The Wealthy Owl

No nonsense. All encompassing. Wealth creation.

Exclusive report for free newsletter subscribers

Top 10 Dividend Stocks for 2022

Third Annual Report

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http://www.thewealthyowl.com

All financial data provided in this report has been sourced from Morningstar and is current as of January 2nd, 2022

Disclaimer: This report is based my opinions and should not be considered professional financial advice. Please consult a financial professional before using any of the information on The Wealthy Owl blog.

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Introduction

Ten plus years ago I started a love affair with dividend growth investing. Always there for me, dividends are the world's most reliable passive income stream.

To help investors find and consider solid dividend growth stocks for their portfolios I publish an annual Top 10 Dividend Stock report.

Welcome to the 2022 Top 10 Dividend Stock report!

I follow a specific methodology for sourcing and analyzing top dividend stocks that includes consideration for their dividend growth track record, ability to sustain dividend growth, earnings growth, business model and current valuations.

Reflecting on my last two annual reports, I am pleased with the performance overall of my portfolio of picks:

2020 Top 10 Dividend stock report (Performance over two-years)[1]:

Wealthy Owl Top 10 2020 Dividend Stocks Return	Dow Jones US Dividend 100 Index Return	Wealthy Owl Vs. Index Return
76.7%	45.1%	**+31.6%**

- The total dividend yield on cost of the 2020 portfolio of picks finished 2021 at 3.8%.
- All 10 stocks raised their dividend YoY, with an annualized increase of 15% over the two-year period, as a total portfolio.

2021 Top 10 Dividend stock report (Performance over one-year)[2]

Wealthy Owl Top 10 2021 Dividend Stocks Return	Dow Jones US Dividend 100 Index Return	Wealthy Owl Vs. Index Return
32.2%	26.1%	**+6.1%**

- The total dividend yield on cost of the 2021 portfolio of picks finished 2021 at 2.8%.
- All 10 stocks raised their dividend YoY, with an increase of 20% over the one-year period, as a total portfolio.

https://www.thewealthyowl.com/guide-to-dividend-growth-investing

Many of my 2022 top picks should benefit from key growth trends such as the accelerated digitization of our world, semiconductor demand, the industrial internet of things and infrastructure spending. I favor thematic based investing and bringing this approach to dividend investing makes me even more bullish about my 2022 picks.

This is not intended to be a complete list, just my favorite dividend stocks for the year ahead as consideration for your own evaluation. Before making investment decisions, please do your own research and/or seek the advice of a professional adviser.

As a primer, be sure to check out my **Definitive Guide to Dividend Growth Investing**.

1. Period of measurement from October 29, 2019 (date of report publication) to December 31, 2021
2. Period of measurement from December 15, 2020 (date of report publication) to December 31, 2021

Selection Methodology

Track record of paying and increasing dividend	• 5+ years of paying a dividend • 5+ years of annual dividend increases • Minimum yield of 1.5% and annual dividend growth rate exceeding 3% over last 5 years • Combination of dividend yield and annual dividend growth rate > 10%
Ability to sustain and grow dividend	• Payout ratio below 60% • Earnings per share (EPS) growth greater than 10% on an annualized basis, over the last five years
Strong business model	• Does the company have a sustainable competitive advantage? • Does the company have new markets to enter and grow? • Return On Equity (ROE) greater than 12%
Reasonably valued	• Price to Earnings ratio below 20

Rare exceptions to this criterion apply where justified

The Wealthy Owl’s Top 10 Dividend Stocks for 2022

Company	Exchange: Symbol	Sector	Grade
Blackstone	NYSE: BX	Financial Services	A-
Houlihan Lokey	NYSE: HLI	Financial Services	A-
Lockheed Martin	NYSE: LMT	Manufacturing	A-
Lowe’s Companies	NYSE: LOW	Retail	A-
Taiwan Semiconductor	NYSE: TSM*	Semiconductor	B+
Toronto Dominion Bank	NYSE: TD; TSX: TD	Financial Services	B+
Caterpillar	NYSE: CAT	Manufacturing	B+
Intel	NASDAQ: INTC	Semiconductor	B+
Qualcomm	NASDAQ: QCOM	Semiconductor	B+
John Deere	NYSE: DE	Manufacturing	B

* Taiwan Semiconductor trades as American Depositary Receipts under the ticker “TSM” on the NYSE.

Blackstone (NYSE: BX)

Overall Grade | A-

Blackstone is the world's largest alternative asset management, known as the "go-to firm" for institutional and high-net-worth investors looking for exposure to unconventional asset classes. The firm uses its investing process, scale and the ability to easily move pools of funds from one asset class to another opportunistically.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	A	Grew dividend 16% annually over last five years. Blackstone has a variable dividend policy that targets 85% of its distributable earnings for payout.	Shareholders experience dividend volatility due to the highly cyclical nature of the asset management industry and unpredictability of its private equity business. The trade-off for investors is a company that optimizes for capital return to shareholders over a steady payout year over year.
Ability to sustain & grow dividend	A-	Blackstone has grown earnings at an astonishing annual rate of 73% over the last five years. It has a current payout ratio of 41.	
Strong business model	A	Blackstone has a strong reputation built on a track record of investment performance, diverse asset portfolio, and a well entrenched investment philosophy that permeates throughout the relatively small firm. It is well positioned to capitalize on the growing demand for alternative assets.	As new players such as BlackRock move into the alternative asset space, competition for new investor capital is likely to increase.
Reasonably valued	B	Over the years investors have re-rated Blackstone's valuation due to its mix shift towards greater management fees, over the lumpier performance incentive revenue. Its fee-related earnings are highly valued by investors who are willing to pay a premium for the stability.	While the current P/E ratio of 17 is below its 5-year average of 25.5, BlackRock is more expensive on a P/E basis relative to the PE ratio of 15 from its industry peers (sourced via S&P Compustat)

Key Stats

Market Cap: $92 Billion
Annualized 5-Year Return: 39.25%
Dividend Yield: 2.8%

Bottom Line

If you can stomach the volatility in Blackstone's dividend, you are buying a proven performer that prioritizes shareholder return.

Summary Analysis:

Blackstone has built an amazing business over the last 36 years, innovating from its start up days as purely a private equity investment firm to new asset specialties such as real estate, hedge funds, credit, secondary funds of funds, and multi-asset class strategies. The firm's unique culture built by founder CEO and investing legend Stephen Schwarzman, scale and steady inflow of capital puts it in a unique position to deliver market beating returns for customers. Blackstone's investment track record has built a nice virtuous cycle that reinforces its strengths, which should continue well into the future.

Houlihan Lokey Inc. (NYSE: HLI)

HOULIHAN LOKEY

Overall Grade	A-

Since I first recommended it in 2020, Houlihan Lokey's (HLI) market cap has more than doubled, earning the investment management firm a return to my annual list this year. HLI has expertise in mergers and acquisitions, capital markets, financial restructuring, valuation, and strategic consulting. The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, and Asia-Pacific.

Characteristic	Grade	Highlight	Lowlight
Track record of paying & increasing dividend	B+	Five-year annualized dividend growth rate of 18%. Combined dividend yield and annualized five-year growth rate is 20%, well above my minimum 10% hurdle rate.	As a public company for only 7 years, HLI has been paying dividends for a relatively short period of time.
Ability to sustain & grow dividend	A	Payout ratio of 25%. EPS annualized growth rate for last five years of 15%+.	Can't fault HLI for not being around as public company longer than 7 years, but the lack of a 10 year+ track record introduces some risk.
Strong business model	A-	HLI is the best at what they do, in what is a fiercely competitive market. Their balanced portfolio of service offerings give it resiliency with both cyclical and countercyclical businesses. They plan to grow through acquisitions, continued expansion into Europe and Asia-Pacific and growing their average deal sizes.	
Reasonably valued	B+	Forward P/E ratio of 16.9, slightly below its five-year average (17.7).	

Key Stats

Market Cap: $7 billion
Annualized 3-Year Return: 28.6%
Dividend Yield: 1.7%

Bottom Line

This relatively unknown investment bank has delivered big time for its investors since it went public seven years ago. Don't let their shorter public history dissuade you from what is a very well managed and long tenured business that pays an aggressively growing dividend.

Summary Analysis: One of the oldest independent investment banks in the market, Houlihan Lokey (HLI) has a much shorter history as a public company. While the company only went public in 2015, all its key numbers have grown. They've grown revenues 17% per year and net income by 28% for the last five years. It's amazing performance since going public seems to be a continuation of its steady growth over its 50-year existence. The company has demonstrated its resilience over the years, where some of their competitors were sunk due to several economic crises over this period, not HLI. It has flourished over the years as a result of its quality, long-tenured management team, integrity, and industry leading expertise. HLI has been recognized as the Top U.S. Mergers & Acquisitions Advisor and Top Global Restructuring Advisor, among other awards over the years. They beat out competitors such as Goldman Sachs, JP Morgan and Morgan Stanley for these accolades. Their stock has also outperformed, beating the investment bank industry ***annualized*** return over five years by 13% pts.

Lockheed Martin (NYSE: LMT)

Overall Grade A-

Lockheed Martin is the largest defense contractor globally and operates in four segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems, and Space. Lockheed Martin's revenue is closely pegged to America's defense spending as close to 75% of its revenue comes from the U.S. government (based on 2020 financial results).

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	A-	20-year streak of annual dividend increases, including an annualized 7% growth over the last five years	
Ability to sustain & grow dividend	A-	Lockheed has grown earnings 8.5% on an annualized basis the last five years. Given the nature of defense contracts spanning multiple decades, Lockheed Martin has a lot of visibility into its financial future and therefore can plan for continued dividend growth.	In its latest earnings report, management issued disappointing new guidance of flat to single digit revenue and operating profit growth over the next few years. With growth expected to resume after this stagnant period, management plans to grow earnings per share and return capital to shareholders in the meantime.
Strong business model	A-	Lockheed Martin has a wide moat due to high barriers to entry that keep competitors at bay, long product cycles, the critical status given to it by its largest customer - the US government; and high switching costs.	Risk to Lockheed's core business is quite low, though Elon Musk's SpaceX has emerged as a threat in their space business. Revenue growth year over year can be volatile given its ties to the U.S. defense budget which fluctuates frequently due to the political climate and the changing global conflict environment. While volatility may be a concern, the long-term trend of U.S. government spending on defense will likely continue up and to the right for the next decade at least.
Reasonably valued	A	Lockheed Martin is currently trading at a forward P/E ratio of 12.7, below its five-year average of 17.3. and below competitors General Dynamics and Northup.	

Key Stats

Market Cap: $98 Billion
Annualized 5-Year Return: 9.9%
Dividend Yield: 3.2%

Bottom Line

Very stable business with a wide moat that allows investors to rest easy and count their growing dividend each year. Lockheed Martin is trading below historical multiples, making it attractively valued.

Summary Analysis: Lockheed Martin's financial outlook is very stable given the long-term nature of defense contracts. For example, the F-35, which accounts for about 30% of the company's revenue, will be sustained through 2070. This enviable position of decades long contracts provides a lot of financial stability which greatly reduces any risk to the sustainment and growth of its dividend payment. With a track record of 26 years of paying a dividend, Lockheed Martin's dividend is very safe. Any risk to their ability to grow their dividend is related to U.S. Department of Defense spending. They are so dependent on the U.S. military industrial complex that if defense spending was curbed it would create very choppy waters for the company. For example, the fall of the Soviet Union led to sustained defense cuts until the U.S. government could find a new enemy. Sadly, for the prospect of world peace, with the increased tension in U.S. and China relations military spending is likely to only increase over the next decade.

Lowe's Companies (NYSE: LOW)

Overall Grade	A-

With a new CEO at the helm for the last two years, the world's second largest home improvement retailer Lowe's is making moves to steal share from the largest - Home Depot. Buoyed by the same tailwinds that drove Home Depot growth, one of the best performing picks from my 2021 top 10 dividend stocks report, Lowe's is well positioned to drive operational efficiencies and gain share in a post-Covid home improvement oligopoly.

Characteristics	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	A+	A dividend aristocrat (50+ consecutive years of increasing dividend), Lowe's has raised its dividend for 57 consecutive years and grown it at a 15% annualized rate over the last five.	
Ability to sustain & grow dividend	A	Lowe's has lots of room to continue growing its dividend with a 24% payout ratio as compared to the 35% payout ratio target it set for itself.	
Strong business model	B	Building on its long-standing position as a low-cost provider, Lowe's is catching up to Home Depot in some key areas, including penetrating the Pro market, omnichannel, and optimizing its workforce to provide better in store service to customers.	Lowe's digital business has underperformed. As of the end of FY20, online sales accounted for only 10% of Lowe's total revenue as compared to 15% for Home Depot.
Reasonably valued	B+	Lowe's is well on its way to achieving its long-term operating margin target of 13%. Lowe's continued margin expansion should cause investors to re-rate its P/E multiple, putting it closer to Home Depot's valuation. Home Depot is currently trading at a forward P/E ratio of 25.5 with an operating margin of 13.8%. With its current operating margin of 12.2%, Lowe's it trading at a forward P/E of 20 and showing signs of upside.	

Key Stats

Market Cap: $174 Billion
Annualized 5-Year Return: 30.5%
Dividend Yield: 1.24%

Bottom Line

A dividend aristocrat, Lowe's offers investors some strong upside through the expansion of its digital business and improving operating margins.

Summary Analysis: Being the perpetual number two home improvement retailer to Home Depot's number one position has been a fine strategy for Lowe's the last couple of years. Covid 19 forcing all of us to stay, play and work from home and an aging housing stock have led to record levels of consumer spending on home improvement projects and helped Lowe's grow revenue 24% in the last year. Unsatisfied with the status quo Lowe's has made progress the last couple of years implementing its Total Home strategy to enhance customer engagement and grow share. A key component of its strategy, Lowe's appears to be making the right investments for growing its online business, including hiring software and digital talent, expanding its online assortment, and enhancing fulfillment. Its potential to turnaround digital and continued margin expansion are what excite me the most about Lowe's. Oh, and Lowe's is in rarified air with its status as a dividend aristocrat.

Taiwan Semiconductor Manufacturing (NYSE*: TSM)

Overall Grade B+

Taiwan Semiconductor Manufacturing (TSMC) is the ninth most valuable company in the world and the largest dedicated contract chip manufacturer. Technology companies such as Apple, Nvidia, AMD, Qualcomm, Amazon, Microsoft, Facebook, and yes even Intel, all use TSMC for their most advanced chips due to their unquestioned #1 leadership position.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B+	The company has paid a dividend each year from its first distribution in 2004. Their annual dividend per share has increased for six consecutive years, growing at an annualized rate of 13% over the last five.	
Ability to sustain & grow dividend	A-	As compared to their peers, TSMC's earnings are stable, ensuring a more consistent and sustainable dividend. EPS has grown at an annualized rate of 14.2% over the last 5 years.	The semiconductor industry is notoriously volatile. However, many industry experts forecast a sustained level of demand as our world becomes more digital.
Strong business model	A	TSMC is best in class at the world's most complicated manufacturing process. They have a wide moat that even if competitors were able to clear the capital hurdle to just been on par spending wise, would still be unable to match TSMC's IP and engineering know-how built up over decades. TMSC customers have high switching costs. Because of its 90% market share, if you decide to move off TSMC you are in effect giving up being on the leading edge. Also, customers and TSMC are deeply integrated process wise.	The greatest risk to TSMC's business is the threat of war between China, Taiwan and potentially the U.S. Thus far, Taiwan's strength in semiconductor chips has protected the country against Chinese aggression. I believe this "silicon shield" will persist and therefore I am personally comfortable with the risk/reward quotient for TSMC. Consider your risk tolerance. I would recommend monitoring this risk and acting if the risk rises considerably.
Reasonably valued	B	While its current valuation is high, I am comfortable with the price given the growing demand for semiconductor chips. TSMC has earned its multiple expansion over the years.	TSMC is trading at its highest valuation levels, on a P/E and P/S basis, over the last decade.

Key Stats

Market Cap: $625 Billion
Annualized 5-Year Return: 34.8%
Dividend Yield: 1.61%

Bottom Line

TSMC provides investors with a rare combination of growth and dividend income that itself should grow over the years. There are lots of tailwinds as the world's insatiable appetite for chips will only grow as our world becomes more digital.

Summary Analysis: TSMC is a near monopoly in the world's most important industry. There are lots of tailwinds as the world's insatiable appetite for advanced computer chips will only grow as our world becomes more and more digital. There is no company better positioned to ride this wave than TSMC, their process power, wide moat and deep relationships with the world's most important technology companies solidifies their number one position in this market oligopoly. They are a dividend grower, with a 17-year track record of paying a dividend, growing it at a 12% annualized rate over the last 5 yrs. For a deeper dive read my blog post on TSMC.

* Taiwan Semiconductor trades as American Depositary Receipts under the ticker "TSM" on the NYSE.

The Toronto Dominion Bank (NYSE: TD; TSX: TD)

Overall Grade	B+

One of my 2020 top 10 dividend stocks, TD Bank makes a return for 2022. TD is one of the two largest banks in the oligopolistic Canadian banking market and operates three business segments: Canadian retail banking, U.S. retail banking, and wholesale banking. The bank's U.S. operations span from Maine to Florida, with a strong presence in the Northeast. TD realizes 55% of its revenue from Canada and 35% from the United States, with the rest coming from other countries.

Characteristic	Grade	Highlight	Lowlight
Track record of paying & increasing dividend	A	With 160+ consecutive years of paying a dividend, it's safe. TD's five-year annualized dividend growth rate is 7%, a slight slowdown from two years ago.	
Ability to sustain & grow dividend	B+	Payout ratio of 41%. A respectable EPS annualized growth rate of 8% for last five years.	Growth opportunities in Canada are limited. This leads TD to look outside Canada for new growth where returns are not as attractive as those available in the oligopoly system of Canadian banking.
Strong business model	B	Canada more strictly regulates its banks, relative to the US, protecting them from themselves in times of economic crisis. With TD Bank operating in the oligopoly based Canadian bank market, it is well managed and very profitable.	
Reasonably valued	B	With a forward P/E ratio of 12 that is inline with its five-year average, TD Bank appears to be fairly valued at today's prices	

Key Stats

Market Cap: $139 Billion
Annualized 5-Year Return: 12.4%
Dividend Yield: 3.6%

Bottom Line

A reliable dividend growth stock and trading at 12 times earnings, TD is a safe buy for dividend investors.

Summary Analysis: The Canadian banking sector provides for more stable and conservative management as compared to their US counterparts, offering investors exposure to high yielding and reliable dividend payers. TD fits the profile and then some. Founded in 1855, TD has grown into one of North America's top 10 largest banks by total assets and market capitalization. TD has raised its dividend for 16 straight years and has paid out a dividend to investors for 160+ years. TD has outperformed the Canadian banking industry overall (as of Dec 26, 2022, per Morningstar bank sector index) by 4% pts over the last five years.

Caterpillar (NYSE: CAT)

Overall Grade B+

The iconic Caterpillar is the world's largest heavy equipment manufacturers with over 15% market share as of 2020. Like other top dividend pick John Deere, Caterpillar is poised to benefit from the $1.2 trillion infrastructure bill recently passed by U.S. lawmakers for roads, bridges and other major infrastructure projects.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	A+	Dividend aristocrat with 27 consecutive years of dividend growth, including an annualized 7% over the last five years .	
Ability to sustain & grow dividend	A-	The dividend is safe with a payout ratio of 45%. EPS growth of 9% annualized for last five years. Seeking Alpha forecasts investors can expect EPS to grow at a 20% CAGR over the next 3-5 years, putting Caterpillar in a good position to continue its dividend growth streak over the same period.	
Strong business model	B	The company's strategy focuses on operational excellence, expanded offerings and growing services thru digital-enabled solutions that help deepen relationships with customers. While not as mature as other heavy equipment manufacturer top pick John Deere, Caterpillar is building its digital muscle. More than 1 million of its assets are connected to its digital platform (out of 2 million assets in the field). This install base is the foundation for future services growth, which they project to double to $28B by 2026.	Revenue growth has been stagnant the last five years.
Reasonably valued	B+	The stock is trading at a forward P/E ratio of 15.7, slightly below its five-year average of 18.8, revealing a small amount of potential upside. The stock is trading 16% below its 52-week high.	

Key Stats

Market Cap: $112 Billion
Annualized 5-Year Return: 19.4%
Dividend Yield: 2.15%

Bottom Line

If you are looking for a consistent dividend grower, it's hard to find a better stock than dividend aristocrat Caterpillar.

Summary Analysis: The strength of its brand and extensive dealer network has helped solidified Caterpillar as the market leader for heavy machinery equipment. Caterpillar revenue ebbs and flows with demand from the construction, mining, and energy markets, leading to volatile revenue and operating profits over the years. Its operational focus and emerging recurring service revenue growth should help smooth out the volatility of future results.

Intel (NASDAQ: INTC)

Overall Grade | B+

If you are a fan of technology company turnaround stories than Intel, the once vaunted computer chip manufacturer, may be an interesting addition to your portfolio. New CEO Pat Gelsinger is trying to steal a page from Microsoft CEO Satya Nadella to re-establish Intel as a leader in this new era of computing.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B	Modest 5-year annualized dividend growth rate of 5%, with an eight-year streak of annual increases.	
Ability to sustain & grow dividend	B+	Payout ratio of 27%. EPS annualized growth rate for last five years is 31.7%.	Intel is investing in its turnaround strategy, leaving less cash for more aggressive dividend hikes. Capital spending is jumping to $28B in 2022, up from $19B in 2021.
Strong business model	B	Intel's moat lies in the PC and data center markets. They are investing to expand into burgeoning areas such as AI, the Internet of Things, and automotive. To build leading products in these emerging markets, Intel invests heavily in R&D and has made several recent savvy acquisitions. Intel is spending more than $40 billion to build a new Foundry business. They plan to compete more directly with Taiwan Semiconductor (TSMC) and Samsung, and to capitalize on the trend of fabless tech giants designing their own chips.	Over the last decade Intel's relevance in the semiconductor industry has waned, as it was mostly left out of the mobile era. Management missteps over the last few years, amid PC sales declines, has led to Intel falling behind both Taiwan Semiconductor Manufacturing (TSMC) and Advanced Micro Devices (AMD).
Reasonably valued	A	Based on backwards looking valuation measures, Intel is on sale. Their P/E ratio is 9.9, below their 14.7 five-year average and dwarfed by peers such as AMD (42.3), Nvidia (92.6) and TSMC (30.2). However, each of these competitors have impressive growth, whereas Intel is in turnaround mode. The stock price is justifiably depressed at this stage of the story.	Price/Forward Earnings (13.7) are slightly above its five-year average (12.22)

Key Stats

Market Cap: $210 Billion
Annualized 5-Year Return: 9.8%
Dividend Yield: 2.7%

Bottom Line

Intel is appealing to value investors looking for a turnaround story. With the massive amounts of cash flow Intel generates each year, its long history of dividend payments and massive industry headwinds, downside risk is reasonably protected.

Summary Analysis: The table appears to be set for Intel to make a comeback. There is insatiable demand for semiconductor chips, geopolitical pressures favor U.S. chip manufacturers like Intel, and a new CEO with strong technical credentials. But Intel is also playing catchup in the most important chip markets today, having lost to ARM, TSMC and AMD in mobile, and trailing Nvidia in the specialized chip market for AI. Recent manufacturing delays related to its 10-nanometer technology raises some doubt about Intel's ability to execute. Given chip development cycles take between three and five years, investors will have to wait to see whether Intel can capitalize on its strong hand.

Qualcomm (NASDAQ: QCOM)

Overall Grade	B+

Leading mobile chip designer Qualcomm has prospered over the years as a result of its dominant position in the smartphone market. It also derives about 19% of its revenue from licensing its collection of mobile technology patents. Qualcomm has its IP in almost every smartphone sold in the world today. Qualcomm has been diversifying beyond its core handset market, deriving 38% of its revenue from new markets such as automotive and the Internet of Things (IoT).

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B	Paid a dividend for 19 straight years, raising it consecutively for the last 12 years.	Qualcomm's dividend score (dividend yield + dividend growth rate) is 6.5%, below my preferred hurdle rate of 10%.
Ability to sustain & grow dividend	A-	Grown earnings at an astonishing annual rate of 76% over the last five years. Dividend payout ratio of 33%.	Qualcomm's cash cow licensing business has faced regulatory scrutiny in the U.S. and other regions recently.
Strong business model	A	Qualcomm is diversifying its revenue growth across an expanding TAM. Qualcomm forecasts its TAM growing to $700 billion over the next decade, up from its current $100 billion, due to the growth of edge computing. This is a world where devices, wearables, cars, VR headsets, industrial machines (aka IoT) and beyond process data so they can make intelligent decisions on their own without having to take slower and less secure roundtrips back to the central cloud. 5G is critical to connecting all of these 'things' to edge cloud. 5G is a massive growth driver for Qualcomm. Its Snapdragon tech has been optimized to realize this opportunity not only in its legacy handset business, but new areas such as IoT ($5B+, 67% YoY growth) and automotive (~$1B revenue in FY21, 51% YoY growth).	Qualcomm has been signaling it expects one of its largest customers, Apple, to design its own 5G chip. This would leave Qualcomm on the outside. Qualcomm can still prosper in the smartphone market given the level of content they have within the dominant Android phone.
Reasonably valued	B+	At a forward P/E ratio of 17 Qualcomm that is slightly above their five-year ratio average. However, for a company that just grew revenue 55% YoY their valuation seems quite reasonable.	

Key Stats

Market Cap: $205 Billion
Annualized 5-Year Return: 24.5%
Dividend Yield: 1.5%

Bottom Line

Qualcomm has accelerated growth in recent years and is well positioned to help power critical technologies such as 5G and edge computing. The company also has a long track record of optimizing cash flows for investors. For investors willing to trade a little yield for some growth upside in the tech industry, Qualcomm is a buy.

Summary Analysis: Despite a record FY21 in terms of revenue (+55% YoY), operating income (+98%), and earnings per share (104%), the stock is underperforming the S&P 500 by 3%. Qualcomm offers investors some upside with its diversification strategy showing signs it's paying off - non-handset revenue more than doubled over the last two years to $10.2B in FY21.

John Deere (NYSE: DE)

Overall Grade B

Founded in the mid-19th century, the original John Deere built the steel plow and transformed farming. Over 180 years later, the company bearing his name is now undergoing a digital transformation that is revolutionizing the same industry. Deere is the world's leading manufacturer of agricultural equipment.

Characteristic	Grade	Highlights	Lowlights
Track record of paying & increasing dividend	B-	John Deere has a 49-year track record of paying a dividend.	Deere's dividend score (dividend yield + dividend growth rate) falls below my preferred hurdle rate of 10% by a few percentage pts.
Ability to sustain & grow dividend	B	Deere has an annualized EPS growth rate of 31% over the last five years. Growth is forecasted to continue thru at least 2022 due to favorable crop prices, economic growth, a full 2022 order book and increased government infra investment. Deere is in a good position to sustain their dividend.	Due to their policy to target a 25%-35% payout ratio on earnings, annual raises are inconsistent.
Strong business model	A	John Deere has built a platform business, much like Apple achieved with the iPhone, but for the agriculture business. They have an integrated offering of world class hardware and software, locking customers into the Deere ecosystem with a consistent user interface and new software advances such as AI, computer vision and autonomous. John Deere can also unlock the value of their customer's farm related data by using machine learning and other analytical technologies to offer insights and custom guidance, such as recommendations for new fertilizer seed and chemical treatments. To create network effects around their platform, Deere has invited 3rd parties to build on its platform to better serve customers with agriculture related apps and services. To continue the Apple analogy, its like an Appstore for the agriculture industry. In addition to their technology advantages Deere has other ways to differentiate in an oligopoly-based market, including being one of the world's most valuable brands and its vast worldwide dealer network.	Deere faces some industry headwinds that could slow growth, including a China pullback on agriculture imports or increasing trade tensions. Either external force would weaken global demand for crops, lowering crop prices. Aftershocks to Deere's business would be farmers delaying equipment purchases due to these macro forces.
Reasonably valued	B	John Deere is currently trading at a forward P/E ratio of 15.7, below its five-year average of 18.24.	Other data points, such as Morningstar's fair value estimate, suggest the stock is currently overvalued.

Key Stats

Market Cap: $105 Billion
Annualized 5-Year Return: 28.3%
Dividend Yield: 1.2%

Bottom Line

John Deere has close to a two centuries worth innovation track record. With a lower yield and inconsistent annual dividend raises, John Deere is closer to a growth stock than dividend grower. However, the combination of growth and a steady dividend make it attractive.

Summary Analysis:
John Deere is undergoing a significant transformation from a machine manufacturer to a systems provider of sustainable agricultural outcomes that unlock economic value for its customers. Deere's digital transformation is driven by innovation, AI, big data and autonomous equipment. Over the last decade John Deere has done a great job building up a massive installed base of connected machines that utilize their proprietary technology stack to grow its revenue and expand margins, while increasing customer yield with fewer resources.

Key Terms

Annualized five-year return: The average total return, stock price appreciation plus dividend yield, of a stock as measured over a five- year period

Dividend yield: A dividend yield is the ratio of a company's annual dividend payment as compared to its current share price. The dividend yield is expressed as a percentage and is a simple calculation:

Dividend Yield = Annual Dividend/Current Share Price

Price To Earnings (P/E) ratio: The P/E ratio shows what investors are willing to pay per dollar of earnings.

P/E Ratio = Market value per share/Earnings per share

Payout ratio: Used to assess a company's ability to not only continue paying a dividend but raising it:

Dividend payout ratio = Dividends paid/Net income

Return on Equity: ROE measures the profitability of a company in relation to its shareholders' equity:

Return on Equity (ROE) = Net Income/Shareholder Equity