Seeking Alpha

Dividend Ideas | Consumer

General Mills: An Isolated Winner 'Among Virus Carnage'

May 7, 2020 9:49 PM ET17 comments | 8 Likes
by: Richard Berger

Summary

- GIS is a safe haven for income investors in the virus recession bear market.
- Over 120 years of uninterrupted dividends couple with conservative payout ratios and cash flows easily covering dividends and capex to make this a core portfolio target.
- A 12.98% yield rate, along with 12.98% downside market protection, can carry you through the next 2+ months of virus economy, providing immediate cash income.

An Engineered Income Investing Top Idea.

A feast draws your attention, sating your appetite and fueling a warmth to your very core. Fuel for your core portfolio is what we are focusing on during this virus recession. General Mills (NYSE:GIS) is a Dividend Zombie that belongs in the core of any income portfolio.

Company: General Mills

Current Price: $58.97

Dividend: $1.96 (3.32%) Ex-Div ~7/8/20

Fair Value:

FV: YDP $54.90

FV: P/E $60.20

FV: P/S $47.20

Brief Discussion

General Mills earns a top place in the core of income portfolios for its quality as a Dividend Zombie with 120 years of uninterrupted and uncut dividend distributions, a recession-resistant consumer defensive packaged foods segment member, global brand powerhouse, and best of breed. All of these qualities make it qualify as a SWAN (sleep well at night) core target.

The price history chart confirms this thesis, with shares having immediately bounced back from the initial momentum-driven virus economy plunge to a new high above the pre-bear level already. The packaged food - consumer defensive industry segment is stable through economic cycles. This is exactly the property an income investor seeks.

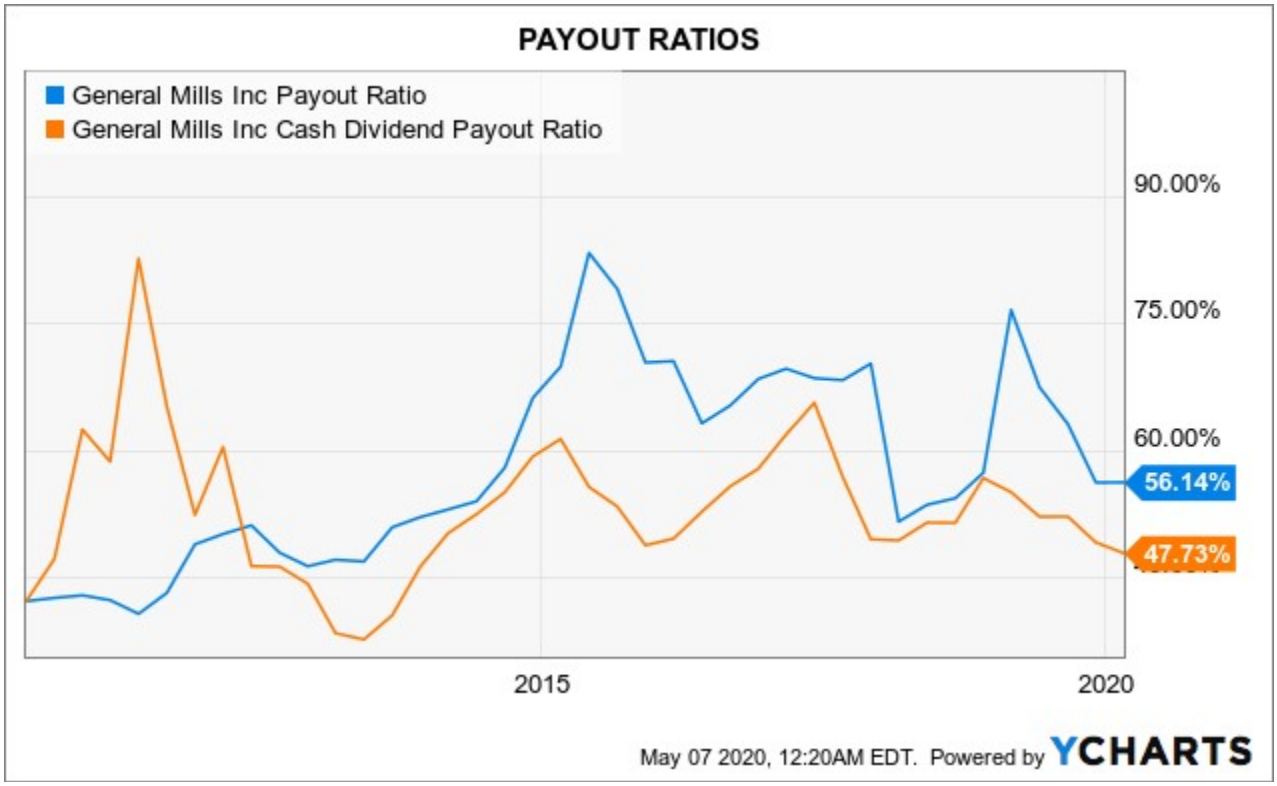
Dividend Review

Dividends are judged by their reliable history, safety, and yield.

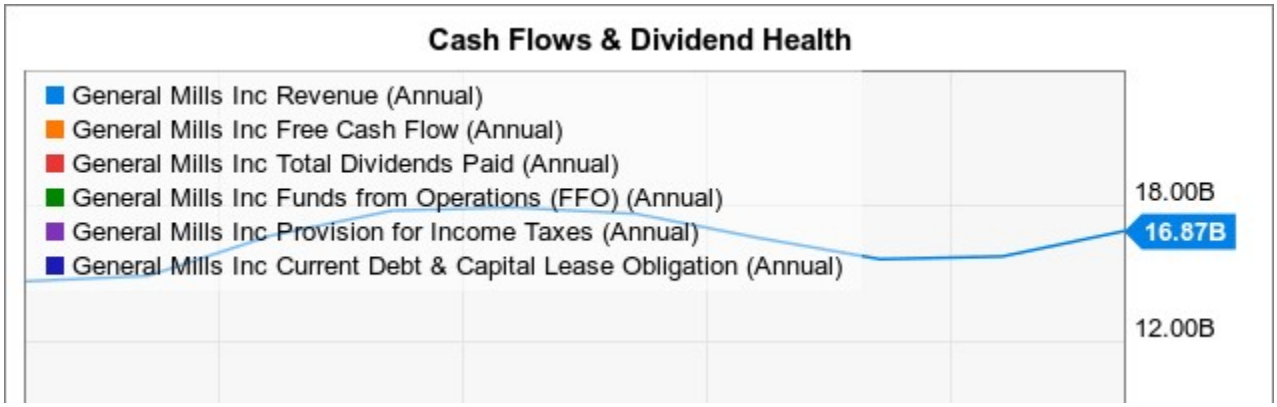
Reliable history demonstrates a company's commitment to the dividend. Track records of

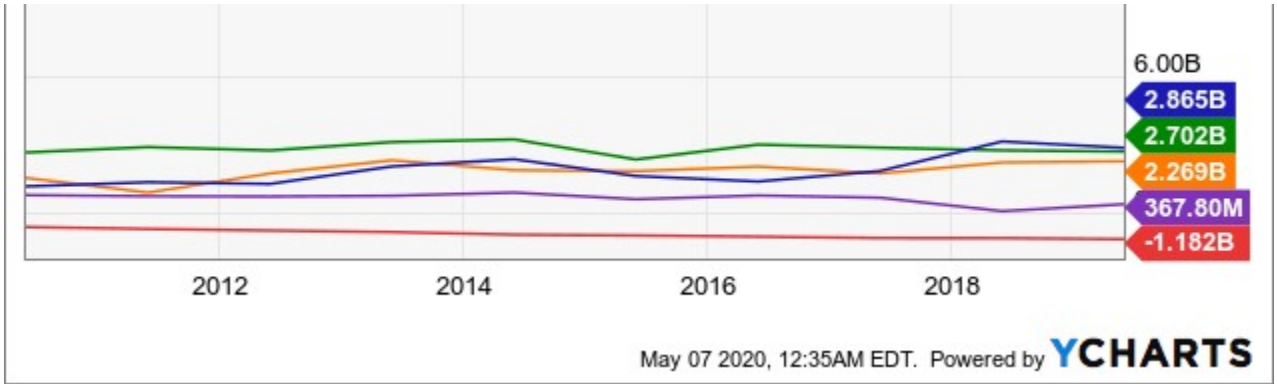
reliable dividends for 25, 50, and even the rare 100 years of unbroken distributions do not come by accident. Only planning, with proven execution and financial depth to back it up, and a dedication as a key core company value will provide results that create such historical track records. General Mills is a giant among these, with over 120 years of uninterrupted dividends.

A steady and sustainable trend of dividends is the first metric of dividend safety. General Mills' cash payout ratio below 50%, with a steady long-term trend, marks it as a very safe dividend.

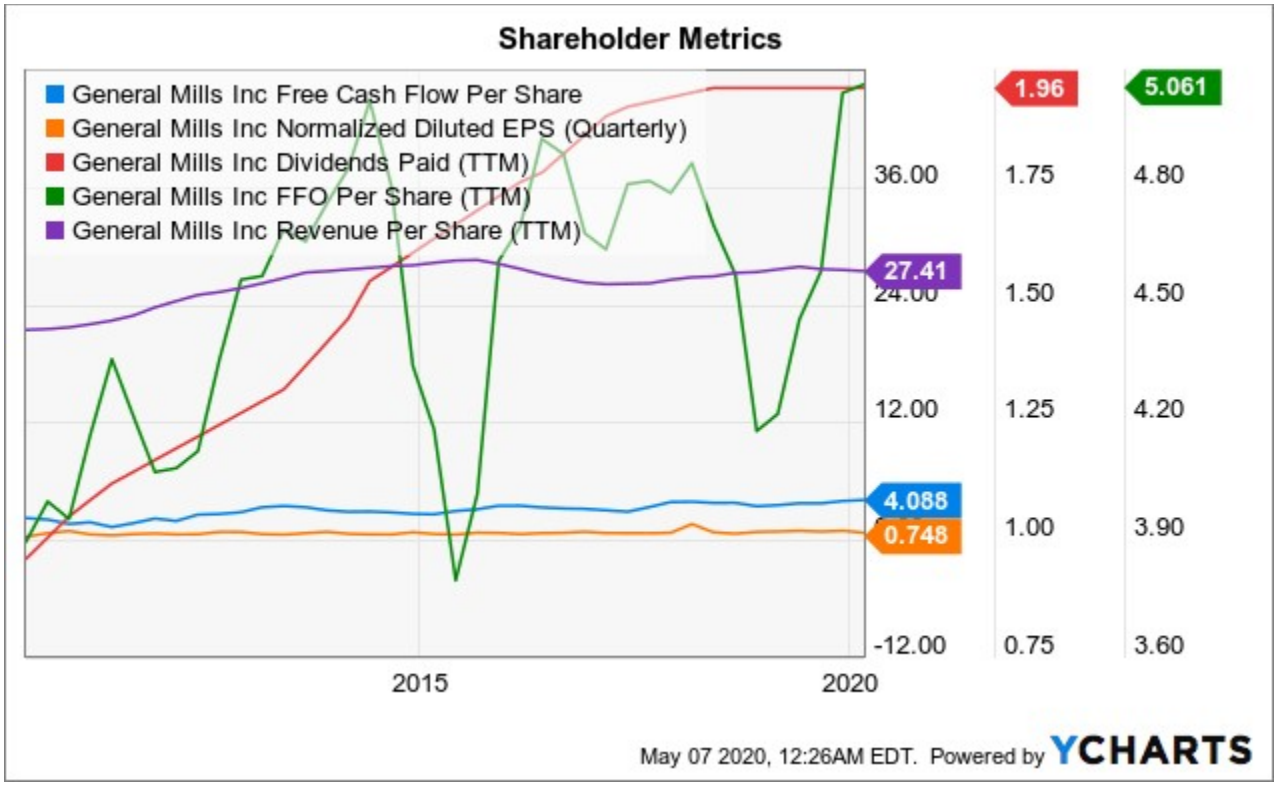


Cash flows demonstrating the ability to pay the dividend without net borrowing is the mark of a safe dividend. A long-term historical trend of this steady ability provides the canary in the coal mine early warning if danger to the dividend may be lurking ahead. GIS scores well on these metrics.





Be wary of companies that rely on accretive rather than organic growth to sustain their momentum. Steady or growing revenues and cash flows can look comforting at first glance but may hide shareholder dilution that can reveal sagging per-share numbers. GIS shareholder metrics confirm its safety and performance are real. Free cash flow per share is steady, and FFO (funds from operations) is growing. Both these metrics provide strong favorable payout ratios on the steady dividend with room for growth.

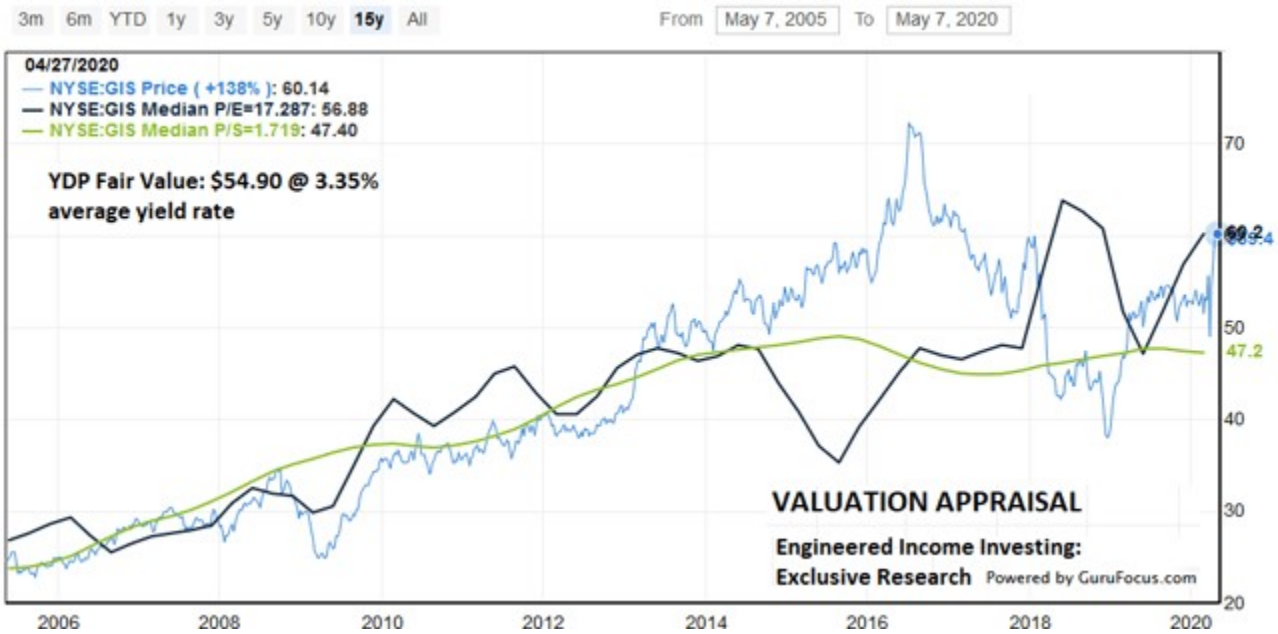


Fair Value Analysis & Appraisal

Even the best of companies may be at bargain or bubble prices at any given time. Value is what determines when to enter, hold, and exit for a successful investor.

YDP fair value is $54.90 for the current $1.96 in annual dividend distributions at the 3.35% average historical yield rate. Other historically well-correlated traditional financial metric

ratios include P/E fair value at 60.20 and P/S at $47.20. The agreement between YDP and P/E valuations places a high confidence level to a valuation of $55.00 to $60.00 range at this time, with a preference to the more conservative $55 side.



Where To Be Wary

Clearly, this safe harbor consumer defensive dividend machine has a lot going for it in all economic cycles. However, one should always look for what may be unseen over the horizon. In this regard, the only issue I can think of that might derail (albeit only temporarily) this core target holding is possible unexpected supply chain disruptions that are unforeseen at this time.

Covered Option Writing Opportunities

GIS has all the qualities of a core holding for income investors. Its place as a consumer defensive makes this doubly so in the current volatile and uncertain virus bear market economy. However, the company shares are in a current minor price bubble (near the high end of fair value range) presently. This is as should be expected, with investment dollars currently fleeing to safe havens. Let's look at an EII strategy to generate strong superior double-digit income yield with downside market protection at this time.

Consider writing the 71-day cash secured puts for 7/17/20 $52.50 @ $1.28 premium. This provides a 12.85% annualized yield rate on net covering cash of $51.22. The breakeven is $7.64 (12.98%) below current market. The $51.22 is a strong bargain entry point relative to the $55-60 fair value if shares are presented.

Underlying — Exclusive Research

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
58.76 B	-.21	58.74 Z	58.76 Z	2 x 2	188,179	59.39	59.50	58.73
Last Size	Yield	PE	Div	Div.Freq	Ex Div.Date	52High	52Low	Shares
100	3.34%	16.89	.49	Q	4/8/20	61.66	46.59	606,138,918

Option Chain — Exp. types: **Regular** Deliverables: **Regular** Spread: **Single** Layout: **Mark, Last X, Covered Return, Open Inte...** Strikes: 6

CALLS										PUTS						
Mark	Last X	Cov R...	Open...	Volume	Positi...	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Mark	Last X	Cov R...	Open...	Volume
19 JUN 20 (43) 100																
6.925	7.50 P	9.39%	5	0		6.80 C	7.05 M	19 JUN 20	52.5	.53 X	.64 N	.585	.57 Q	8.26%	94	0
4.850	5.40 X	15.40%	33	0		4.70 X	5.00 M	19 JUN 20	55	.96 X	1.07 N	1.015	1.00 P	14.34%	971	0
3.085	3.10 Z	25.78%	93	51		2.92 X	3.25 Z	19 JUN 20	57.5	1.65 X	1.91 X	1.780	1.65 W	25.15%	1,912	8
1.650	1.92 M	23.31%	263	1		1.51 X	1.79 X	19 JUN 20	60	2.72 X	2.94 P	2.830	2.50 C	22.46%	384	0
.735	.70 Q	10.38%	2,387	4		.69 B	.78 B	19 JUN 20	62.5	4.30 X	4.60 B	4.450	3.93 C	10.03%	228	0
.280	.33 X	3.96%	403	0		.18 X	.38 X	19 JUN 20	65	6.25 Z	6.55 P	6.400	5.60 C	2.26%	10	0
17 JUL 20 (71) 100																
7.475	7.80 H	10.49%	1,903	0		7.20 X	7.75 X	17 JUL 20	52.5	1.02 X	1.36 X	1.190	1.24 C	10.27%	1,910	0
5.475	5.75 I	14.81%	4,027	0		5.30 X	5.65 X	17 JUL 20	55	1.67 X	2.00 B	1.835	1.86 I	15.84%	972	0
3.800	4.05 C	21.93%	4,881	0		3.65 X	3.95 X	17 JUL 20	57.5	2.55 X	2.91 X	2.730	2.73 I	23.57%	949	0
2.420	2.53 C	20.89%	3,596	2		2.29 X	2.55 Q	17 JUL 20	60	3.75 X	4.05 M	3.900	3.75 Q	22.96%	155	0
1.545	1.81 X	13.34%	1,764	0		1.28 P	1.81 X	17 JUL 20	62.5	5.35 Z	5.55 C	5.450	5.03 C	14.76%	27	0
.745	.74 X	6.43%	748	1		.62 P	.87 X	17 JUL 20	65	7.20 B	7.60 X	7.400	6.59 C	10.01%	21	0
16 OCT 20 (162) 100																
8.275	9.25 C	7.68%	1,066	0		8.10 X	8.45 M	16 OCT 20	52.5	2.31 X	2.89 X	2.600	2.50 Q	9.91%	199	0
6.625	7.05 P	10.93%	272	0		6.40 Z	6.85 X	16 OCT 20	55	3.20 X	3.55 C	3.375	2.92 M	12.87%	91	0
5.050	5.90 H	14.45%	259	0		4.85 X	5.25 X	16 OCT 20	57.5	4.20 X	4.50 X	4.350	4.25 C	16.59%	112	0
3.675	4.00 C	14.01%	626	0		3.55 X	3.80 X	16 OCT 20	60	5.45 X	5.75 M	5.600	5.25 Q	16.63%	181	0
2.705	2.75 N	10.32%	442	0		2.44 X	2.97 X	16 OCT 20	62.5	6.90 X	7.25 M	7.075	6.18 E	12.72%	84	0
1.940	2.00 B	7.40%	388	0		1.60 X	2.28 X	16 OCT 20	65	8.55 C	9.00 X	8.775	7.55 A	9.67%	23	0
15 JAN 21 (253) 100																
9.025	10.84 X	6.77%	1,548	0		8.75 X	9.30 X	15 JAN 21	52.5	3.50 X	3.90 M	3.700	3.70 N	9.05%	1,447	0
7.400	8.20 N	8.91%	1,918	0		7.15 X	7.65 X	15 JAN 21	55	4.45 Q	4.75 X	4.600	4.55 N	11.26%	834	0
5.925	6.10 Z	11.42%	2,370	0		5.70 M	6.15 X	15 JAN 21	57.5	5.50 X	5.85 E	5.675	5.30 Q	13.89%	144	0
[illegible]	4.85 Q	11.20%	4,100	0		[illegible]	[illegible]	15 JAN 21	60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,181	0

Closing Thoughts

Numbers like these in a hostile market with deep downside protection, coupled with excellent locked in double-digit annualized yield rates, are a rare find indeed.

Thank you for taking the time to read my work. If you are interested in dividends, retirement income, option boosting yields, and fundamental value analysis and appraisal, consider becoming a follower by clicking the orange "Follow" button. I invite you to join in the comment section below to join a discussion of the ideas presented in this article.

Stay safe and well.

I am not a licensed securities dealer or advisor. The views here are solely my own and should not be considered or used for investment advice. As always, individuals should determine the suitability for their own situation and perform their own due diligence before making any investment.

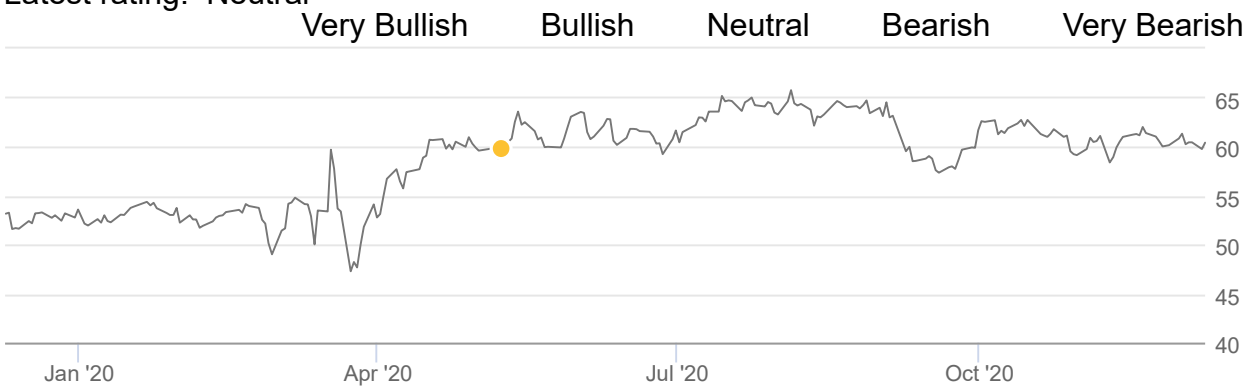
Stay safe and well.

Richard

Disclosure: I am/we are long GIS. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Richard Berger's ratings on GIS

Latest rating: Neutral



All Ratings by Richard Berger »

Comments (17)

seaway416

We all have to eat.....wish I was as smart as all of the Young Ones.

The idea of investing is to have a well rounded and diversified portfolio , but then what do I know?

09 May 2020, 07:23 AM

jimoc

Here is the Valens' list of what it calls "high-dividend-cut risks."

Company Ticker Dividend yield Total return - 2020 Total return - 2019

Deere & Co. US:DE 2.20% -20% 18%

General Mills Inc. US:GIS 3.29% 13% 43%

General Dynamics Corp. US:GD 3.44% -27% 15%

Conagra Brands Inc. US:CAG 2.55% -2% 66%

Newell Brands Inc US:NWL 7.49% -35% 9%

Kraft Heinz Co. US:KHC 5.45% -7% -21%

Kellogg Co. US:K 3.52% -5% 26%

Campbell Soup Co. US:CPB 2.78% 4% 55%

Sealed Air Corp. US:SEE 2.27% -29% 16%

08 May 2020, 11:14 AM

BM Cashflow Detective
Marketplace
@jimoc @Richard Berger

GIS short-term assets ($ 4.3 billion) do not cover short-term liabilities ($ 6.7 billion). Current assets ($ 4.3 billion) do not cover long-term liabilities ($ 15.2 billion). The debt ratio has risen from 154.6% to 162.3% in the past 5 years. It is definitely necessary to reverse this trend. I very much hope that management will be able to do this. It is often not very likely that addicts will take the drug off themselves.

The free cash flow margin of the last 12 months is 15%. The debt is well covered by the operating cash flow (21.6%). The interest payments for his debts are well covered by the EBIT (6.4x coverage). The dividend has been stagnating at $ 0.49 since August 2018. Not so great. But I really don't see any room for a dividend cut here. In my opinion, it is necessary to always check or question such lists.

I know zombie companies. But dividend zombies. Funny. The term is new to me. Isn't it called Dividend Kings? What is the exact definition?

10 May 2020, 02:14 PM

Richard Berger
Premium Marketplace
Author's reply » BM Cashflow Detective,

My Dividend Zombies were presented in 2014.

seekingalpha.com/...

These are the 8 US traded companies that have paid an uninterrupted and uncut dividend for over 100 years. GIS is now its' 121st year. This is a record not built by accident. It takes excellent management, culture, and commitment to weather changes from the horse and buggy to men on the moon, global famine, pandemic, world wars, depressions, and so much more. Past does not assure future success, but it certainly provides context and trend.

Richard

10 May 2020, 04:16 PM

Money 29
GIS, has fair valuation and a decent yield.

08 May 2020, 09:23 AM

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memphismo
Marketplace
CNBC this morning had suspect dividend cut 2021 because of debt due 2021 and cash on hand.

GIS, K, G, John Deere and Chubb.

08 May 2020, 07:45 AM

Richard Berger
Premium Marketplace
Author's reply » memphismo,

Thanks for joining our discussion. GIS certainly will be needing to roll debt in 2021, but its strong credit rating, ultra low interest rate environment, and US government steps to provide unprecedented liquidity to companies as a economic prop responding to the virus recession all suggest this will not be difficult to accomplish. Any roll of debt should actually improve on-going terms and benefit cash flow for GIS in such a case.

Richard

08 May 2020, 07:56 AM

G. Blair Bauer
I see hard times ahead.

Pay down that $8 billion BUFF debt.

08 May 2020, 12:19 AM

5ofDiamonds
Its high time that "old retired folks" on SA understood what is happening in the real world today - which is outside of $KO, $PEP, $T, $GIS. Technology has taken over our world. Even my kids' world. And these are not tech companies which were making losses in 2000. These businesses are making profits.

07 May 2020, 09:56 PM

Investing for Freedom
Yes, but what is your point? Are they mutually exclusive? Don't think so. I hold both worlds of stocks.

07 May 2020, 10:22 PM

Richard Berger
Premium Marketplace
Author's reply » 5ofDiamonds,

Thanks for sharing your thoughts. I could not understand any of them, but maybe others will make sense of them.

I think that you will find that most investors own more than one company or sector.

Richard

07 May 2020, 11:07 PM

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jtom

I don't know about your real world, but in my real world, people still need to eat to survive. So GIS will be around long after Netflex joins Blockbuster.

IMO, these 'old retired folks' stocks provide a steady, safe income, providing returns far superior to those of traditional savings and CDs in our present ZIRP world.

Dividend stocks serve a purpose distinctly different from growth. In a fierce bear market, growth stocks can go down 40%. During those periods, dividends decrease an average if 17%, or so. If you are relying on the market to fund your retirement, you are going to burn through your investments if you must sell growth stock during a recession. Sure, over the long run. growth stocks do better, bit that is based on not selling them during recessions. And retirees don't have the luxury of being able to wait out a recession.

07 May 2020, 11:54 PM

Dividend_007

Finding Tech stocks that aren't over 100 dollars that pay good dividends are hard to find. Maybe a little help here? Thanks

08 May 2020, 06:07 AM

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littlecubbie1985

Csco is one of the few

08 May 2020, 06:17 AM

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aochamp

@jtom: very well stated not only to us "old folks" but to every investor YOUNG and old.

08 May 2020, 10:49 AM

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dallen

Well, I am glad that you young guys no longer need to eat. Just pin a post to your wall then tweet you are snap-chatting, on T network while eating Doritos and drinking a Coke...or are you eating Cheerios from the box.

Clown.

08 May 2020, 09:24 PM

Ttorre1027

Jtom ,well said .GIS minimal downside risk is minimal. Sure growth stocks may do better over time IF you can emotionally hold when they inevitably drop 20 30 40 percent. Slow and steady wins the race. Blue buffalo debt is serviceable in low interest environment and a year or 2 of insane sales due to eat at home boom. Can't wait to see next earnings report.

12 May 2020, 10:56 AM