



Engineered Income Investing

by Richard Berger

"I find quality dividend stocks, fair value, & use covered options to boost yield to 8% to 20% range. Low Risk Stocks transformed to high yield income"

April 19, 2021 | 1:55am - LHX

Storm Portfolio Target #14: LHX Is A Stealthy Addition To Income Portfolios



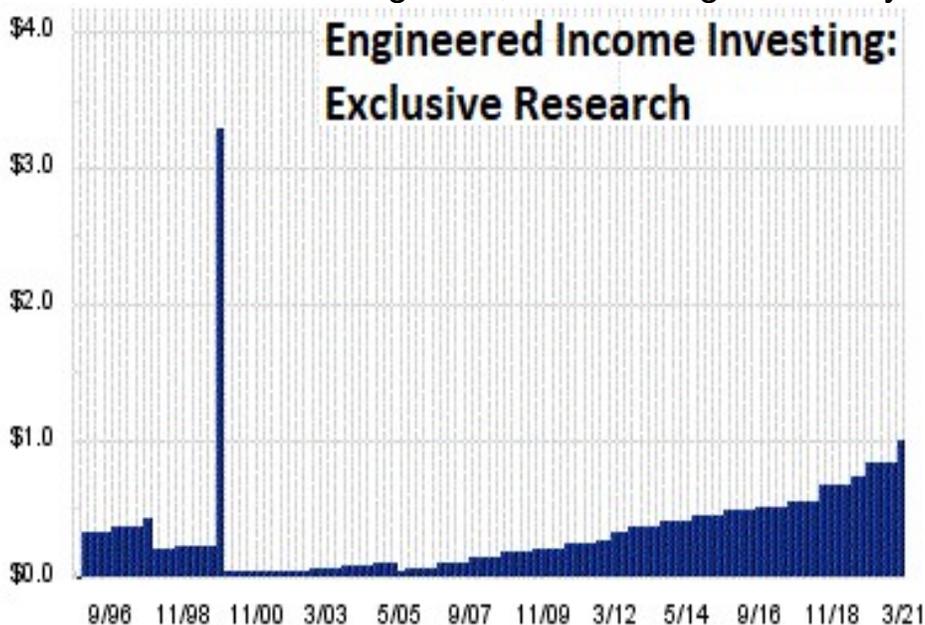
The Engineered Income Investing Storm Portfolio is designed to populate with targets that are expected to survive almost any storm, be it pandemic, global recession or even depression, political upheaval, paradigm shifts in technology, evolution of social norms and habits, war, famine, and just about anything else you can imagine this crazy world might throw at us. We don't just want a

company with that kind of staying power. We want one that is likely to be able and inclined to maintain its dividend, continuing to serve up an all important income stream for us.

I have selected L3 Harris Technologies (LHX) as the 14th target ticker to consider in the EII Storm Portfolio. The company is a major player in the Defense Sector. It provides the tech in many aspects of sensors, electronics, and training systems for U.S. Defense, Aerospace, and Maritime industries, both classified and open programs. It also provides services and products to commercial aviation and maritime industries for communications, training, systems management, air traffic control, and other elements. As such, it has a huge moat of contracts across a very broad spectrum of hardware platforms developed by virtually all major and many minor defense/aerospace contractors and military commands. Its role in national defense systems make it too critical to fail also. All this translates to safe and reliable cash flows and dividends and insulation from direct impacts of economic swings.

Dividends:

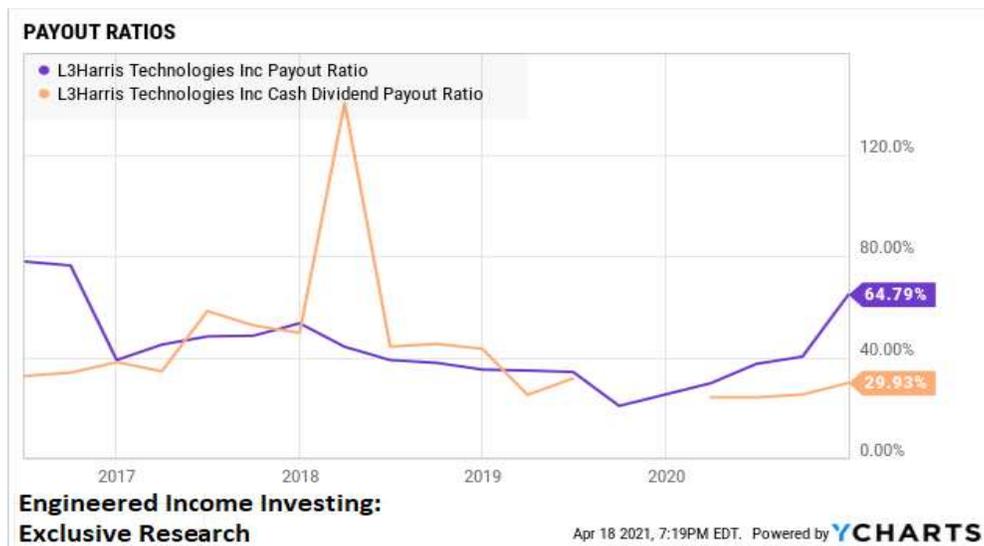
As usual, I begin with a look dividend quality, health and safety. LHX has a good history of consistent solid dividend growth, accelerating in recent years.



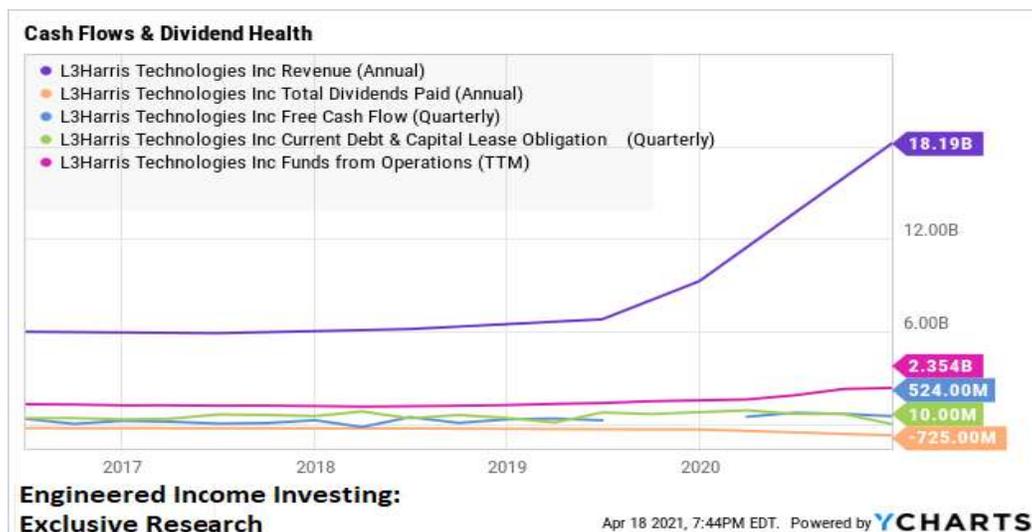
TickerTech.com Apr 17, 2021

With a cash payout ratio below 30%, the dividend is safe, sustainable, and has room for continued growth even if revenue and cash flow growth were to be interrupted for a period. The most recent quarterly dividend hike (from \$0.85 to

\$1.02) occurred on ex-dividend date 3/11/21, with the next distribution expected about 6/1/21.



Turning to a look at cash flows, the engine that feeds dividends, we see a history of steady revenues, with strong recent growth, along with a slowly rising trend for Funds From Operations (FFO) and Free Cash Flow (FCF). The \$2.354 Billion annual FFO dwarfs and easily covers the \$734 Million annual dividend distributions and current debt with capital lease obligations. This is a very rock solid financial ledger.



Viewed on a per share basis, we see trends of revenue growth that is not reflected in similar rising trends for per share FCF nor FFO. This is a bit disappointing but not any indicator of financial distress. Indications are that recent growth has not translated to per share cash flow improvements (at least

yet). Still, the already strong and steady cash flows as part of a bigger revenue pie make for an all the more stable and strong financial position.

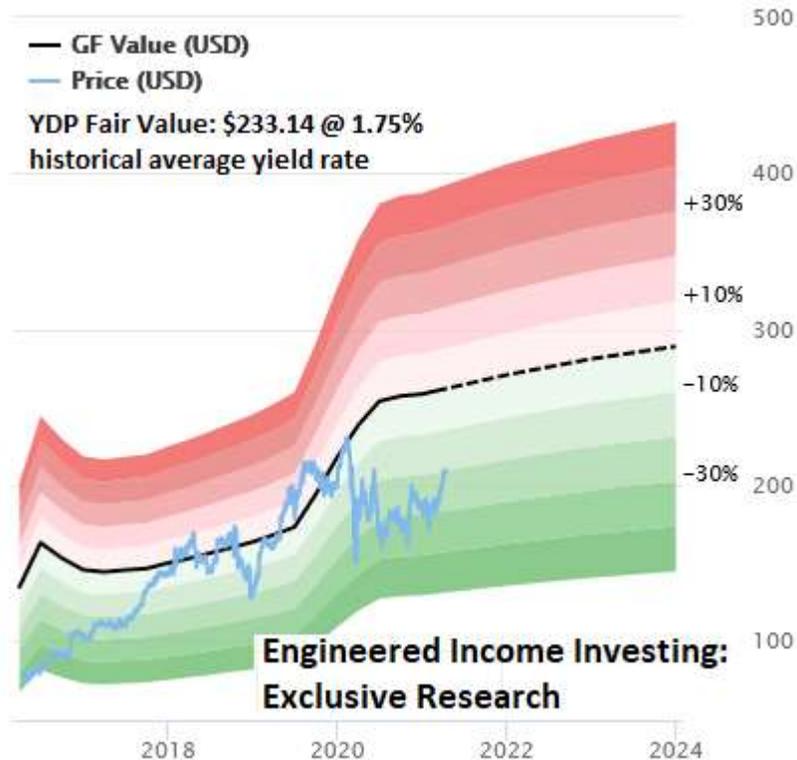


Fair Value Analysis & Appraisal:

YDP fair value for the current \$4.08 annual dividend distributions is \$233.14 based on a historical dividend yield rate average of 1.75%.



Value based on traditional valuation metrics using the blended Guru model indicates a fair value of approximately \$265 at present. Given this ballpark agreement between YDP valuation and the blended Guru model, both of which show good correlation to actual market prices for the past couple of years, a conservative fair value in the \$235 range is estimated with high confidence.



Covered Option Opportunities:

Given the strong moats, long periods of general sideways price movements in market trading, current strong rising channel price trend begun 3/5/21 after a broad sideways consolidation trend begun in the middle of last November, along with the current \$210.72 share market price well below estimated \$235 fair value, there are good covered option writing opportunities at this time. Keep in mind that the next quarterly earning report and call are schedule for 4/30/21 when deciding if you want to establish strategy for LHX now or wait for those results.

For moderate downside protection, consider writing the 61 day cash secured puts using contracts for 6/18/21 \$195.00 @ \$2.90 premium. This provides a 9.03% annualized yield rate on the net \$192.10 covering cash, and downside protection of \$18.62 (8.84%) from current market price on the 2 month contract exposure to market movements.

For larger upfront premium and slightly better return, consider the 124 day cash secured puts for 8/20/21 \$200.00 @ \$6.20 premium. The annualized yield rate is 9.42% on \$193.80 net covering cash and downside protection is \$16.92 (8.03%).

Given shares are trading about \$24.00 below fair value at this time, those wanting to consider a new entry position or added shares at this time might consider a buy-write using the market purchase at \$210.72 along with concurrent selling of a 124 day covered call leg using the 8/20/21 \$220.00 @ \$5.65 premium, for a net debit cost of \$205.07. Annualized yield rate is then 8.11%. When combined with the 1.94% dividend yield, the total yearly rate is 10.05%. If shares are called away, an additional intrinsic gain of \$9.28 (4.53%) would be realized.

An alternative strategy to consider to target share entry at this time could look at writing the short term 33 day at the money cash secured puts using the 5/21/21 \$200.00 @ \$2.10 premium. This provides a net covering cost (break-even and entry point if shares are presented) of \$197.90 and an annualized yield rate of 11.74% on that net covering cash.

Expiration	Volume	Mark	Last X	Open	High	Low	Cov R...	Bid X	Ask X	Strike	Bid X	Ask X	Volume	Mark	Last X	Open	High	Low	Cov R...				
21 MAY 21 (33)	3	21.400	20.60	H	353	3.57%	20.70	B	22.10	B	21 MAY 21	190	.65	T	.80	P	2	.725	.75	H	292	3.81%	
	2	17.050	16.54	C	208	6.99%	15.50	T	18.60	T	21 MAY 21	195	1.15	X	1.30	X	1	1.225	1.25	I	189	6.43%	
	3	12.200	12.80	Q	648	7.77%	11.40	M	13.00	X	21 MAY 21	200	2.00	Z	2.20	Z	5	2.100	2.14	A	405	11.03%	
	134	6.000	5.90	N	1,254	27.73%	5.80	B	6.20	Z	21 MAY 21	210	3.90	X	7.00	T	14	5.450	6.00	N	198	28.63%	
	343	1.875	1.65	A	431	9.85%	1.65	X	2.10	X	21 MAY 21	220	10.00	X	13.20	X	0	11.600	19.00	H	3	12.19%	
	7	.425	.40	D	169	2.23%	.35	T	.50	T	21 MAY 21	230	17.50	M	22.00	M	0	19.750	43.52	A	1	2.47%	
	1	.100	.05	N	56	0.53%	.05	P	.15	X	21 MAY 21	240	27.10	B	31.40	B	0	29.250	0	0	0	-0.16%	
	3	.125	.05	M	6	0.66%	.0	J	.25	B	21 MAY 21	250	37.00	B	41.50	B	0	39.250	0	0	0	-0.16%	
	18 JUN 21 (61)	0	21.900	0	0	3.35%	21.60	X	22.20	A	18 JUN 21	190	1.60	T	2.10	X	9	1.850	1.70	Q	0	5.26%	
		0	17.800	0	0	5.91%	17.30	T	18.30	X	18 JUN 21	195	2.50	Q	3.30	T	1	2.900	2.55	N	0	8.24%	
0		13.700	0	0	8.47%	13.20	B	14.20	X	18 JUN 21	200	2.55	T	3.80	X	4	3.175	3.80	Q	0	9.02%		
21		8.050	7.41	C	0	20.83%	7.10	T	9.00	T	18 JUN 21	210	7.30	Q	8.10	T	12	7.700	7.40	Q	0	21.88%	
13		3.075	2.95	Q	19	8.74%	2.65	X	3.50	X	18 JUN 21	220	13.00	X	13.80	X	0	13.400	0	0	0	11.71%	
9		1.275	1.03	X	2	3.62%	.95	X	1.60	X	18 JUN 21	230	21.00	X	21.70	X	0	21.350	0	0	0	5.88%	
0		.700	0	0	1.99%	.0	N	1.40	T	18 JUN 21	240	28.60	M	32.50	T	0	30.550	0	0	0	3.61%		
0		.500	0	0	1.42%	.05	T	.95	T	18 JUN 21	250	38.50	B	42.10	B	0	40.300	0	0	0	2.90%		
20 AUG 21 (124)		0	23.950	20.45	Q	11	4.51%	23.60	X	24.30	X	20 AUG 21	190	3.80	X	4.80	T	8	4.300	3.90	Q	25	6.01%
		0	20.000	20.20	N	52	5.98%	19.60	T	20.40	X	20 AUG 21	195	3.90	T	5.30	T	3	4.600	5.10	Q	26	6.43%
	0	16.250	15.38	B	115	7.73%	15.70	X	16.80	X	20 AUG 21	200	5.50	T	6.90	T	1	6.200	6.60	Q	39	8.67%	
	0	10.150	10.50	Q	79	13.18%	8.90	T	11.40	T	20 AUG 21	210	9.30	T	11.80	T	13	10.550	10.80	Q	25	14.75%	
	12	5.650	5.99	C	369	7.90%	4.70	T	6.60	T	20 AUG 21	220	14.90	T	16.70	T	0	15.800	17.80	C	3	9.11%	
	5	3.300	3.50	N	124	4.61%	2.80	T	3.80	T	20 AUG 21	230	22.00	T	24.80	T	0	23.400	0	0	0	5.76%	

Closing Thoughts:

I continue a focus on income from strong and secure tickers to weather storms with downside protection. I also continue searching to have one or two new special opportunity ideas this month.

I look forward to continue working with all of you.

As always, feel free to ask any questions or discussion you wish via open or private message In chat or email to me.

I am fully 2 shot vaccinated now and happy to meet and share a beverage or meal with anyone that happens to be in the Tampa area now through May 25th.

Stay safe and well.

Richard

I am not a licensed or registered 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 conduct any added research they wish, determine the suitability for their own situation, and perform their own due diligence before making any investment.