative strategy is to sell cash secured put options below a stock's current price, thereby achieving a lower break-even cost. You won't receive any dividends, but you'll be paid the put option \$ within 3 days of selling the puts. Your broker will hold/secure enough funds in your account to pay for 100 shares at whatever strike price you sell the put options at. (In this example, the broker would hold \$10,000.00: 100 shares x the \$100.00 strike price.)

In general, you'll receive higher option premiums the further out in time that you sell. At expiration time, if CAT is below \$100.00, you'll be assigned/sold 100 shares at \$100.00 for each put contract you sold. However, your net cost will only be \$91.10, (the \$100.00 strike price minus the \$8.90 put bid premium.)

Due to its higher volatility, CAT has high options yields, which outpay its quarterly dividends significantly. There are put option strike prices at every \$2.50 increment near the money - \$97.50, \$95.00, \$92.50, etc., so the more conservative you want to be, the further below the stock price you'd sell puts at, for an even lower break-even:

TICKER	5/3/12 PRICE PER SHARE	DIVIDEND PER SHARE \$ PAID PRIOR TO PUT EXPIRATION	PUT STRIKE PRICE & EXPIRATION MONTH	PUT BID PREMIUM	ANNUAL'D PUT YIELD	100% CASH RESERVE AMOUNT	BREAK-EVEN PRICE	52-WEEK LOW
CAT	\$100.67	\$0.92	NOVEMBER \$100.00	\$8.90	16.74%	\$10,000.00	\$91.10	\$67.54
BA	\$76.83	\$0.88	AUGUST \$75.00	\$3.00	13.90%	\$7,500.00	\$72.00	\$56.01

(There are more details for these and over 30 other high yield Cash Secured Puts trades in our [Cash Secured Puts Table](#).)

Covered Calls: Alternatively, if you're moderately bullish, you may want to consider selling covered call options, which also allows you to collect dividends, and to hedge your risk, via receiving call option premiums. Although CAT or BA aren't [high dividend stocks](#), you can greatly increase your dividend income from them by selling covered calls.

In the trades listed below, **the call options outpay the dividends by over 3 to 8 times.**

In the BA trade, BA's \$77.50 strike price is much closer to its \$76.83 share price, so your potential assigned price gain is only \$.67/share, (the \$77.50 strike price minus \$76.83 share price). CAT's \$105.00 strike price is further above from its share price, which gives you the potential for a \$4.33/share assigned price gain, which you'd realize if CAT is above \$105.00 at or near expiration in August.

If CAT doesn't rise above \$105.00 then, your ["Static Yield"](#) profit would consist of the \$.46/share in dividends and \$4.05/share in call option premiums that you received when you sold these options. Selling covered calls requires you to buy the shares first, in 100-share lots, as each option contract corresponds to 100 shares of stock.

TICKER	5/3/12 PRICE PER SHARE	DIVIDEND PER SHARE \$ PAID PRIOR TO CALL EXPIRATION	ANNUAL'D DIVIDEND YIELD %	CALL OPTION EXPIRATION DATE - SYMBOL	CALL BID PREMIUM	ANNUAL'D CALL YIELD	TOTAL ANN'D STATIC YIELD	ANNUAL'D POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD
BA	\$76.83	\$0.88	3.98%	AUGUST \$77.50	\$2.81	12.71%	16.70%	3.03%	19.73%
CAT	\$100.67	\$0.46	1.59%	AUGUST \$105.00	\$4.05	13.98%	15.57%	14.95%	30.53%

(You'll find more details for over 30 other high options yields trades in our [Covered Calls Table](#).)

Dividends: BA raised its quarterly dividend to \$.44, from \$.42 in Feb. 2012. CAT raised its quarterly dividend to \$.46, from \$.44 in 2011. BA is going ex-dividend next week, with an ex-dividend date of May 9, 2012.

Ticker	Dividend Yield	Dividend Payout Ratio	Quarterly Dividend	Next Ex-Dividend Date approx.	5-Year Dividend growth Rate
BA	2.28%	29.45%	\$0.44	5/9/12	6.34%
CAT	1.79%	23.86%	\$0.46	7/18/12	9.62%

Financials: Both CAT and BA have impressive mgt. efficiency ratios. Given that they're in such capital-intensive businesses, their interest coverage more than offsets their debt levels:

Ticker	Return on Assets	Return on Equity	Return on Investment	Total Debt/Equity	Operating Margin	Interest Coverage
BA	5.84%	97.26%	12.04%	2.31	8.76%	13.30
Industry Avgs.	2.76%	19.11%	4.33%	0.64	14.08%	9.23
CAT	6.88%	41.57%	10.66%	2.69	11.89%	6.40
Industry Avgs.	5.39%	13.53%	8.85%	0.75	10.37%	0.54

Performance & Technical Data: BA's year-to-date price gain was mostly achieved after its earnings report, whereas CAT's was logged before its report. CAT's Relative Strength Index (RSI) figure of 35.17 is in the moderately oversold region, just below the 40 threshold.

TICKER	Performance (Year To Date: THRU 5/3/12)	Beta	Variance From 52- Week High	Variance From 52- Week Low	Relative Strength Index (14)
BA	5.95%	1.22	-3.22%	37.46%	56.18
CAT	14.26%	1.85	-14.95%	48.73%	35.17

If you're looking for dividend paying stocks with undervalued growth, BA and CAT appear to be among the best stocks to buy.

Disclosure: Author is short BA and CAT put options.

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