The Morning Dividend

Daily dividend investing news from Sure Dividend

Good morning,

Today's May 3rd, 2019 edition of The Morning Dividend covers the following new income investing stories:

Berkshire (But Not Buffett) Buys Amazon Stock

Yesterday evening, CNBC's Becky Quick made headlines when she published an article and video describing an interview with Warren Buffett sharing some interesting information about one of Berkshire Hathaway's (BRK.A) recent investments. Buffett's exchange is shown below:

Warren Buffett: *"I'll tell you one thing you'll see in the 13F which comes out in a couple of weeks, which may cause you to ask me that question in two weeks, but doesn't really – is not significant from my standpoint. One of the two other fellows in the office that manage money, Todd and Ted, one of them bought some Amazon, so it'll show up on the 13F. It is not true to say that I am buying Amazon, but it is true to say that Berkshire has bought whatever shows up there."*

Becky Quick: *"Although you've been a fan of Amazon and Jeff Bezos for a long time…"*

Warren Buffett: "*Yeah I've been a fan and I've been an idiot for not buying them, but I just want you to know that it's no personality change that's taking place here, it's somebody else's."*

While there is still little information available about Berkshire's investment in Amazon (AMZN), one interesting corollary is that Berkshire's tremendous stake in Apple (AAPL) (which is currently worth about $52.2 billion using the December 31st share count and yesterday's closing price) also *began* as an investment from Todd Combs or Ted Weschler. Buffett eventually initiated a large Apple stake in the portfolio he manages personally.

We will be watching this development closely moving forward. Moreover, we are eager to see both Buffett's responses to questions at this weekend's Berkshire Hathaway annual meeting and the actual filing of the 13F (which was filed on May 15th last year).

The Sure Analysis Research Database Weekly Update

The current top 10 stocks in the Sure Analysis Research Database with A ratings for Retirement Suitability are:

1. AbbVie Inc. (ABBV)
2. Tanger Factory Outlet Centers Inc. (SKT)
3. Newell Brands Inc. (NWL)
4. Walgreens Boots Alliance Inc. (WBA)
5. AT&T Inc. (T)
6. The Bank of Nova Scotia (BNS)
7. Cardinal Health Inc. (CAH)
8. Eaton Vance Corp. (EV)
9. WestRock Co. (WRK)
10. Bank OZK (OZK)

We added 5 new securities to the Sure Analysis Research Database since last week's update:

1. BNP Paribas (BNPQF)
2. Darden Restaurants Inc. (DRI)
3. EPR Properties (EPR)
4. Pattern Energy Grp. (PEGI)
5. WEC Energy Grp. Inc. (WEC)

We also added quarterly updates on the following 74 securities since last week's update:

1. 3M Co. (MMM)
2. AbbVie Inc. (ABBV)
3. Aflac Inc. (AFL)
4. Alaska Air Grp. Inc. (ALK)
5. Alphabet Inc. (GOOG)
6. Amazon.com Inc. (AMZN)
7. American Airlines Grp. Inc. (AAL)
8. American Electric Power Co. Inc. (AEP)
9. Ameriprise Financial Inc. (AMP)
10. Amgen Inc. (AMGN)
11. Apple Inc. (AAPL)

12. Arthur J.Gallagher & Co. (AJG)
13. Autoliv Inc. (ALV)
14. AXIS Capital Holdings Ltd (AXS)
15. Bristol-Myers Squibb Co. (BMY)
16. Canadian Pacific Railway Ltd (CP)
17. Chevron Corp. (CVX)
18. Colgate-Palmolive Co. (CL)
19. Comcast Corp. (CMCSA)
20. Corning Inc. (GLW)
21. Cummins Inc. (CMI)
22. CVS Health Corp. (CVS)
23. Digital Realty Trust Inc. (DLR)
24. Discover Financial Services (DFS)
25. Domino's Pizza Inc. (DPZ)
26. Eli Lilly & Co. (LLY)
27. Exxon Mobil Corp. (XOM)
28. Facebook Inc. (FB)
29. First Financial Corp. (THFF)
30. Ford Motor Co. (F)
31. Fortis Inc. (FTS.TO)
32. General Electric Co. (GE)
33. Halliburton Co. (HAL)
34. Huntington Bancshares Inc. (HBAN)
35. Ingersoll-Rand plc (IR)
36. Intel Corp. (INTC)
37. International Business Machines Corp. (IBM)
38. Johnson Controls Intl. plc (JCI)
39. Lancaster Colony Corp. (LANC)
40. Logitech Intl. SA (LOGI)
41. LyondellBasell Industries NV (LYB)
42. Mastercard Inc. (MA)
43. McGrath RentCorp (MGRC)
44. Merck & Co. Inc. (MRK)
45. MetLife Inc. (MET)
46. Microsoft Corp. (MSFT)
47. Molson Coors Brewing Co. (TAP)
48. MSA Safety Inc. (MSA)
49. Norfolk Southern Corp. (NSC)
50. Novartis AG (NVS)
51. Old Republic Intl. Corp. (ORI)
52. PACCAR Inc. (PCAR)
53. Patterson-UTI Energy Inc. (PTEN)
54. POSCO (PKX)
55. Prudential Financial Inc. (PRU)
56. R.R. Donnelley & Sons Co. (RRD)
57. Rogers Communications Inc. (RCI.B.TO)

58. Ryder System Inc. (R)
59. Sanofi (SNY)
60. SEI Investments Co. (SEIC)
61. Six Flags Entertainment Corp. (SIX)
62. SJW Grp. (SJW)
63. Southwest Airlines Co. (LUV)
64. Stanley Black & Decker Inc. (SWK)
65. Starbucks Corp. (SBUX)
66. Stryker Corp. (SYK)
67. T-Mobile US Inc. (TMUS)
68. The Boeing Co. (BA)
69. The Procter & Gamble Co. (PG)
70. Total SA (TOT)
71. United Bankshares Inc. (UBSI)
72. Valero Energy Corp. (VLO)
73. W.W. Grainger Inc. (GWW)
74. Waste Mgmt. Inc. (WM)

If there are any specific companies you'd like added to The Sure Analysis database, let us know here. We add companies based on how frequently they are requested.

Newell Brands: The Turnaround Shows Signs Of Progress

Newell Brands (NWL) posted better-than-expected first quarter 2019 earnings results this morning.

The company generated $0.14 in adjusted earnings-per-share. Analysts were expecting $0.06 in adjusted earnings-per-share. Newell *more than doubled* analyst expectations for adjusted earnings-per-share. Revenue was very slightly ahead of expectations as well.

Newell stock was up over 3% in pre-market trading as a result. The company's President and CEO Michael Polk said the following about quarterly results:

> *"We have had a good start to the year and are encouraged by the improvement in results in the first quarter. Sales were at the higher-end of our expectations, operating margins increased as a result of disciplined cost management, normalized EPS was well ahead of our expectations, and operating cash flow was significantly improved versus last year. We have taken decisive action to strengthen performance and those actions are beginning to yield results. As expected, U.S. retailer headwinds associated with the Toys 'R' Us bankruptcy and the Writing industry retailer landscape have begun to moderate as we exit the first quarter, setting up what we believe will be a more constructive environment for the balance of 2019."*

While Newell did show improvement this quarter versus expectations, the company is still going through a difficult period as it offloads "non-core" brands and focuses on its best opportunities.

Sales fell 5.5%, with core sales (currency adjusted) declining 2.4%. And while adjusted earnings-per-share beat estimates, they were down to $0.14 from $0.28 a year ago.

But with that said, the company did generate $200 million in operating cash flow versus *negate $402 million* in the same quarter a year ago. Strong operating cash flows bode well for the company going forward.

And with revenue down somewhat, the strong earnings beat was due primarily to *reducing overhead*. With Newell able to materially reduce its operating expenses. Selling, general, and administrative expense declined 17.3% versus the same quarter a year ago for savings of $108.4 million in the quarter alone.

Newell reaffirmed its guidance for fiscal 2019. Details for the company's guidance are below:

- Net sales of $8.2 billion to $8.4 billion
- Core sales: low single digit decline
- 20 to 60 basis point improvement in normalized operating margin
- $1.50 to $1.65 in normalized earnings-per-share
- $300 million to $500 million in operating cash flows

Newell shares are currently for around $15. This means they are trading for around 10x expected adjusted earnings-per-share this year. And this is off a lower earnings base; earnings-per-share are likely to improve significantly in the years ahead as Newell cotninues to streamlline its operations.

We view Newell as a buy at current prices. The company's earnings beat and significant cost reductions show that management is executing its plan to improve shareholder value.

3M Goes Shopping: Industrial Conglomerate Buys Acelity For $6.7 Billion

On May 2nd, 3M Company (MMM) announced that it is acquiring Acelity Inc. and its KCI subsidiaries from its current owners – a consortium comprised of Apax Partners, the Canadian Pension Plan Investment Board, and the Public Sector Pension Investment Board. The purchase price is an enterprise value of approximately $6.7 billion, including the assumption of debt and subject to closing and other adjustments.

This purchase price is difficult to evaluate without understanding the earnings power of the Acelity business. Fortunately, 3M provided some color on this topic in the acquisition announcement. The acquired company generated revenue of $1.5 billion in 2018 and the purchase price implies an EB/EBITDA multiple of approximately 11 after including “expected run rate cost synergies.” For context, 3M is trading at a current EV/EBITDA multiple of approximately 13.3.

Here’s what 3M’s Chief Executive Officer, Mike Roman, stated about the transaction in the company’s press release:

> *“Acelity is a recognized leading provider of advanced wound care technologies and solutions and an excellent complement to our Health Care business. This acquisition bolsters our Medical Solutions business and supports our growth strategy to offer comprehensive advanced and surgical wound care solutions to improve outcomes and enhance the patient and provider experience. We are excited to bring Acelity’s technologies and dedicated employees to our team. Together, we will apply 3M science to bring differentiated offerings to key wound and operative care solutions worldwide.”*

The company’s press release also included some important information about the impact of this acquisition on the company’s near-term financial results.

More specifically, 3M stated that the acquisition should subtract $0.35 from GAAP earnings-per-share in the next twelve months. On an adjusted basis, the impact will be much more positive. The acquisition is expected to add $0.25 to earnings-per-share after excluding purchase accounting adjustments and anticipated one-time expenses related to acquisition and integration.

For context, we previously expected 3M to generate earnings-per-share of around $9.50 in fiscal 2019.

Lastly, 3M reduced its share repurchase guidance as a result of this transaction. The company now expects 2019 stock buybacks to be in the range of $1.0 billion to $1.5 billion versus $2.0 billion to $4.0 billion previously.

Overall, this acquisition looks to be a modestly positive event for 3M’s shareholders. The company’s stock continues to trade above our fair value estimate and earns a hold recommendation from Sure Dividend at current prices.

Shell: Earnings Beat Despite Lower Oil Prices

Yesterday, Royal Dutch Shell PLC (RDS.B) reported financial results for the first quarter of fiscal 2019. The company beat expectations despite persistently lower oil prices thanks to strong performance from its trading segment and higher prices in the liquid natural gas (LNG) market.

Shell's income attributable to common shareholders increased by 2% in the quarter. However, the company prefers to measure its performance on a "current cost of supplies" (CCS) basis, which it describes as: "*the earnings measure used by the Chief Executive Officer for the purposes of making decisions about allocating resources and assessing performance. On this basis, the purchase price of volumes sold during the period is based on the current cost of supplies during the same period after making allowance for the tax effect. CCS earnings therefore exclude the effect of changes in the oil price on inventory carrying amounts. Sales between segments are based on prices generally equivalent to commercially available prices."*

On a CCS basis, Shell's adjusted earnings decreased by 2% year-on-year. GAAP earnings-per-share increased by 4%, while CCS adjusted earnings-per-share declined by 6%. The company's performance by segment (measured using CCS earnings) is listed below:

- Integrated Gas: 5.3% growth
- Upstream: 11.2% growth
- Downstream: 3.2% growth
- Corporate: Net loss increased by 192%
  (These are likely unallocated expenses with no associated revenue)

Shell's interim dividend was maintained at $0.47 per share.

Here's what Shell's CEO, Ben van Beurdan, had to say about the company's performance in the quarter:

"Shell has made a strong start to 2019, with the first quarter financial performance demonstrating the strength of our strategy and the quality of our portfolio of assets. The power of our brand, serving millions of customers every day, continues to be a differentiator. Our integrated value chain enabled our Downstream business to deliver robust results despite challenging market conditions. The consistent financial performance across all our businesses provides confidence in meeting our 2020 outlook."

Shell's first quarter was much better than the markets anticipated. Moreover, the company's stock appears capable of delivering excellent returns from current prices, and shares earn a buy recommendation from Sure Dividend.

New From Sure Dividend

Don't miss the following articles and videos that we've published since yesterday's Morning Dividend:

- Article: Cisco Stock: Why It's Not A Buy Yet
- Article: Boeing: Wait For A Pullback Before Buying This Dow Stock
- Video: Passive Income In The Stock Market: 5 Monthly Dividend Stocks To Buy Now

Also, the May 2019 edition of The Sure Dividend Newsletter will go live *this Sunday*.