Valuentum Securities, Inc. 1/1/2021 Edition 4, Volume 1

HIGH YIELD DIVIDEND NEWSLETTER

A Year in Review: 2020

Latest Changes to High Yield Dividend Newsletter
Weighting Changes: 2.5% Reduction in PM and T (Reducing Weighting to 5.0% each) – July 21
Removed: BP and SJB – July 21 Added: 5.0% to Both CCI and CONE (5.0% each) – July 21

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"THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO IS WELL-POSITIONED TO CAPITALIZE ON A GLOBAL ECONOMIC REBOUND IN 2021. THE CORE ETF IDEAS IN THE NEWSLETTER PORTFOLIO OFFER DIVERSIFIED EXPOSURE TO ATTRACTIVE HIGH-YIELD OPPORTUNITIES, WHILE THE CORE EQUITY IDEAS PROVIDE INVESTORS WITH EXPOSURE TO HIGH-YIELDING FIRMS WITH RESILIENT CASH FLOW PROFILES."

– CALLUM TURCAN

By Callum Turcan

Though 2020 was a year that won't be forgotten anytime soon--breaking records in all the worst ways--the High Yield Dividend Newsletter ("HYDN") portfolio held up quite well. Having a combination of high-quality core ETF holdings along top-tier equity ideas allowed the HYDN portfolio to continue to generate meaningful uninterrupted income streams for investors. **None of the equity holdings cut their dividends in 2020 when they were included in the HYDN portfolio.**

Let's walk through how the holdings performed during the year. On a price-only basis, the Invesco Senior Loan ETF (BKLN), the Global X SuperIncome Preferred ETF (SPFF), and the Utilities Select Sector SPDR Fund (XLU) were all broadly flat, while the iShares MSCI Australia ETF (EWA) and the Vanguard Consumer Staples Index Fund ETF (VDC) advanced in 2020. We

added VDC to the HYDN portfolio June 1, 2020, and shares of the ETF have moved significantly higher since then. These core ETF ideas also continued to pay material dividends.

The diversification provided by these ETFs allowed the HYDN portfolio to dodge the pitfalls that befell various high-yielding investments, including real estate investment trusts ('REITs') that focus heavily on office buildings and/or malls. As of this writing, the Vanguard Real Estate Index Fund ETF (VNQ) has recovered most of its lost ground from the downturn that was induced by the coronavirus ('COVID-19') pandemic, while corporate office property REITs such as Boston Properties (BXP) and mall REITs such as Simon Property Group (SPG) have a long way to go.

We added the Vanguard Consumer Staples Index Fund ETF (VDC) to the HYDN portfolio to gain diversified exposure to a tried-and-true, resilient sector, and **a plethora of consumer staples firms have posted strong fundamental performance during the past four quarters, driving the VDC to new all-time highs in 2020.** The ETF effectively acts, in part, as a hedge against potential concerns regarding future waves of the COVID-19 pandemic, in our view.

Many of the VDC ETF's top holdings, including Procter & Gamble (PG), Walmart (WMT), Coca-Cola (KO), Costco (COST), Mondelez (MDLZ), Colgate-Palmolive (CL) and Estee Lauder (EL), **have Dividend Cushion ratios at 1.0 or above, indicating strong forward-looking dividend coverage.** Two of the VDC ETF's other top holdings, PepsiCo (PEP) and Philip Morris International (PM) have Dividend Cushion ratios of 0.9 and 0.8, respectively. Though the ratios are near parity (1), we view their forward-looking dividend coverage quite favorably given their high-quality cash flow profiles and ability to tap capital markets at attractive rates.

We include Philip Morris International as a holding in the HYDN portfolio and continue to be impressed with the resilience of its financial performance and business model. During the first nine months of 2020, Philip Morris International generated $6.2 billion in free cash flow and spent $5.5 billion covering its dividend obligations. The firm did not spend a material amount buying back its stock during this period, and historically has not spent a material amount repurchasing its stock. As of this writing, shares of PM yield 5.9% on a forward-looking basis.

AT&T (T), Crown Castle (CCI), CyrusOne (CONE), CubeSmart (CUBE), Digital Realty Trust (DLR), Enterprise Products Partners (EPD), Magellan Midstream Partners (MMP), Philip Morris International (PM), and Public Storage (PSA) all maintained or grew their per share/unit payout in 2020. These companies are all currently included in the HYDN portfolio. We removed BP (BP) from the HYDN portfolio on July 21, 2020, *before it cut its dividend*, due to its weakened Dividend Cushion ratio and lackluster outlook for energy prices and upstream operations at the time.

As it concerns Magellan Midstream Partners and Enbridge Products Partners, these midstream energy infrastructure companies are better-positioned than their peers to keep riding out the COVID-19 pandemic, in our view. **Material reductions in their capital expenditures should help these entities generate free cash flow as both master limited partnerships ('MLPs') intend to slow growth-related spending in favor of an improved cash flow profile.** Furthermore, raw energy resource prices have staged a sustained recovery of late, which supports the outlook for North American raw energy resource production as higher prices generally stimulate greater upstream investment.

As global health authorities work towards bringing about an end to the COVID-19 pandemic which in turn would allow households to return to pre-pandemic activities, these two MLPs should continue generating sizable free cash flows to help with dividend coverage. However, as capital-market dependent firms, they must retain continued access to capital markets to continue making good on their payout obligations while refinancing their debt loads and funding their capital investments. Investors should take note of this heightened risk profile for MLPs, which is nothing new.

Looking to 2021, the core ETF holdings in the HYDN portfolio offer investors ongoing diversified exposure to attractive opportunities, while the core equity holdings in the HYDN portfolio continue to provide a way to generate meaningful yield from high-quality names with resilient cash flow profiles. **We remain big fans of the self-storage, data center, and cell tower REIT industries**, and include several of these firms in the HYDN portfolio. In all, nobody could have predicted what happened in 2020, but we like how the HYDN portfolio held up, especially its income production in a year where 60+ REITs and 30+ mortgage REITs slashed their payouts. In light of its broad-based diversification and pointed stock selection, we think the HYDN is better-positioned than most portfolios with such a high-yield target. Happy New Year!

Disclosure: *Callum Turcan does not own shares or units in any of the securities mentioned above.*

Public Storage Receives Interest from Activist Investor

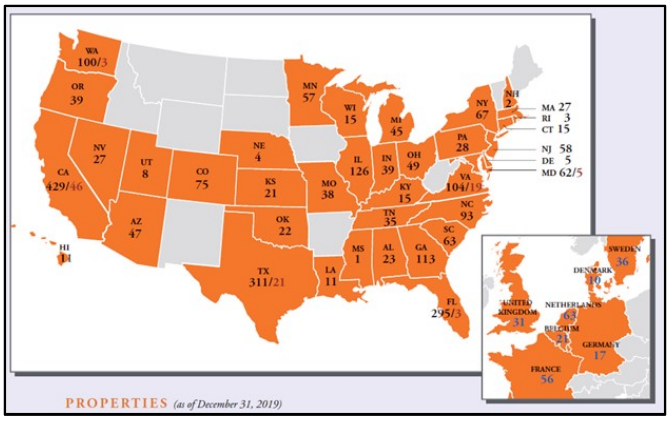


Image Shown: *A look at Public Storage's geographical footprint at the end of 2019, keeping in mind some of these properties are owned by its strategic partners.* ***Image Source:*** *Public Storage –2019 Annual Report*

By Callum Turcan

As noted in the introduction, we are big fans of the self-storage industry and include Public Storage (PSA) in the HYDN portfolio. **One of the greatest things about Public Storage is the ability for this self-storage real estate investment trust ('REIT') to generate sizable *positive* free cash flows, a rarity in the REIT world.** We have covered this dynamic in detail in the past. **Shares of PSA yield ~3.5%** as of this writing and we see room for significant payout growth over the coming years. Recently, **Public Storage received a letter from a major activist investor that seeks to shake up the company** to improve the REIT's ability to reward shareholders going forward.

Activist Investor Pushing for Change

On December 14, Public Storage put out a statement in response to a letter from two hedge funds (Elliott Associates L.P. and Elliott International Group, together "Elliott") that are managed by Elliott Management, which is run by activist investor Paul Singer. We will cover that response in just a moment. The letter was made public by Elliott on the same day. In that letter, Elliott noted its hedge funds "have made a substantial investment in the common stock and economic equivalents of Public Storage" and were pushing for some big changes at the REIT including a shake-up of its corporate structure.

The *WSJ* reports that Elliott Management privately nominated six directors to Public Storage's board of directors. For reference, Public Storage currently has 13 trustees on its board of directors.

Additionally, Elliott mentioned in its letter that it is pushing for Public Storage to form a new board committee "to evaluate [Public Storage's] performance and plan, focusing specifically on organic growth strategy, capital allocation and balance sheet optimization" in order "to evaluate, design and implement value-creative changes." The primary goal of this potential new committee would likely be to aggressively push for and ultimately help implement Elliott's various recommendations.

Public Storage's announcement in response to Elliott's letter and recommendations largely highlighted the firm's historical financial performance, recent events, and why the company was on the right trajectory. However, on December 13, Public Storage announced it had appointed three new trustees to its board effective January 1, 2021, replacing three trustees that are now set to retire on December 31, 2020. Keeping these changes in mind, Public Storage notes that its board of directors will have appointed five independent trustees over the past 18 months.

In our view, this is a sign of Public Storage agreeing to some of the changes that Elliott put forth. Beyond shaking up its board and corporate structure, Elliott is pushing for Public Storage to invest more in its asset base, bulk up its third-party management platform, place a greater emphasis on growing its market share, focus on reviving same-store sales growth and improve its investor relations strategy. Public Storage announced on December 14 that it would host a virtual Investor Day event on May 3, 2021, in another nod to Elliott.

While Elliott applauded some of Public Storage's recent endeavors, the activist fund is seeking deeper structural changes. It is possible Public Storage will significantly step up its capital investments going forward after recently announcing its five-year $500 million 'Property of Tomorrow' investment program. That program will see Public Storage increase investments in its existing assets with an eye toward enhancing its customer service operations.

Public Storage continues to be acquisitive, completing the first phase of a two-phase acquisition worth $528 million in December 2020 (the two-phase acquisition covers 36 properties with 3.6 million in combined net rentable square feet) with the second phase expected to be finalized once the self-storage properties under construction are completed. Acquisitions are funded by a combination of Public Storage's strong free cash flows

and by its ability to tap capital markets for funds at attractive rates.

Concluding Thoughts

Public Storage is a great company, though there is always room for improvement. We are intrigued by Elliott taking an interest in the self-storage REIT, though our interest in Public Storage goes far beyond potential changes due to shareholder activism. During Public Storage's Investor Day presentation that is due to be held in early May 2021, we expect management to come out swinging in defense of the REIT's total shareholder return strategy, though the firm may opt to meet some of Elliott's other demands. We are following this story closely.

Disclosure: *Callum Turcan does not own shares or units in any of the securities mentioned above.*

AT&T's Outlook Is Getting Brighter

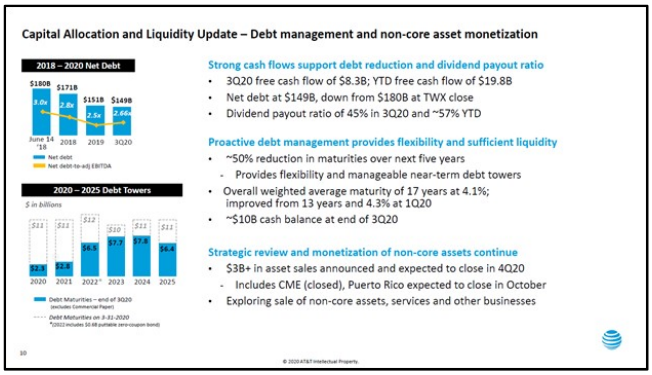


Image Shown: *An overview of AT&T Inc's capital allocation priorities over the coming years and a snapshot of its financial position at the end of September 2020.* ***Image Source:*** *AT&T Inc – Third Quarter of 2020 IR Earnings Presentation*

By Callum Turcan

The rollout of 5G wireless packages in the US combined with expected growth at its video streaming business has significantly improved AT&T Inc's (T)—7.2% yield—outlook during the past few months. We include shares of AT&T in the High Yield Dividend Newsletter portfolio to learn more about the High Yield Dividend Newsletter), and as of this writing, **shares of T yield ~7.3%.**

Headwinds caused by the ongoing coronavirus ('COVID-19') pandemic weighed negatively on AT&T's financial and operational performance in 2020, **though the company remains on track to generate enormous amounts of free cash flow this year.** AT&T currently expects to **generate $26.0 billion or more in free cash flow in 2020**, a forecast that the firm reiterated on December 8.

The company has guided its dividend cash-flow payout ratio (dividend obligations divided by free cash flow) to come in near the high 50s% area this year. Please note that back in April 2020, AT&T expected its dividend cash-flow payout ratio in 2020 would be in the 60s% range, but its outlook was negatively impacted by the COVID-19 pandemic. **Things are starting to turn around in part due to the recent successes AT&T has had at its video streaming business after things got off to a slow start.**

Video Streaming Growth Trajectory Improving

Back in May 2020, AT&T launched HBO Max at the same price (more or less) as its traditional HBO offering, largely to encourage existing subscribers (including traditional cable subscribers) to transition to the new video streaming service (which has a significantly larger content library). Many existing HBO subscribers, at the time, received access to the new service at no additional cost.

However, AT&T's initial branding strategy for HBO Max was confusing as there were several HBO offerings on the market which had similar names including HBO Now, HBO Go, and HBO. Since then, HBO Go has been retired and HBO Now has been rebranded to HBO to simplify the branding strategy, which we appreciate. Additionally, AT&T is bundling certain wireless packages with HBO Max to help get the nascent video streaming service off the ground.

Just as importantly, AT&T reached an agreement with Amazon Inc (AMZN), a partner and competitor in this space, this past November. This deal will see Amazon remove HBO from Amazon Channels once an existing deal expires in 2021 and in return, **HBO Max and the related app was made available on Amazon's Fire TV platform.** Given that Fire TV holds a significant market share position in the TV user interface platform in the US, the main geographical market HBO Max is targeting (at least initially), **this deal was essential to improving the growth outlook for the paid subscriber base of HBO Max.**

In December 2020, AT&T secured a deal with Roku Inc (ROKU) that allowed HBO Max and the related app to be made readily available on that TV user interface platform. This arrangement extended the nascent video streaming service's reach to a significant number of

additional US households given Roku's market leading position in the TV user interface platform space in the US. We appreciate that AT&T was able to secure these crucial deals as its video streaming service strategy is finally starting to come together.

To further juice its HBO Max growth trajectory, AT&T's Warner Bros. Pictures Group unit has committed to *simultaneously* launching its entire 2021 movie releases in theaters and on its HBO and HBO Max services (apparently at no additional cost to the subscriber), upending traditional norms in the movie theater business [AMC, CNK, IMAX, MCS, RDI, NCMI]. For one month (after which, the titles will be removed), subscribers to HBO and/or HBO Max will be able to stream new release titles, at the same time they are shown in movie theaters (but just for a one-month window on HBO and HBO Max).

It is likely that after a certain period, those movies will end up back on HBO and HBO Max, but in our view, AT&T wanted to provide movie theaters with a brief period of exclusivity to maintain existing business relationships. AT&T released the movie *Wonder Woman 1984* this past Christmas Day (December 25) in accordance with this strategy.

On December 8, AT&T noted in a press release that "HBO Max is seeing improved traction. AT&T has 12.6 million HBO Max activations, up from 8.6 million as of September 30, and the number of hours of engagement per week has increased 36% in the past 30 days." We appreciate the company's recent momentum on this front as that speaks favorably towards the steps AT&T has taken (consolidating its HBO brands, signing a deal with Amazon, bundling wireless packages with HBO Max, and planning to launch Warner Bros. movies on HBO Max) over the past several months to stimulate subscriber growth. **The goal is to grow HBO Max's domestic subscriber base to over 50 million by 2025**, according to management commentary given during a conference held in early-December.

While HBO Max is moderately more expensive on a monthly basis than some of the other video streaming services out there, AT&T is banking on the service pulling in subscribers due to its deep content library (such as the original content that is only available on HBO Max, along with popular shows with widespread appeal such as the sit-com *Friends* and movies from its Warner Media unit) and "premium" offerings (TV shows such as *Westworld* and *Game of Thrones* are arguably examples of Tier 1 entertainment properties given their high production value and relevance in popular culture).

Though these are still early days, in our view, AT&T has fixed some of the big problems with its video streaming strategy. One of the big hurdles to reaching a deal with Amazon and Roku was reportedly AT&T's desire to keep HBO Max subscribers within its own app.

By doing so, **AT&T can gain a greater understanding of its subscriber base, which in turn could create new revenue generating opportunities, such as targeted digital advertising.** The company has contemplated in the past launching an ad-supported version of HBO Max or having some HBO Max content include ads, though nothing is for certain at this point as AT&T does not want to upset its existing subscriber base.

Divestment News

According to the *WSJ*, **AT&T has received bids that value its embattled DirecTV unit north of $15.0 billion when including debt.** Reportedly, the auction is in its late stages and a deal could potentially emerge early in 2021, which might see AT&T retain a majority stake in the business. This acquisition did not go as planned given the rise of "cord cutting" in the US, which saw DirecTV hemorrhage customers. **Raising funds to further AT&T's divestment goals is a good move**, in our view. **AT&T needs to focus on the future, with an eye towards growing its 5G wireless customer base and HBO Max subscriber base.**

There are some other assets AT&T could divest to raise funds, including Warner Brothers Interactive Entertainment (its video gaming unit) and Bleacher Report (an online sports-focused news platform), though so far AT&T has opted to keep those operations. AT&T's management team sees value in leveraging the intellectual properties created and built up by its TV and movie production units by creating video games built around those properties, according to management commentary cited by *CNBC*. We are keeping a close eye on AT&T's potential divestments, and please note the firm intends to close on $3.0+ billion worth of divestments in the fourth quarter of 2020.

Concluding Thoughts

AT&T's total debt load stood at $158.9 billion at the end of September 2020 (inclusive of short-term debt), offset modestly by $9.8 billion in cash and cash equivalents. **Deleveraging remains a top priority going forward**, which can be achieved through a combination of "excess" free cash flows (after covering AT&T's dividend obligations) and divestment proceeds. AT&T has taken its foot off the gas pedal as it concerns its share buyback program, a move we appreciate as that

puts the firm in a better position to pare down its net debt load to more manageable levels. The rate of adoption of 5G wireless services in the US will have a powerful impact on AT&T's future cash flow generating abilities.

Management expects AT&T will generate around $26.0 billion in free cash flow in 2020. **We expect AT&T will be able to continue meeting its dividend obligations going forward** given the stable nature of its cash flow profile and its ability in the recent past to tap capital markets at attractive rates to refinance its debt. AT&T has solid investment grade credit ratings (Baa2/BBB/A-) with stable outlooks which goes a long way in making its refinancing activities an easier task. Going forward, AT&T's forward-looking dividend coverage strength will improve as its net debt load shifts lower, though we caution that its Dividend Cushion ratio remains stressed due to its bloated balance sheet. **High-yielding equities are inherently risky**.

All things considered, however, we continue to like AT&T as a high-quality income generator and appreciate its recent successes. Should it reach a deal to divest at least part of its DirecTV operations, that would put AT&T in a much better position to highlight its growing operations by removing a business in terminal decline from its portfolio. Reportedly, AT&T has received bids for its DirecTV business, but it is not clear if the company will act on those bids. We continue to follow AT&T closely.

Disclosure: *Callum Turcan does not own shares or units in any of the securities mentioned above.*

[Please see next page for a summary of portfolio activity during 2019.]

Tracking the High Yield Dividend Newsletter	Price -- 12/31/2018 or at open*	Interim Dividends	Price -- 12/31/2019 or at close**
CORE			
Alerian MLP ETF (AMLP) -- *removed* November 18	8.73	0.78	7.83
Added 2.5pts of AT&T (T) -- November 18	*39.21*	-	39.08
Added 2.5pts of Philip Morris (PM) -- November 18	*84.57*	1.17	85.09
Global X SuperDividend ETF (SDIV)	17.10	1.54	17.69
Global X SuperIncome Preferred ETF (SPFF)	11.03	0.71	11.74
iShares International Select Dividend ETF (IDV)	28.71	1.73	33.57
iShares MSCI Australia ETF (EWA)	19.25	0.90	22.64
iShares U.S. Preferred Stock ETF (PFF)	34.23	2.00	37.59
Invesco Senior Loan Portfolio (BKLN)	21.78	1.11	22.82
ProShares High Yield -- Interest Rate Hedged (HYHG)	62.09	3.97	65.44
Utilities Select Sector SPDR (XLU) -- *added August 22*	*61.61*	0.99	64.62
Vanguard Real Estate ETF (VNQ) - *added April 1*	*85.91*	2.53	92.79
EQUITY			
AT&T (T)	28.54	2.04	39.08
BP PLC (BP)	37.92	2.46	37.74
CubeSmart (CUBE) -- *added August 22*	*35.13*	0.65	31.48
Digital Realty Trust (DLR)	106.55	4.32	119.74
Enterprise Products Partners (EPD)	24.59	1.76	28.16
Iron Mountain (IRM) -- *removed August 1*	32.41	1.22	29.97
Magellan Midstram Partners (MMP)	57.06	4.04	62.87
Omega Healthcare Investors (OHI) -- *removed March 1*	35.15	0.66	34.72
Philip Morris (PM) -- *added August 1*	*82.41*	2.34	85.09
Public Storage (PSA)	202.41	8.00	212.96
Schlumberger*, added January 18, removed August 1*	*43.00*	1.00	38.07
Realty Income Corporation (O) -- *removed April 1*	63.04	0.68	72.03
Tallgrass Energy LP (TGE) -- *removed August 1*	24.34	1.59	18.25

* As shown in the January 2019 edition of the High Yield Dividend Newsletter, or price at entry point

** Price as of December 31, 2019, or price at close

-- THE HIGH YIELD DIVIDEND SPOTLIGHT IS ON THE NEXT PAGE --

Truist Financial Corp (TFC)

Our **High Yield Spotlight for January 2021** is the US bank Truist Financial Corp (TFC)--**3.8% yield**--which is the product of the merger between BB&T and SunTrust that was completed in December 2019. Truist Financial bills itself as a sixth largest bank in the US serving over 10 million consumer households and numerous business clients. **By 2022, the combined entity aims to realize $1.6 billion in annualized cost synergies on a net basis** with cost cuts coming from technology investments and branch consolidation. The combined firm is also targeting a Return on Average Tangible Common Equity ('ROATCE') of 22% over the long haul. Some of the reasoning behind the merger is laid out in the upcoming graphic down below.

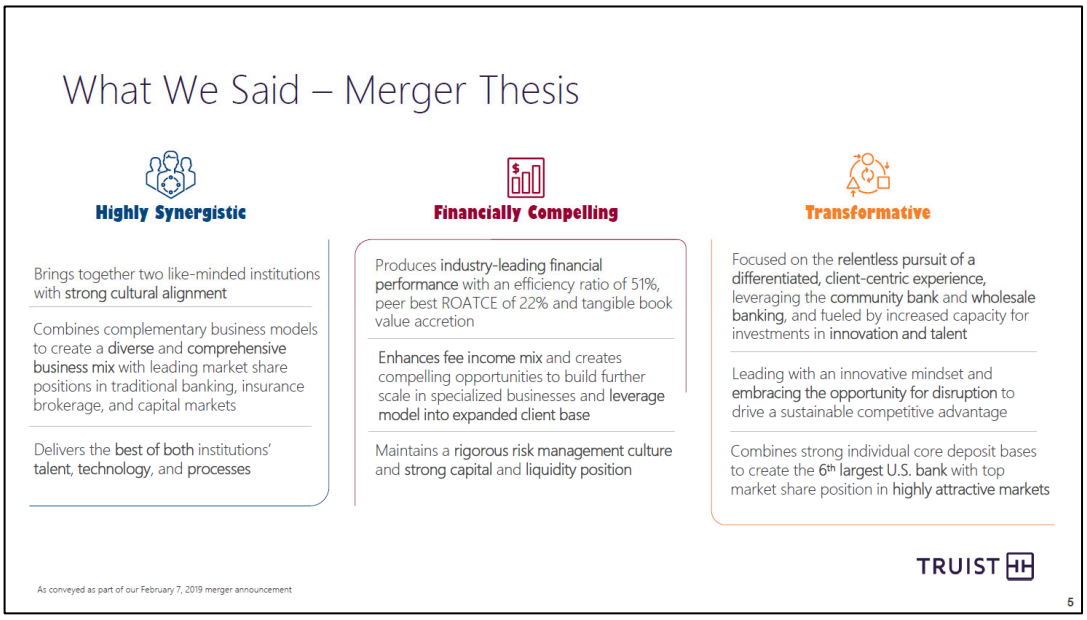


Image Shown: *A snapshot of the reasoning behind the merger between BB&T and SunTrust which created Truist Financial.* ***Image Source:*** *Truist Financial – December 2020 IR Presentation*

Additionally, Truist Financial's subsidiary Truist Insurance Holdings has been on an acquisitive streak of late, buying relatively small insurance firms (including some "insurtech" firms which focus on merging technology with financial services to generate efficiency gains). The company put out a press release in December noting it was on-track to acquire five insurance firms in the final quarter of 2020 that will collectively add over $100 million in annualized revenue to its wholesale division. **Scale often drives operational synergies in the financial services space, as long as integration efforts go smoothly.** Truist Financial will likely continue to pursue bolt-on acquisitions going forward.

We appreciate Truist Financial's expected cost structure improvements as that will go a long way in enhancing its cash flow profile. The combined entity is targeting an efficiency ratio--operating expenses divided by revenues--of 51% over the long haul and please note this is a non-GAAP figure that generally comes with significant adjustments. During the first nine months of 2020, the bank's efficiency ratio on an adjusted basis stood at 55.9%. By the fourth quarter of 2020, Truist Financial planned to secure 40% of its annualized cost savings target. Looking ahead, Truist Financial aims to realize 65% of its targeted annualized cost synergies by the fourth quarter of 2021, with all of the $1.6 billion in annualized net cost savings expected to be realized by the fourth quarter of 2022.

Image Shown: *Truist Financial is targeting major cost synergies by 2022, with a large chunk of those annualized savings expected to be realized by the end of 2021.* ***Image Source:*** *Truist Financial – December 2020 IR Presentation*

During the first nine months of 2020, Truist Financial had to deal with numerous obstacles, from integration efforts to headwinds created by the coronavirus ('COVID-19') pandemic to hurdles created by the low interest rate environment the bank is operating in. The bank was still able to put up solid operational and financial performance during this period, which we appreciate, and Truist Financial highlights its recent financial performance in the upcoming graphic down below.

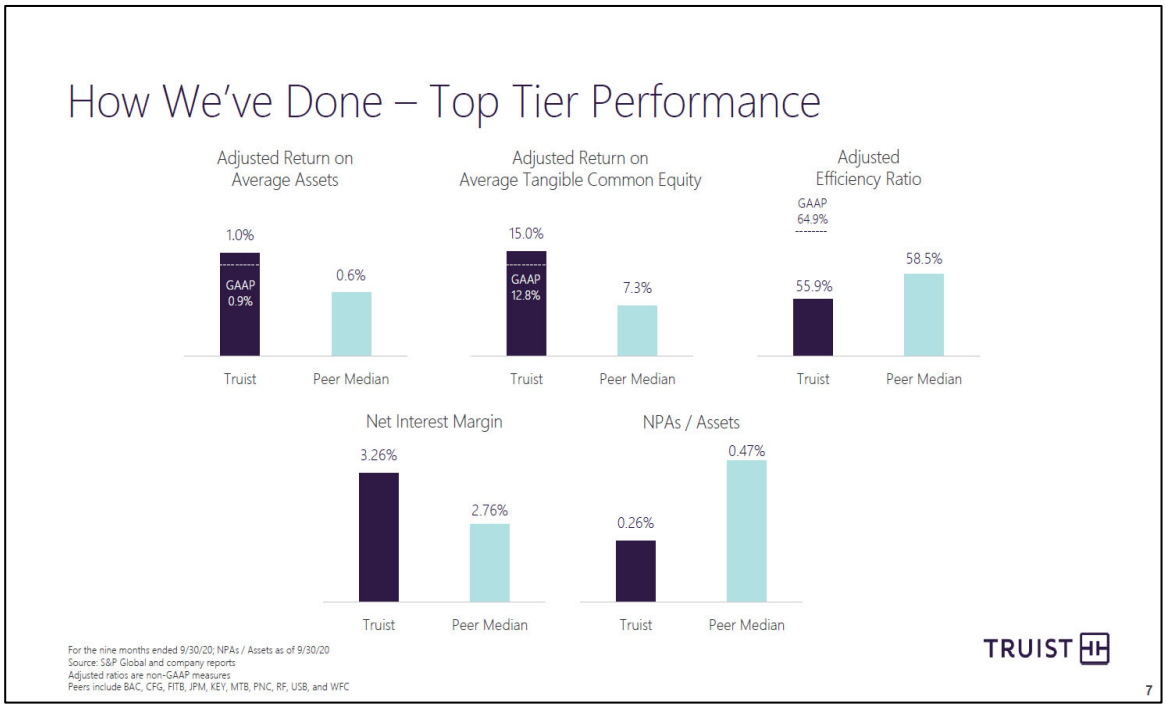


Image Shown: *Truist Financial has been able to adeptly navigate the storm so far caused by the ongoing COVID-19 pandemic, seen through its relatively strong performance during the first three quarters of 2020.* ***Image Source:*** *Truist Financial – December 2020 IR Presentation*

Management noted that Truist Financial's credit write-offs were at the low end of its guidance and additionally, that the firm was confident in its capital structure during the bank's third quarter of 2020 earnings call (emphasis added):

> *"**We were really pleased about our nonperforming assets at 0.26%.** And we recognize that there's more to come with regard to credit quality deterioration, depending on what happens with regard to the economy. But still, given where we are today and recognizing there are some positive impacts with regard to accommodations there, that's a really good number. We feel really good about that. **And likewise, our net charge-offs were 0.42%, at the low end of what we had talked about. We're very pleased that our Common Equity Tier 1 is now at 10%.** So, we feel really good about our capital position." --- Kelly King, CEO of Truist Financial*

As noted above, Truist Financial's Common Equity Tier 1 to risk-weighted assets ratio stood at a solid 10.0% in the third quarter of 2020 and management aims to maintain the ratio (more or less) going forward. In December 2020, the Truist Financial noted that the Federal Reserve had provided the bank with increased capital flexibility after it performed well during a recent round of bank stress tests. Truist Financial issued several difference tranches of preferred equity to bolster its capital structure in 2020. In the third quarter of 2020, Truist Financial's adjusted return on tangible common shareholders' equity ('ROTCE') was 16.08%.

Truist Financial's LightStream business, an online loan platform (auto loans, personal loans, debt consolidation), has been growing at a decent pace of late according to recent management commentary. Digital-oriented services offer the banking world a way to significantly improve the customer experience (many financial services can be accessed anywhere at any time, generally speaking) while reducing costs as there is not a need for a major physical presence to meet demand, **making digital platforms highly scalable and quite lucrative for banks and other financial institutions.**

So far, Truist Financial's digital growth strategy has been playing out favorably as you can see in the upcoming graphic down below. The number of Truist Financials' accounts that have gone paperless has increased meaningfully over the past year, which saves the firm on mail-related expenses along the margins. **Its active mobile app user base continues to grow, and mobile check deposit activity is on the rise, which indicates that its digitally-oriented offerings are resonating with its customers.**

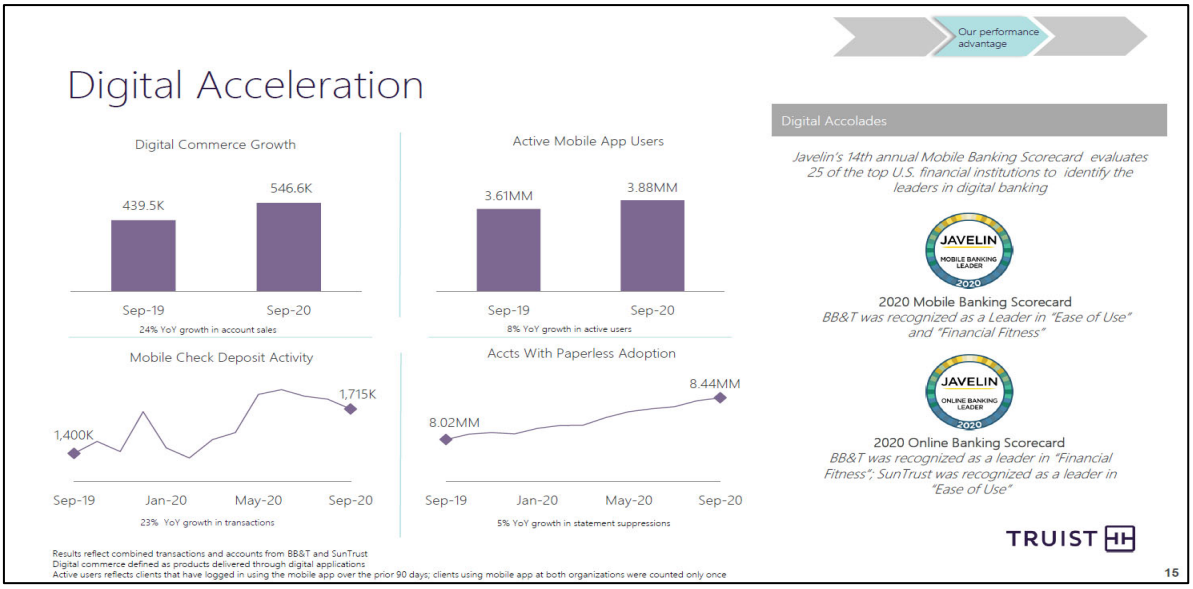
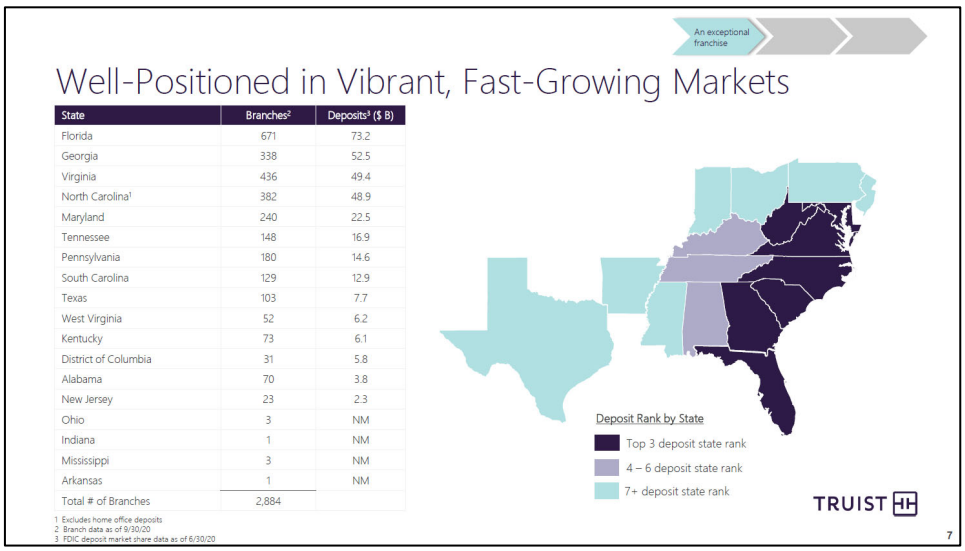


Image Shown: *Truist Financial's digital strategy is showing promising signs.* ***Image Source:*** *Truist Financial – November 2020 IR Presentation*

Please note that a big part of Truist Financial's branch consolidation and rationalization strategy involves getting customers to perform banking activities on their smartphone (such as depositing checks) that would have normally been completed in person. Over the long haul, Truist Financial is well-positioned to capitalize on high growth areas in the US. In the upcoming graphic down below, the bank lays out its geographical footprint which includes a large footprint in Florida, Georgia, Virginia, and North Carolina where Truist Financial has a commanding market share of the deposits in those states. Additionally, Truist Financial has a decent footprint in Texas that the firm will likely seek to grow going forward.



State	Branches[2]	Deposits[3] ($ B)
Florida	671	73.2
Georgia	338	52.5
Virginia	436	49.4
North Carolina[1]	382	48.9
Maryland	240	22.5
Tennessee	148	16.9
Pennsylvania	180	14.6
South Carolina	129	12.9
Texas	103	7.7
West Virginia	52	6.2
Kentucky	73	6.1
District of Columbia	31	5.8
Alabama	70	3.8
New Jersey	23	2.3
Ohio	3	NM
Indiana	1	NM
Mississippi	3	NM
Arkansas	1	NM
Total # of Branches	2,884	

1 Excludes home office deposits
2 Branch data as of 9/30/20
3 FDIC deposit market share data as of 6/30/20

Image Shown: *Truist Financial has a commanding market share of the deposits in numerous states along the Atlantic Coast and the US Gulf Coast.* ***Image Source:*** *Truist Financial – November 2020 IR Presentation*

Truist Financial's long-term growth outlook is supported by forecasted population growth in the core markets it operates in, which is highlighted in the upcoming graphic down below. A growing population drives up the need for banking and other financial services, as does economic growth overall.

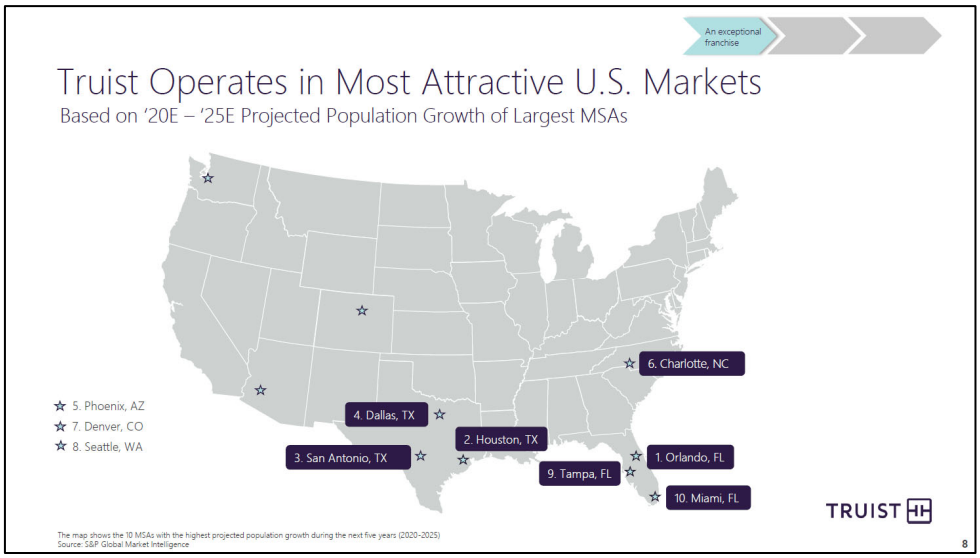


Image Shown: *Truist Financial operates in markets that are expected to experience significant population growth over the coming years.* ***Image Source:*** *Truist Financial – November 2020 IR Presentation*

Putting this together, Truist Financial sees itself on the path to significantly grow its returns going forward as one can see in the upcoming graphic down below. Net interest margin ('NIM') expansion is responsible for some of the targeted increase, though that will depend heavily on the state of the US economy. Revenue synergies (ability to cross-sell financial products), greater leverage (reducing its Common Equity Tier 1 ['CET1'] ratio while making sure to maintain a solid capital structure) and reduced net credit charge-offs are all expected to play a role here, as will cost cuts.

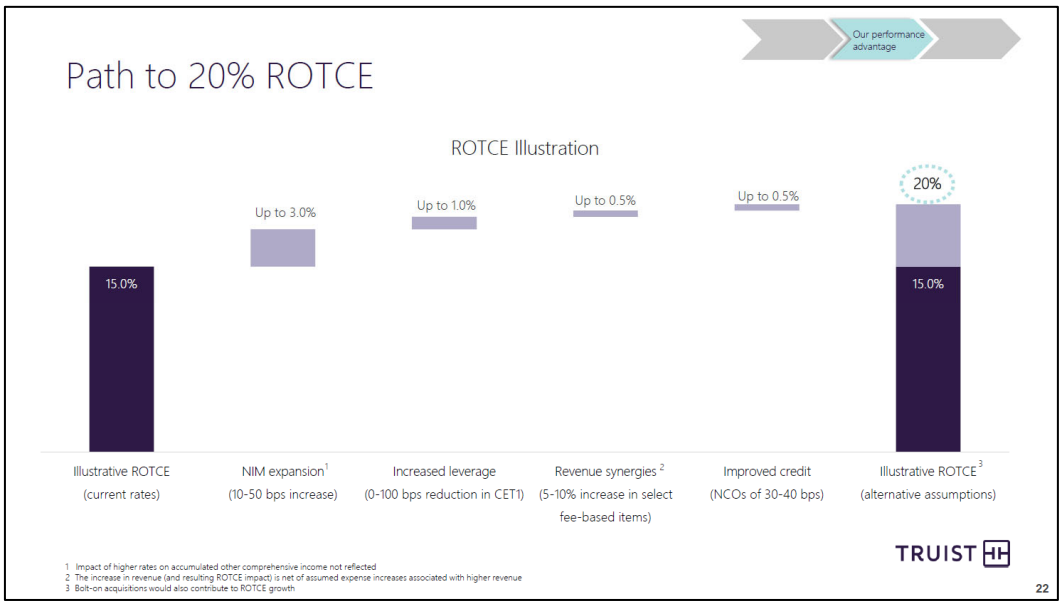


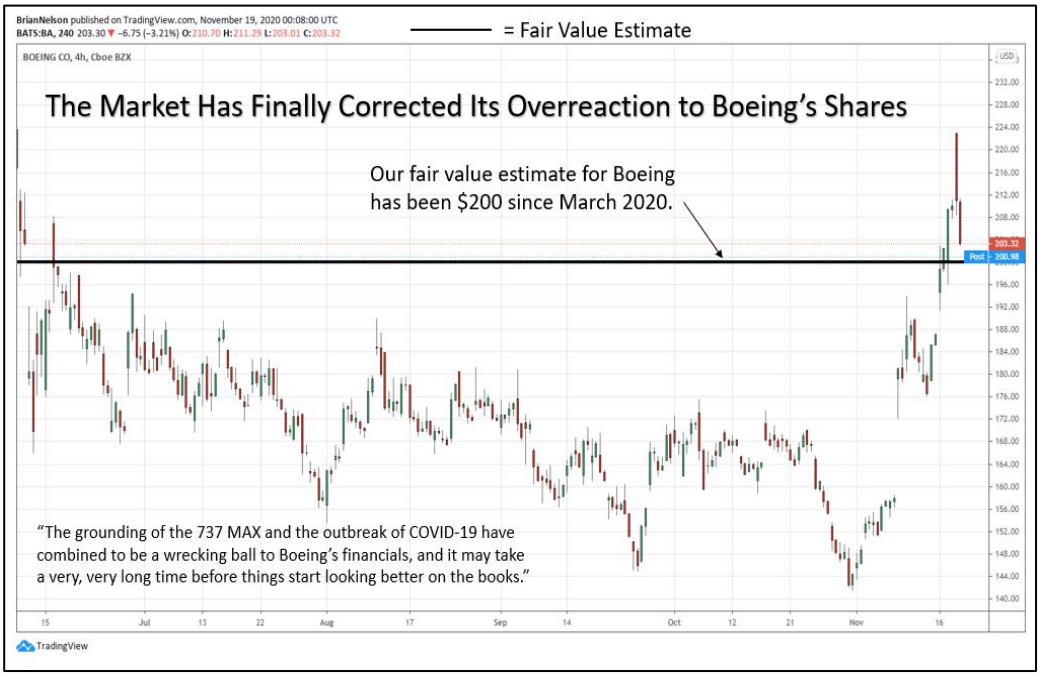
Image Shown: *An illustrative overview of how Truist Financial intends to grow its returns going forward.* ***Image Source:*** *Truist Financial – November 2020 IR Presentation*

In December 2020, President Trump signed an omnibus bill into law that involved approving the US federal government's discretionary budget for fiscal 2021, which stands at approximately $1.4 trillion, along with roughly $0.9 trillion in emergency fiscal stimulus measures. Those emergency measures include enhanced unemployment benefits, direct cash payments to households that meet certain criteria, additional funding for the Paycheck Protection Program ('PPP'), additional funds for schools and transportation systems, and additional funds to assist in the rollout of COVID-19 vaccine distribution programs. Certain industries received additional relief. Fiscal stimulus measures will help prop up the US economy as health authorities continue working hard to put an end to the COVID-19 pandemic. Truist Financial recently authorized a $2.0 billion share repurchase program starting in the first quarter of 2021, in part due to the bank's improving confidence in its near-term performance.

All told, Truist Financial is well-positioned to keep making good on its dividend obligations going forward, in our view. While the banking space is facing near-term headwinds, the sector's outlook is improving as the widespread distribution of a safe and viable COVID-19 vaccine will eventually put an end to the pandemic and should allow the global economy to slowly return to normal. A potential economic recovery in the US could allow for interest rates to slowly climb higher which in turn should allow Truist Financial to grow its NIMs. Before then, meaningful cost structure improvements and a focus on growing its digital presence underpins Truist Financial's promising outlook.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

Boeing's Financials Are Absolutely Frightening



By Brian Nelson, CFA

***Editors Note:* Though Boeing has eliminated its dividend, risks are rising for payouts within the aerospace supply chain, and we wanted to make sure members of the HYDN were aware of just how fragile Boeing's financials look at this time.**

On November 18, 2020, Boeing (BA) announced that the US Federal Aviation Administration (FAA) withdrew its order that had grounded its 737-8s and 737-9s (737 MAX) that had been involved in two terrible accidents during the past few years, a Lion Air flight that killed 189 people and an Ethiopian Airlines jet crash that claimed the lives of 157 more. We'll never forget these tragedies and the impact on the families and the aviation industry, more generally.

For some background, in January 2017, we had added Boeing to the Dividend Growth Newsletter portfolio, but we had removed it March 16, 2018, prior to the unfortunate and high-profile accidents that occurred several months after. **During the short time it was in the newsletter portfolio, the stock roughly doubled, producing a return 5 times that of the S&P 500's performance.** Here was the rationale for the removal at the time (bear in mind that this was before the terrible tragedies that occurred months later):

> The primary reasons for the removal rest in a combination of Boeing's value and technical/momentum considerations. Shares have soared to the high end of our fair value range, and now technically, they have started to roll over as investors, fair or not, worry about retaliation with respect to coming tariffs. We're huge fans of Boeing on a fundamental basis, but a great company a great stock doesn't always make.

Fast forward to January 23, 2020--a month or so before the COVID-19 market collapse--when Boeing's shares were trading at ~$320 per share, I penned a piece in frustration: "Why *NOW* Do You Care About Boeing's Stock?" I said in that January 23, 2020 note in no uncertain terms: "In no, way shape or form should you *now* be interested in Boeing's stock." There was some more harsh writing in the note, and I wish I could have said it nicer – but at times, I just want our members to get a feel for exactly what we think about a stock. There's always room for improvement in my tone.

But please let me put it nicely now: **I really didn't like Boeing's shares at $320 in January 2020, especially since we had removed them from the Dividend Growth Newsletter portfolio for a huge win just a number of months prior.** Now with the benefit of hindsight, I hope you can forgive me for that emphatic and colorful note (in analyst speak, we call that type of writing "pounding the table"). Boeing's shares had fallen from ~$320 that day in January 2020, to a 52-week low of $89 per share in mid-March.

But that was then, and this is now. Shares of Boeing have finally bounced back, converging to our fair value estimate of $200 that we established near the depths of the COVID-19 meltdown. The company's shares had rallied back to those levels in June of this year, **and now they have settled again at our fair value estimate after technically basing for a number of months.** We're viewing this share price move, in particular, positively, but Boeing still has a long way to go to meet the fundamental/financial criteria we're looking for to be reconsidered in any newsletter portfolio.

The reality is that Boeing's financials are still pretty scary. During the first nine months of 2020, the company burned through an incredible $15.4 billion in free cash flow, even as it cut capital spending by a few hundred million. As of the end of the third quarter of 2020, its total consolidated debt now stands at $61 billion, with total cash and marketable securities of $27.1 billion. This compares to total consolidated debt of $24.7 billion and total cash and marketable securities of $10.9 billion, as of the end of the third quarter of 2019.

The grounding of the 737 MAX and the outbreak of COVID-19 have combined to be an absolute wrecking ball to Boeing's financials, and it may take a very, very long time before things start looking better on the books. S&P, Moody's and Fitch still give the company investment-grade credit ratings (BBB-/Baa2/BBB-), but we're not sure the aerospace giant deserves them. Here's what Fitch notes October 2020: "…many of the company's quantitative rating factors will be inconsistent with the 'BBB' category for three years (2019-2021) and into 2022." It's probably fair to say that Boeing's corporate debt should be rated junk, but that would cause some severe reverberations in the credit markets, in our view.

It's worth sharing Fitch's views on expectations for airline traffic in coming years:

> **Fitch's base case for airline passenger traffic (domestic and international) assumes revenue passenger kilometers (RPKs) will not recover to 2019 levels before FYE23 and at FYE21 will still be 30% below 2019 levels.** Underlying this forecast is the assumption that an effective vaccine/treatment is available, but not at scale, through 2021, and there will be a continued collapse in travel until there is widespread vaccine/treatment availability.
>
> Our base case assumes domestic traffic recovers to 2019 levels around the middle of 2023, while international traffic returns to 2019 levels after 2023, perhaps the summer of 2024. Available information so far supports this assumption of domestic recovering first, including the data coming out of the important Chinese domestic market. We expect capacity will recover before RPKs, and we believe load factors will remain lower than the record levels seen in 2019. --- Fitch Ratings

Here is what the International Air Transport Association (IATA) had to say about the 5-year outlook for air passenger demand (July 2020):

> …we have revised down our passenger forecast over the next five-year period. In our new forecasts, **we expect RPKs to decline by a little more than 60% in 2020 compared to 2019, with a return to pre -COVID levels not occurring before 2024.** Many uncertainties remain around the outlook and in this update we have investigated various possible future scenarios. The main point is that the risks around our latest forecast remain clearly tilted to the downside...The upside could see travel demand return to 2019 levels in 2023, while the downside could be much more severe. --- Fitch Ratings

The airlines are certainly not over the hump, by any stretch, and we think the credit rating agencies are probably giving Boeing the benefit of the doubt that it will start raking in material free cash flow in 2022 due to pent-up demand and accelerated deliveries (an optimistic, but still an assumption with reasonable basis).

However, as we've learned time and time again, supply chain issues can pose problems, and lower airline traffic will almost certainly impact its services operations.

In the longer run, new aircraft are extremely expensive to build and come with substantial "unknown" risks (e.g. think 787 delays, the recent 737 MAX incidents), and key rival Airbus (EADSY) is not backing down either, with competition only intensifying as the duo vie for orders during these troubled times (Boeing hasn't had a new aircraft order since August). It's only a matter of time before China and Russia will be key players in the aircraft-making industry, too. **Boeing has no margin of error left; should it be hit with another negative exogenous event in the near term, things could get really, really ugly for shares.**

When it comes to our favorite ideas, we continue to prefer net-cash-rich, free cash flow generating powerhouses with strong competitive advantages that facilitate recurring revenue business models that can take advantage of secular tailwinds. **With Boeing's dividend suspended, too, there's simply no place in any of our newsletter portfolios for this troubled airframe maker, despite a hugely attractive backlog of unfulfilled deliveries ($393 billion, ~4,300 commercial airplanes).** The company falls within what we'd describe as the "too hard bucket," in our view. One day--many years from now--the aerospace giant's financials may return to some "normalcy," but until then, Boeing is likely dead money with a severely bloated balance sheet walking on thin ice. High Yield Dividend Newsletter members should take note, given potential reverberations across the aerospace supply chain.

The Boeing Company and Subsidiaries
Condensed Consolidated Statements of Financial Position
(Unaudited)

(Dollars in millions, except per share data)	**September 30 2020**	December 31 2019
Assets		
Cash and cash equivalents	**$10,564**	$9,485
Short-term and other investments	**16,552**	545
Accounts receivable, net	**2,762**	3,266
Unbilled receivables, net	**8,860**	9,043
Current portion of customer financing, net	**100**	162
Inventories	**86,961**	76,622
Other current assets, net	**5,213**	3,106
Total current assets	**131,012**	102,229
Customer financing, net	**2,010**	2,136
Property, plant and equipment, net of accumulated depreciation of $20,241 and $19,342	**11,969**	12,502
Goodwill	**8,071**	8,060
Acquired intangible assets, net	**2,941**	3,338
Deferred income taxes	**704**	683
Investments	**1,052**	1,092
Other assets, net of accumulated amortization of $671 and $580	**3,502**	3,585
Total assets	**$161,261**	$133,625
Liabilities and equity		
Accounts payable	**$14,479**	$15,553
Accrued liabilities	**22,220**	22,868
Advances and progress billings	**51,974**	51,551
Short-term debt and current portion of long-term debt	**3,634**	7,340
Total current liabilities	**92,307**	97,312
Deferred income taxes	**503**	413
Accrued retiree health care	**4,429**	4,540
Accrued pension plan liability, net	**15,343**	16,276
Other long-term liabilities	**2,907**	3,422
Long-term debt	**57,325**	19,962
Total liabilities	**172,814**	141,925
Shareholders' equity:		
Common stock, par value $5.00 — 1,200,000,000 shares authorized; 1,012,261,159 shares issued	**5,061**	5,061
Additional paid-in capital	**6,687**	6,745
Treasury stock, at cost - 447,744,896 and 449,352,405 shares	**(54,819)**	(54,914)
Retained earnings	**47,029**	50,644
Accumulated other comprehensive loss	**(15,779)**	(16,153)
Total shareholders' equity	**(11,821)**	(8,617)
Noncontrolling interests	**268**	317
Total equity	**(11,553)**	(8,300)
Total liabilities and equity	**$161,261**	$133,625

Image Shown: *An overview of Boeing's weakening balance sheet from the end of 2019 to the end of September 2020.* ***Image Source:*** *Boeing – 10-Q SEC filing covering the third quarter of 2020*

Disclosure: *Brian Nelson owns shares in SPY, SCHG, DIA, VOT, and QQQ.*

Kohl's Dead Cat Bounce May Still Have Legs

Image Shown: *Kohl's broke out of a month-long base on better-than-expected financial health and expectations that it will reinstate its dividend next year.*

By Brian Nelson, CFA

The list of defunct department stores in the United States is a long one. The proliferation of e-commerce accelerated by the outbreak of the COVID-19 pandemic may have all but sealed the fate of many big box department stores that had already been struggling for years. Consumers want quality, price and convenience, and getting what they need with the click of a button on the Internet means those with sprawling real estate stores need to excel at digital initiatives, omnichannel strategies, and rightsizing their footprints—or they'll perish like so many have before them.

The Bon-Ton Stores (owner of Carson's and Bergner's) filed for bankruptcy in February 2018, Sears Holdings filed for bankruptcy in October 2018, Barneys New York filed for bankruptcy in August 2019, and just this May, J.C. Penney and Neiman Marcus filed for bankruptcy. Toys "R" Us (filed in September 2017), Sports Authority (filed March 2016), and the list of big box failures goes on and on. Remember Montgomery Ward and Circuit City? **The department store business is a terrible one.**

Even the most talented individuals' efforts to make things work have flopped, too. First, there was hedge fund star Eddie Lampert, once called "the next Warren Buffett," that thought he could turn Sears around some 15 years ago. At the time, analysts were even betting that Lampert would put up Buffett-like returns of 20% per annum based on his track record up to that point. How wrong those forecasts have been—shares of Sears now trade for $0.18 per share at last check. They had once traded over $140 per share in April 2007.

Then, there's the story of Ron Johnson, a former Target (TGT) and Apple (AAPL) executive, who tried to save J.C. Penney from its inevitable demise. Hired as CEO of J.C. Penney in late 2011, Johnson's strategy focused on ending the reliance on couponing and turning J.C. Penney into a store-within-a-store concept. It didn't work. Customers left J.C. Penney in droves, and the company's stock price was pretty much cut in half during his short tenure, removed as CEO

less than two years after he took the helm. In November 2011, shares of J.C. Penney traded for ~$30 each; now, they are priced at less than $0.25.

News of the Pfizer (PFE) /BioNTech (BNTX) and Moderna (MRNA) vaccines have started to breathe some life into the shares of some of the most beaten down department stores and mall-based retail, more generally. Kohl's (KSS) chart, in particular, broke out of a multi-month base that it had been forming since the COVID-19 market collapse in April. Shares of Kohl's have been cut in half year-to-date, even after the move during the trading session November 17, so there could more left to its "dead cat bounce" following its third-quarter report, which wasn't exactly terrible.

During the quarter ending October 31, 2020, Kohl's beat on both the top and bottom lines, and while third-quarter comparable store sales fell 13.3%, the large drop wasn't necessarily unexpected given COVID-19. Importantly, cash flow from operations held up fairly well, coming in at $910 million during the first nine months of the year, down modestly from the $1.05 billion in the prior-year period. **Kohl's has cut capital expenditures considerably so far in 2020, with free cash flow (as measured by cash flow from operations less all capital spending) ballooning to $646 million, up 76% from $367 million over the comparable nine-month period.**

We wouldn't classify Kohl's free cash flow generation as high quality (given the revenue declines and capital spending cuts), but the numbers could have been much worse. Kohl's balance sheet isn't that bad either, with the firm ending the third quarter of the year with long-term debt of $2.45 billion and cash and cash equivalents of $1.94 billion (so it has decent liquidity). The company does hold ~$2.8 billion in operating leases on the books, so lease-adjusted leverage is elevated. As with its peers Nordstrom (JWN) and Macy's (M), **Kohl's has suspended its dividend to shore up much needed cash, but it plans to reinstate its dividend during the first half of next year.**

Concluding Thoughts

The department store industry may be as poor as the airline business these days, but Kohl's is managing to navigate the pandemic fairly well, even as it fights an uphill battle against e-commerce proliferation. The company's annualized cash flow from operations, for example, is trending sufficiently above what we would consider normalized annual capital expenditures (~$700-$750 million). This suggests Kohl's can be meaningfully free cash flow positive, even under a scenario where it can invest heavily in its business during "normal" times. Management even plans to start paying a dividend again during the first half of next year, and if existing trends hold and the holiday season is a success, a reinstated payout appears achievable, in our view.

That said, however, in light of the poor backdrop of the department store business model and the preponderance of historical bankruptcies across the industry, we don't view Kohl's as a long-term investment idea by any stretch. **Still, the stock's technical breakout coupled with a better-than-expected financial position means its "dead cat bounce" could still have legs.** High Yield Dividend Newsletter members should keep the firm on their radar given expectations for a payout to resume.

Disclosure: *Brian Nelson owns shares in SPY, SCHG, DIA, VOT, and QQQ.*

Cell Tower REITs Overview

Valuentum Retail Equity Research — Visit us at www.valuentum.com — Ratings as of 20-Dec-2020 — Data as of 18-Dec-2020

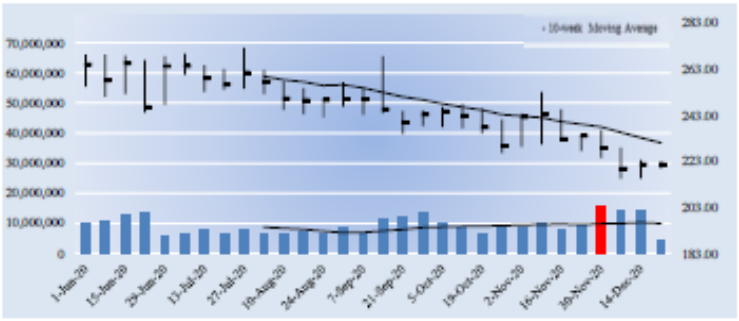
American Tower AMT FAIRLY VALUED

Buying Index™ 3 — Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$233.00	$186.00 - $280.00	LARGE-CAP BLEND	Telecom Services	elecom Services - diversifi

We significantly increased our fair value estimate for American Tower. Its outlook is supported by the rollout of 5G operations in the US and elsewhere.

Stock Chart (weekly)



The week with the highest trading volume out of the last 30 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$98,692
Avg Weekly Vol (30 wks)	9,259
30-week Range (USD)	215.41 - 272.2
Valuentum Sector	Telecom Services
5-week Return	-5.2%
13-week Return	-8.9%
30-week Return	-14.1%
Dividend Yield %	2.2%
Dividends per Share	4.84
Forward Dividend Payout Ratio	58.8%
Est. Normal Diluted EPS	6.43
P/E on Est. Normal Diluted EPS	34.5
Est. Normal EBITDA	6,132
Forward EV/EBITDA	25.3
EV/Est. Normal EBITDA	19.8
Forward Revenue Growth (5-yr)	9.0%
Forward EPS Growth (5-yr)	15.2%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	23.2%
Return on Assets	4.2%
ROIC, with goodwill	8.9%
ROIC, without goodwill	11.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	24,055
Net Debt	22,477
Total Debt/EBITDA	5.4
Net Debt/EBITDA	5.0
EBITDA/Interest	5.5
Current Ratio	0.5
Quick Ratio	0.4

NMF = Not Meaningful

Investment Highlights

- American Tower is a REIT that owns wireless and broadcast communications real estate. The firm has a global portfolio of ~181k properties (including ~41k in the US) that includes wireless and broadcast towers, and distributed antenna systems (DAS). The firm leases antenna space on multitenant communication sites and has a high quality US asset base.
- The attractive characteristics of scalable tower operations (operating leverage), long-term contracts, built-in escalators, high operating margins, and low customer churn highlight American Tower's high quality business model.
- American Tower has made significant progress in expanding its global growth platform over the past several years through various acquisitions. For instance, in early-January 2020, American Tower closed on its acquisition of Eaton Tower Holdings which significantly grew its presence in Africa. American Tower's global growth runway is impressive.
- Competition is present, and customer concentration is real. The company competes with other public tower companies, wireless carrier tower consortiums such as Indus Towers, and private tower companies. Significant customer concentration risk exists in every major geographical market American Tower operates in.
- Domestic carriers such as Verizon and AT&T continue to spend to improve their networks, which is a positive for American Tower. The continued evolution of fixed to mobile and increasing number of advanced devices will continue to drive industry spending.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	GOOD
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	HIGH
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	231.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low			■	
Medium				
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
AT&T	12.1	4.3	89.1%
Comcast	20.0	1.2	110.7%
Verizon	12.3	3.1	100.8%
Crown Castle	25.8	1.4	91.6%
Peer Median	16.2	2.2	96.2%
American Tower	**26.9**	**1.8**	**95.1%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	---- Actual ----		Projected
Fiscal Year End:	Dec-18	Dec-19	Dec-20
Revenue	7,440	7,580	8,042
Revenue, YoY%	11.6%	1.9%	6.1%
Adjusted Operating Income	1,905	2,688	2,935
Adj. Operating Margin %	25.6%	35.5%	36.5%
Funds from Operations	3,539	3,521	3,742
FFO Margin %	47.6%	46.5%	46.5%
Diluted FFO per share	7.99	7.90	8.23
Diluted FFO, YoY %	18.9%	-1.1%	4.2%
Free Cash Flow (CFO-capex)	2,835	2,762	2,926
Free Cash Flow Margin %	38.1%	36.4%	36.4%

In Millions of USD (except for per share items)

Structure of the Wireless Telecom Services Industry — GOOD

Most firms in the wireless telecom services industry lease antenna space on communication sites/towers to wireless service providers, radio and television broadcast companies, and tenants in other industries. Tenant leases are typically long-term, non-cancellable, have high renewal rates (98%+) and include attractive built-in annual rent escalations. Tower operators enjoy consistent demand for their sites, have high operating leverage (incremental costs to add new tenants are minimal), and require little capital expenditures to maintain their communication sites. We like the structure of the group.

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VALUENTUM

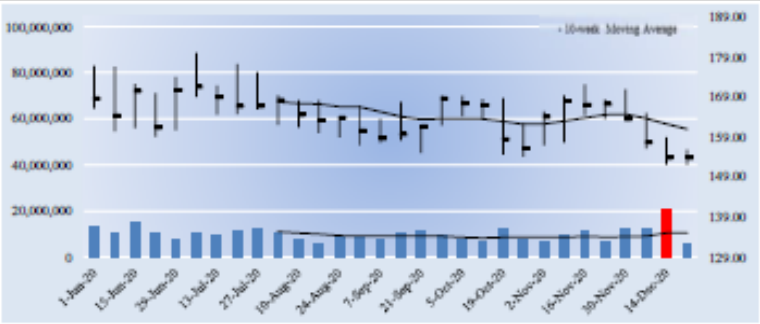
Crown Castle CCI FAIRLY VALUED

Buying Index™ 3 Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$168.00	$126.00 - $210.00	LARGE-CAP VALUE	Telecom Services	elecom Services - diversifi

We significantly increased our fair value estimate for Crown Castle as its long-term growth outlook has improved considerably.

Stock Chart (weekly)



The week with the highest trading volume out of the last 30 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$64,293
Avg Weekly Vol (30 wks)	9,926
30-week Range (USD)	152.09 - 180
Valuentum Sector	Telecom Services
5-week Return	-8.2%
13-week Return	-6.2%
30-week Return	-10.4%
Dividend Yield %	3.5%
Dividends per Share	5.32
Forward Dividend Payout Ratio	89.1%
Est. Normal Diluted EPS	2.95
P/E on Est. Normal Diluted EPS	52.1
Est. Normal EBITDA	4,184
Forward EV/EBITDA	24.9
EV/Est. Normal EBITDA	19.6
Forward Revenue Growth (5-yr)	7.5%
Forward EPS Growth (5-yr)	19.0%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	5.8%
Return on Assets	2.0%
ROIC, with goodwill	6.2%
ROIC, without goodwill	9.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	18,121
Net Debt	17,788
Total Debt/EBITDA	5.7
Net Debt/EBITDA	5.6
EBITDA/Interest	4.6
Current Ratio	0.6
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Crown Castle operates shared wireless infrastructure, including towers and a variety of other structures. The company's core business is providing access to its towers via long-term contracts in various forms (licenses, sub-leases, etc). The company commenced operating as a REIT in January 2014 and is headquartered in Houston.

• Crown Castle's long-term goal is to grow its per share dividend by 7%-8% per year. Management expects to significantly grow the REIT's asset base over the coming years through a combination of acquisitions and meaningful capital expenditures.

• Crown Castle boasts an attractive business model and is well-positioned to capitalize on the launch of 5G wireless services in the US. Approximately 40% of the REIT's 'Towers site rental gross margin' is generated from towers on land and properties owned by Crown Castle. However, we caution that Crown Castle has meaningful customer concentration risk.

• Crown Castle has a lot of debt on the books. We're generally debt-averse (think of what happened during the Great Financial Crisis), though Crown Castle's long-term recurring revenue streams, hefty incremental margins on new business, and high-quality customer base help mitigate some of the financial risk.

• Crown Castle remains acquisitive as it continues to work to meet rapidly growing mobile data demand. Crown Castle initiated a dividend in the first quarter of 2014 when it was organized as a REIT. We like its renewed focus on delivering cash back to shareholders.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	GOOD
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	161.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low				
Medium			■	
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
AT&T	12.1	4.3	89.1%
Comcast	20.0	1.2	110.7%
Verizon	12.3	3.1	100.8%
American Tower	26.9	1.8	95.1%
Peer Median	16.2	2.5	97.9%
Crown Castle	**25.8**	**1.4**	**91.6%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	---- Actual ----		Projected
Fiscal Year End:	Dec-18	Dec-19	Dec-20
Revenue	5,370	5,763	5,907
Revenue, YoY%	23.3%	7.3%	2.5%
Adjusted Operating Income	1,436	1,591	1,530
Adj. Operating Margin %	26.7%	27.6%	25.9%
Funds from Operations	2,228	2,376	2,594
FFO Margin %	41.5%	41.2%	43.9%
Diluted FFO per share	5.37	5.68	5.97
Diluted FFO, YoY %	10.6%	5.9%	5.0%
Free Cash Flow (CFO-capex)	761	641	979
Free Cash Flow Margin %	14.2%	11.1%	16.6%

In Millions of USD (except for per share items)

Structure of the Wireless Telecom Services Industry — GOOD

Most firms in the wireless telecom services industry lease antenna space on communication sites/towers to wireless service providers, radio and television broadcast companies, and tenants in other industries. Tenant leases are typically long-term, non-cancellable, have high renewal rates (98%+) and include attractive built-in annual rent escalations. Tower operators enjoy consistent demand for their sites, have high operating leverage (incremental costs to add new tenants are minimal), and require little capital expenditures to maintain their communication sites. We like the structure of the group.

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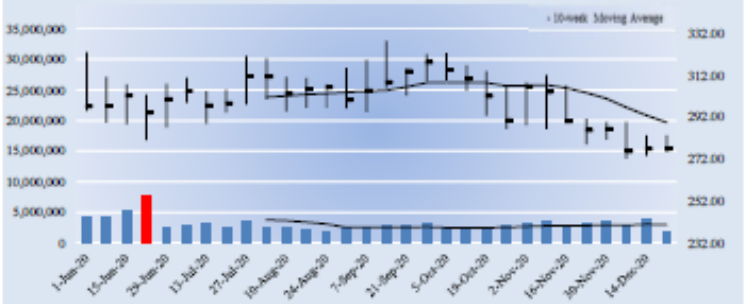
SBA Comm SBAC FAIRLY VALUED

Buying Index™ 3 Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$229.00	$172.00 - $286.00	LARGE-CAP CORE	Telecom Services	elecom Services - diversifi

We significantly increased our fair value estimate for SBA Communications as its global growth runway continues to impress.

Stock Chart (weekly)



The week with the highest trading volume out of the last 30 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$31,444
Avg Weekly Vol (30 wks)	3,084
30-week Range (USD)	272.36 - 328.37
Valuentum Sector	Telecom Services
5-week Return	-4.6%
13-week Return	-12.6%
30-week Return	-12.0%
Dividend Yield %	0.7%
Dividends per Share	1.86
Forward Dividend Payout Ratio	19.8%
Est. Normal Diluted EPS	4.70
P/E on Est. Normal Diluted EPS	58.9
Est. Normal EBITDA	1,936
Forward EV/EBITDA	26.7
EV/Est. Normal EBITDA	21.5
Forward Revenue Growth (5-yr)	8.6%
Forward EPS Growth (5-yr)	40.4%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	-3.4%
Return on Assets	1.3%
ROIC, with goodwill	12.1%
ROIC, without goodwill	12.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,334
Net Debt	10,196
Total Debt/EBITDA	7.7
Net Debt/EBITDA	7.6
EBITDA/Interest	3.5
Current Ratio	0.3
Quick Ratio	0.3

NMF = Not Meaningful

Investment Highlights

- SBA Communications is a REIT that owns and operates wireless communications infrastructure across North, Central and South America. It generates revenue from site leasing and site development services. SBA Communications owns and operates over 32,000 towers. The company was founded in 1989 and is headquartered in Boca Raton, Florida.

- Though accounting earnings are negligible, SBA Communications generates a significant amount of free cash flow, the foundation of our estimate of its intrinsic value. SBA Communications converted its business to a REIT in January 2017.

- The attractive characteristics of scalable tower operations (operating leverage), long-term contracts, built-in escalators, high operating margins, and low customer churn make for a nice business model. SBA Communications' global growth runway is impressive, which supports our forecasts that the REIT will generate meaningful revenue growth going forward.

- SBA Communications initiated a quarterly common dividend program in 2019. Since then, the REIT's dividend has grown substantially, though these are still early days. We caution that its total debt load is quite large, and the REIT must retain constant access to capital markets to refinance its maturing debt.

- Readers should be cognizant that we are building significant operating leverage into the model with respect to profitability improvements. Should SBA Communications stumble for any reason, its intrinsic value would face significant pressures.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	GOOD
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	289.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueRisk™ \ ValueCreation™	Very Poor	Poor	Good	Excellent
Low				
Medium			■	
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
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Verizon	12.3	3.1	100.8%
American Tower	26.9	1.8	95.1%
Peer Median	16.2	2.5	97.9%
SBA Comm	**29.5**	**0.8**	**120.9%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	---- Actual ----		Projected
Fiscal Year End:	Dec-18	Dec-19	Dec-20
Revenue	1,866	2,015	2,096
Revenue, YoY%	7.9%	8.0%	4.0%
Adjusted Operating Income	582	632	817
Adj. Operating Margin %	31.2%	31.4%	39.0%
Funds from Operations	885	972	1,066
FFO Margin %	47.4%	48.2%	50.9%
Diluted FFO per share	7.60	8.47	9.39
Diluted FFO, YoY %	9.3%	11.6%	10.8%
Free Cash Flow (CFO-capex)	701	816	1,027
Free Cash Flow Margin %	37.6%	40.5%	49.0%

In Millions of USD (except for per share items)

Structure of the Wireless Telecom Services Industry — GOOD

Most firms in the wireless telecom services industry lease antenna space on communication sites/towers to wireless service providers, radio and television broadcast companies, and tenants in other industries. Tenant leases are typically long-term, non-cancellable, have high renewal rates (98%+) and include attractive built-in annual rent escalations. Tower operators enjoy consistent demand for their sites, have high operating leverage (incremental costs to add new tenants are minimal), and require little capital expenditures to maintain their communication sites. We like the structure of the group.

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Disclosure: *Brian Nelson and Callum Turcan do not own any shares of any securities mentioned in their authored articles. Please contact info@valuentum.com for more information regarding Valuentum's editorial policies.*

THE SIMULATED HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO

We think the High Yield Dividend Newsletter portfolio positions us fairly well for whatever the market may throw at us, whether it's COVID-19 or another calamity. The newsletter portfolio is pretty well-diversified, and we've started to identify some pretty good individual equity ideas of late. That said, **high yield investing is inherently risky.**

In many respects, the high yield dividend equity arena trades a lot like junk bonds, meaning that interest rates play a key role in how equities will perform. As interest rates fall, high yield stays in vogue, but as interest rates rise, many look elsewhere. This impacts pricing greatly.

We're laser focused on identifying high yielding stocks that have sustainable yields, and if the income stream becomes threatened, we won't hesitate to say goodbye to a name. The High Yield Dividend Newsletter portfolio is presented each month in similar fashion (list and weightings) as that of the first edition.

If you have any questions, comments, or concerns, please be sure to let us know at info@valuentum.com.

Idea	Symbol	Weighting	Est Div Yield
CORE			
PowerShares Senior Loan Portfolio	BKLN	5.0%	3.55%
iShares MSCI Australia ETF	EWA	5.0%	3.76%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	5.20%
iShares International Select Dividend ETF	IDV	5.0%	5.46%
iShares U.S. Preferred Stock ETF	PFF	5.0%	4.80%
Global X SuperDividend ETF	SDIV	5.0%	7.01%
Global X SuperIncome Preferred ETF	SPFF	10.0%	5.75%
Vanguard Consumer Staples ETF	VDC	5.0%	2.50%
Vanguard Real Estate ETF	VNQ	10.0%	3.92%
Utilities Select Sector SPDR	XLU	5.0%	3.14%
EQUITY			
AT&T	T	5.0%	7.23%
Crown Castle	CCI	5.0%	3.34%
CyrusOne Inc.	CONE	5.0%	2.79%
CubeSmart	CUBE	5.0%	4.05%
Digital Realty Trust	DLR	5.0%	3.21%
Enterprise Products Partners	EPD	2.5%	9.09%
Magellan Midstream Partners	MMP	2.5%	9.68%
Philip Morris	PM	5.0%	5.80%
Public Storage	PSA	5.0%	3.46%
Cash*	-	0.0%	0.00%
		100.0%	**4.70%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 1/1/2021. Est. Div. Yield information retrieved from SeekingAlpha, YF.

** Reflects federal funds target rate range*

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 20-Dec-2020 | Data as of 18-Dec-2020

SBA Comm SBAC FAIRLY VALUED

Buying Index™ 3 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$172.00 - $286.00	HEALTHY	EXCELLENT / 3	EXCELLENT	0.67%

Assessment of Company Dividend Strategy

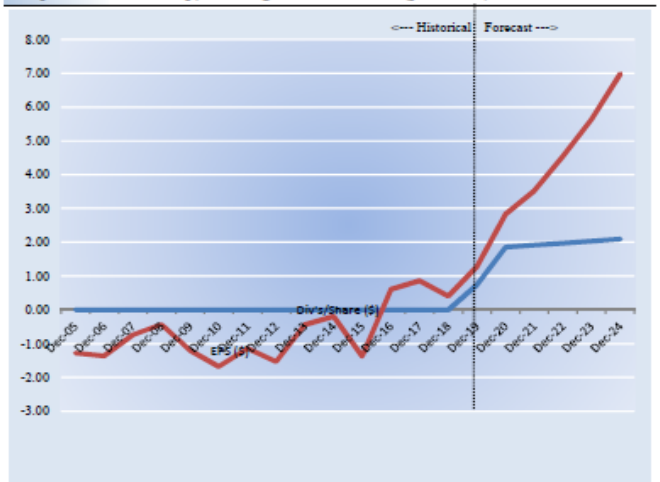
Key Strengths

SBA Communications initiated a quarterly dividend program in 2019 after converting its business to a REIT in 2017. Its free cash flow and adjusted funds from operations performance have both held up well over the past few years, with room for significant upside due to the highly scalable nature of its business model. The REIT's global footprint supports its long-term growth outlook, as does its high operating margins, low customer churn, recurring revenues, long-term contracts, and built-in escalators. SBA Communications' relatively low capital expenditure requirements makes generating sizable free cash flows an easier task, though its balance sheet remains bloated.

Potential Weaknesses

The single greatest risk to SBA Communications' dividend coverage is its large total debt load. SBA Communications must maintain constant access to capital markets to refinance maturing debt. The REIT has historically been highly acquisitive and that will likely continue being the case going forward. Additionally, SBA Communications has historically spent meaningful amounts buying back its stock, which competes for capital against its dividend obligations. Should the firm stumble for any reason, problems could quickly arise, though its high quality cash flow profile, attractive business model, and promising long-term growth outlook mitigates these concerns to a degree.

Graphical Relationship, Earnings and Dividends (per share)

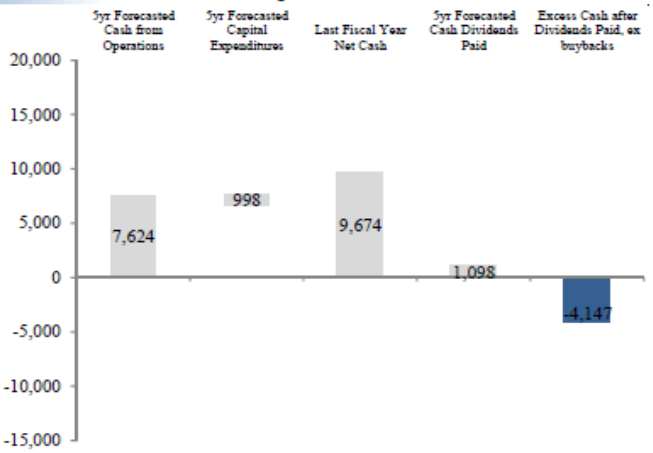


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. SBA Comm's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is less than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

Dividend Cushion Cash Flow Bridge

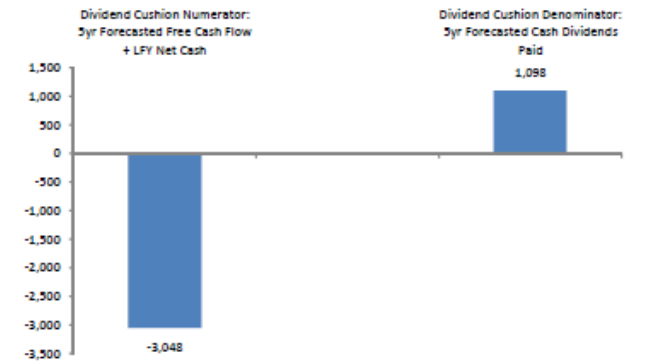


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

The Dividend Cushion Ratio Deconstruction, shown in the image to the right, reveals the numerator and denominator of the Dividend Cushion ratio. At the core, the larger the numerator, or the healthier a company's balance sheet and future free cash flow generation, relative to the denominator, or a company's cash dividend obligations, the more durable the dividend. In the context of the Dividend Cushion ratio, SBA Comm's numerator is smaller than its denominator suggesting weak dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

Dividend Cushion Ratio Deconstruction



DEFINITIONS

ValueCreation. This is a proprietary Valuentum measure. ValueCreation indicates the firm's historical track record in creating economic value for shareholders, taking the average difference between ROIC (without goodwill) and the firm's estimated WACC during the past three years. The firm's performance is measured along the scale of EXCELLENT, GOOD, POOR, and VERY POOR. Those firms with EXCELLENT ratings have a demonstrated track record of creating economic value, while those that register a VERY POOR mark have been destroying economic value.

ValueRisk. This is a proprietary Valuentum measure. ValueRisk indicates the historical volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow. The standard deviation of each measure is calculated and scaled against last year's measure to arrive at a percentage deviation for each item. These percentage deviations are weighted equally to arrive at the corresponding fair value range for each stock, measured in percentage terms. The firm's performance is measured along the scale of LOW, MEDIUM, HIGH, and VERY HIGH. The ValueRisk™ rating for each firm also determines the fundamental beta of each firm along the following scale: LOW (0.85), MEDIUM (1), HIGH (1.15), VERY HIGH (1.3).

ValueTrend. This is a proprietary Valuentum measure. ValueTrend indicates the trajectory of the firm's return on invested capital (ROIC). Firms that earned an ROIC last year that was greater than the 3-year average of the measure earn a POSITIVE rating. Firms that earned an ROIC last year that was less than the 3-year average of the measure earn a NEGATIVE rating.

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