The Morning Dividend

Daily dividend investing news from Sure Dividend

Good morning,

Today's July 19th, 2019 edition of The Morning Dividend covers the following new income investing stories:

- Final Chance For Your Deep Discount: Benefit From Spin-Off Mispricings With The Stock Spin-Off Newsletter
- The Sure Analysis Research Database Weekly Update
- Microsoft Cloud Powers Record Fourth Quarter Results
- Other Dividend News
- New From Sure Dividend
- Share The Morning Dividend

Markets		
S&P 500	2995	0.36%
Dow Jones	27223	0.01%
NASDAQ	8207	0.27%
Oil	$56.14	-1.85%
Gold	$1,437.09	1.11%
10-Year Treasuries	2.04%	-1 bps

The Morning Dividend focuses on timely dividend and market news. We believe investing is most effective when it is practiced with a long-term approach, while still staying informed. To that end, our long-term investing quote of the day is below:

"It was never my thinking that made the big money for me. It always was my sitting."

- Jesse Livermore

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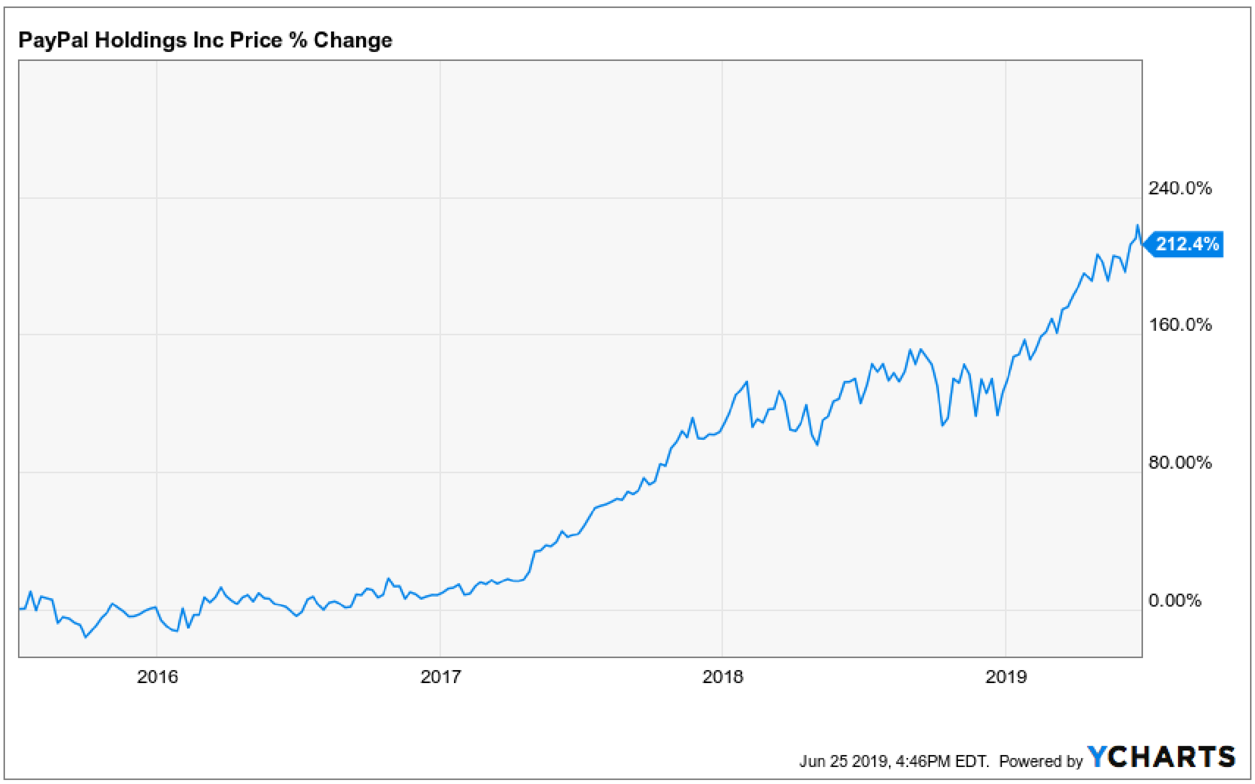
Final Chance For Your Deep Discount: Benefit From Spin-Off Mispricings With The Stock Spin-Off Newsletter

Earlier this week, we discussed spin-offs and why they represent a compelling investment opportunity.

A good example of the alpha potential of spin-offs is PayPal (PYPL), a 2015 spin-off from eBay (EBAY). PayPal has returned 212% since its spin-off, beating the S&P 500 by 160%.



We've established that spin-offs have serious outperformance potential. Now let's try to figure out why.

It starts with a low initial valuation. This is driven by a couple factors:

First, spin-offs are distributed to investors (not sold like in an IPO) and so there is very little publicity regarding the new company. Generally, no or few analysts cover the stock and so it is not marketed to institutional investors.

Further, the spin-off is usually much smaller than the parent company, and oftentimes, institutional investors are *prohibited* from owning shares in the spin-off. For example, if a large cap mutual fund manager owns a large cap company which distributes a small cap spin-off, that mutual fund manager's investment mandate prevents the manager from holding the spin-off. For these reasons, many investors sell their shares in the spin-off regardless of price or underlying value.

Second, the management team of the new spin-off has very little incentive to promote the company initially. In fact, the management team is incentivize to *not* promote the stock. Why? Because management stock options are usually priced based on the first couple weeks of trading. The lower the stock trades initially, the greater value potential the options have.

And despite a very low initial valuation, spin-off companies tend to perform well operationally. Why? Because *"capitalism, with all its drawbacks, actually works"* as Joel Greenblatt, famous spin-off investor, once wrote. Bureaucracy shrinks and entrepreneurial forces are unleashed. *"The combination of accountability, responsibility, and more direct incentives take their natural course,"* according to Greenblatt.

The combination of a low initial valuation and strong operational performance generally leads to a higher valuation and strong stock performance. J.P. Morgan looked at U.S spin-offs from 2009 to 2015 and found that the average valuation for spin-offs, increased from 6.9x EBITDA to 8.6x EBITDA.

Stock Spin-off Investing Newsletter

At Stock Spin-off Investing, we spend countless hours researching imminent and completed stock spin-offs so that we can cherry pick the most promising opportunities for our members.

We provide a weekly newsletter with the latest updates on open recommendations and host a live video call to answer questions and discuss subscriber ideas.

Our picks (both paid and free) have generated an average cumulative return of 29.9% since April of 2016, beating the S&P 500 by 13.7 percentage points.

An annual subscription to the Stock Spin-off Investing Newsletter usually costs $419. **But for this week only (ends Friday July 19th at 5PM CT)**, we are offering a 25% discount to The Morning Dividend Readers.

Click here to start your 7 day free trial of The Stock Spin-Off Newsletter Now

Your special discount gives you savings of $104.75. Better yet, your discount code will never expire once it is applied (but the chance to use this discount *ends today*).

Note: This discount coupon deal offer ends *today,* Friday, July 19th at 5pm CT.

Click here to start your 7 day free trial of The Stock Spin-Off Newsletter Now

Please contact Rich at Rich@stockspinoffinvesting.com with any questions you have.

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Ben Reynolds with Sure Dividend here. I am happy to make the above discounted offer available to Sure Dividend readers using an affiliate link and agreement because I know and trust the authenticity of Rich Howe & Stock Spin-Off Investing.

The Sure Analysis Research Database Weekly Update

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

1. Bank OZK (OZK)
2. Walgreens Boots Alliance Inc. (WBA)
3. Cardinal Health Inc. (CAH)
4. Caterpillar Inc. (CAT)
5. Eaton Vance Corp. (EV)
6. Leggett & Platt Inc. (LEG)
7. Cullen/Frost Bankers, Inc. (CFR)
8. Parker-Hannifin Corp. (PH)
9. WEYCO Grp. Inc. (WEYS)
10. 1st Source Corp. (SRCE)

We added quarterly updates on the following 15 securities since last week's update:

1. Abbott Laboratories (ABT)
2. Bank of America Corp. (BAC)
3. Canadian Pacific Railway Ltd (CP)
4. Citigroup Inc. (C)
5. Comerica Inc. (CMA)
6. Darden Restaurants Inc. (DRI)
7. Johnson & Johnson (JNJ)
8. JPMorgan Chase & Co. (JPM)
9. Micro Focus Intl. plc (MFGP)
10. MSC Industrial Direct Co. Inc. (MSM)
11. Philip Morris Intl. Inc. (PM)
12. The Blackstone Grp. LP (BX)
13. The Goldman Sachs Grp. Inc. (GS)
14. UnitedHealth Grp. Inc. (UNH)
15. Wells Fargo & Co. (WFC)

We also added 9 new securities to our investment research database:

1. Arbor Realty Trust Inc. (ABR)
2. CoreSite Realty Corp. (COR)
3. Gaming and Leisure Properties Inc. (GLPI)
4. Gladstone Capital Corp. (GLAD)
5. Gladstone Commercial Corp. (GOOD)
6. Gladstone Land Corp. (LAND)
7. Hercules Capital Inc. (HTGC)
8. Kratos Defense and Security Solutions Inc. (KTOS)
9. Lam Research Corp. (LRCX)

If there are any specific companies you'd like added to The Sure Analysis Database, let us know here.

Your feedback matters; we add companies based on how frequently they are requested.

Microsoft Cloud Powers Record Fourth Quarter Results

Yesterday after the markets closed, Microsoft (MSFT) reported financial results for the fourth quarter and full year of fiscal 2019 (the company operates under an unusual financial calendar that ends on June 30th). Microsoft beat expectations for both revenue and earnings, and shares rose by as much as 3% in after-hours trading.

Microsoft's strength began with its robust top-line figure. In the quarter, the technology giant generated revenue of $33.7 billion, which increased by 12% year-on-year and beat consensus analyst estimates by $920 million.

A few lines down on the income statement, Microsoft's operating income was $12.4 billion and increased by 20% year-on-year.

GAAP net income of $13.2 billion increased by 49% while adjusted net income increased by 21%. Similarly, diluted earnings-per-share of $1.71 increased by 50% year-on-year while adjusted earnings-per-share rose by 21%.

Microsoft's results for the full fiscal year were also extremely strong. For the twelve-month reporting period, revenue of $125.8 billion increased by 14% while operating income of $43.0 billion increased by 23%. Adjusted net income and adjusted earnings-per-share both increased by 22%.

Here's what Microsoft's Chief Executive Officer, Satya Nadella, said about the company's performance in the quarter:

"It was a record fiscal year for Microsoft, a result of our deep partnerships with leading companies in every industry. Every day we work alongside our customers to help them build their own digital capability - innovating with them, creating new businesses with them, and earning their trust. This commitment to our customers' success is resulting in larger, multi-year commercial cloud agreements and growing momentum across every layer of our technology stack."

For Microsoft, one metric that the investment community tends to watch closely is the company's Azure franchise, which is a cloud computing service similar to Amazon Web Services or Google Cloud Platform that allows users to build, test, deploy, and manage applications and services through Microsoft-managed data centers.

Microsoft did not state exact Azure revenue in its earnings releases, but it did state the segment's revenue *growth*. Microsoft Azure's revenue growth last quarter was 64%, or 68% on a constant-currency basis – a quarter-on-quarter deceleration. In the prior quarter (the third quarter of fiscal 2019), Microsoft Azure's year-on-year revenue growth was 73%, which was also a deceleration (four percentage points, to be precise).

Many members of the investment community believed that further Azure deceleration could weigh on the company's shares, yet the firm's stock increased in price in after-hours trading.

It seems as though strong guidance is responsible for this. Microsoft's first quarter financial guidance (which was released on its earnings call, not in its earnings press release) included the following revenue estimates:

- Productivity and Business Processes: $10.7 billion to $10.9 billion

- Intelligent Cloud: $10.3 billion to $10.5 billion
- More Personal Computing: $10.7 billion to $11 billion

Consensus revenue estimates for the Intelligent Cloud segment (which houses Azure as well as other subsidiaries such as Github) were $10.11 billion – below the low point of Microsoft’s guidance band. Similarly, the breakdown implies revenue of about $31.8 billion to $32.4 billion, while consensus estimates are for $31.99 billion.

Overall, it was an excellent quarter from Microsoft. The company is one of the highest-quality in our investment universe. However, it is trading at a very high price-to-earnings multiple – around 29. Valuation contraction has the potential to significantly impair the stock’s future returns. Accordingly, Microsoft earns a sell recommendation from Sure Dividend at current prices. With that said, Microsoft could be a hold for long-term investors who believe in the company's future growth, especially if shares are held in a taxable account with a low cost basis.

Disclosure: Nick McCullum has a long position in Microsoft.

Other Dividend News

- BlackRock misses Q2 earnings and revenue estimates on -4% adjusted EPS growth, sees record +9% net inflows; shares +0.4% premarket

- American Express (AXP) beats earnings expectations on 8.3% revenue growth and 12.5% adjusted earnings-per-share growth

- Bank OZK EPS drops 3.4% in the second quarter; shares -2.9% premarket

- Schlumberger's COO Olivier Le Peuch named CEO

- PepsiCo to acquire South Africa's Pioneer Food for $1.7 billion in its largest-ever international acquisition

- Carl Icahn launches proxy fight against Occidental Petroleum (OXY), looks to win control of four board seats after calling the $38 billion Anadarko Petroleum (APC) acquisition "misguided and hugely overpriced"

- Anheuser Busch InBev (BUD) sells Australian operations to Japan's Asahi for $11.3 billion

- Barrick Gold and Acacia Mining reach buyout deal to end shareholder standoff

- Johnson & Johnson files application in Europe for subcutaneous Darzalex injections

New From Sure Dividend

Articles

- The 7 Best Consumer Staples Stocks Today

Newsletters

The July 2019 edition of *The Sure Dividend International Newsletter* goes live this Sunday morning.