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Dividend Ideas

8.7% 'Qualified Dividend' On A New Preferred Stock From AMMO

Jun. 21, 2021 10:35 AM ET | AMMO, Inc. (POWW), POWWP | 124 Comments

Summary

- Not surprisingly, AMMO Incorporated is in the business of producing ammunition.
- POWW recently issued a new high-yield and qualified dividend-paying preferred stock with an 8.75% coupon – ticker symbol POWWP.
- Given POWW's very low leverage and rapidly increasing sales, we find this new preferred stock to be very attractive and undervalued.
- An 8.3% cumulative “qualified” current yield.
- Looking for a portfolio of ideas like this one? Members of High Dividend Opportunities get exclusive access to our model portfolio. [Learn More »](#)



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Co-produced with "Preferred Stock Trader"

(This article was first published to HDO subscribers on June 10, and all data is from that date. The price is up significantly since we published it to our subscribers, but it is an excellent preferred stock and one that should be watched and bought on pullbacks.)

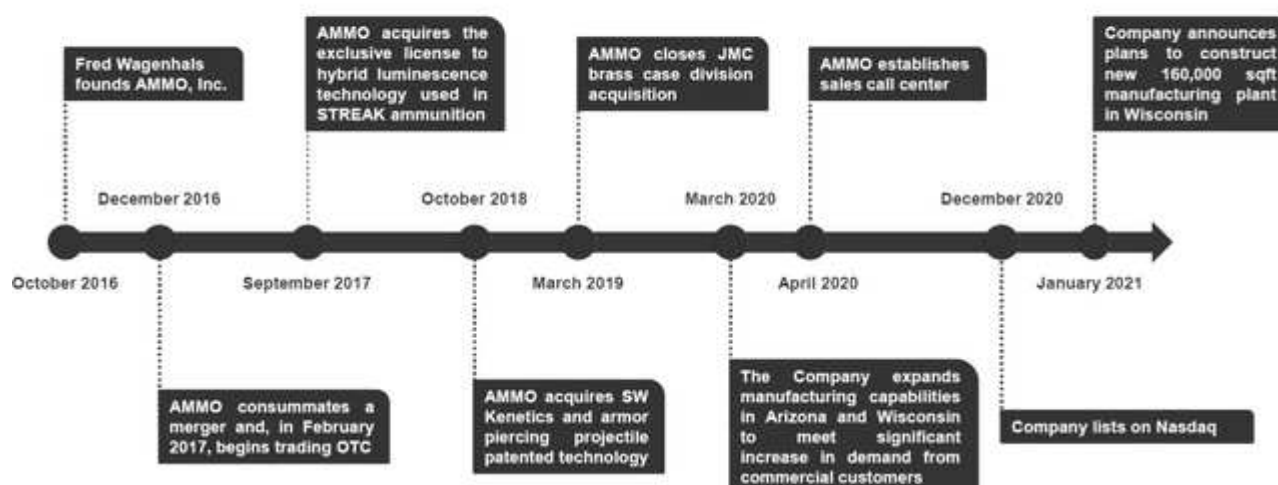


About AMMO, Incorporated

AMMO, Incorporated (POWW) was started in 1990 as a textile importer and manufacturer. At some point, the company went inactive. In 2016, the stock of the major shareholder was bought by a new investor and a change of control occurred. In 2017 the company was recapitalized and is now in the business of design, production, and sale of ammunition while building a portfolio of ammunition patents.



COMPANY HISTORY



Ammo, Inc. designs, develops, manufactures, markets, and sells ammunition and ammunition component products for use in handguns and long guns in the United States and internationally. The company offers STREAK Visual Ammunition that enables shooters to see the path of the bullets fired by them; One Precise Shot ammunition, which is designed to meet various engagement scenarios experienced by law enforcement personnel in the line of duty; and Stealth Subsonic ammunition that is designed primarily for suppressed firearms. It also provides Jesse James ammunition, a jacketed hollow point projectile for self-defense; and Jeff Rann's ammunition for game hunting. In addition, the company offers hard armor-piercing incendiary rounds; and ammunition casings for pistol ammunition through large rifle ammunition. The company offers its products to sport and recreational shooters, hunters, individuals seeking home or personal protection, and law enforcement and military agencies.”

POWW Series “A” Preferred Stock

AMMO, Inc. 8.75% Series A Cumulative Redeemable Perpetual Preferred Stock carries the symbol POWWP and is the only preferred stock that has been issued by POWW. Here are the details (as of June 10th):

- Current Stripped Yield: 8.3%
- Current Price: \$26.50
- Par: \$25.00
- Qualified Dividend: Yes
- Cumulative: Yes
- Call Date: 5/18/2026

Source: *Dreamstime*

Excellent Safety On 4 Important Metrics

- POWW's balance sheet is pristine. In fact, according to their latest 10-Q filing, POWW's cash plus accounts receivable cover all of their debt, preferred stock, and other liabilities combined. The sweet spot for high yield is in the unrated and/or small-cap arena. Only there can you find companies with excellent balance sheets that also pay very high dividends on their preferred stocks.
- Another useful safety metric is the ratio of debt plus preferred stock to POWW's enterprise value. At a recent price of \$6.75, POWW's enterprise value is approximately \$510 million. Total liabilities plus preferred stock is around \$50 million. Thus, we have extremely low leverage of only 10% - in other words, preferred stock plus debt is covered 10 times by the value of the company.
- Assuming analysts are roughly correct about the next four quarters' earnings, POWW should generate \$35 million in EBITDA while its combined interest and preferred dividend expense should approximate only \$5 million. Thus, POWW has a very large 7 times EBITDA coverage of its combined interest expense and preferred dividend expense.
- Operationally, POWW is moving into high gear with sales ramping up at a very high rate. Sales in the third quarter of fiscal 2021 were \$16.6 million, up six-fold from only \$2.8 million in the third quarter of 2020 and fiscal year 2022 is expected to see revenues triple from fiscal 2021, according to Yahoo Finance

especially high after-tax yield for Americans with taxable accounts. Investors with both an IRA and a taxable account would be well served to purchase it in a taxable account.

Should dividends be categorized as “non-taxable distributions,” that's even better than a “qualified dividend” categorization if you hold for more than one year. A “non-taxable distribution” allows you to defer taxes for as many years as you hold the stock and then only when you sell will the distributions you received come into play in terms of taxes – and will be taxed at the lower long term capital gains tax rate.

The popular preferred stock website Quantumonline.com (QOL) shows POWWP as not being qualified, but that should be ignored. We contacted QOL, and they acknowledge that the dividend should be qualified but because the prospectus does not address taxes, they defaulted that field in their database which resulted in a “no” for the 15% tax rate. This seems to be a new policy for QOL and, going forward, will likely make them a poor source for information regarding whether a preferred stock dividend is qualified or not.

POWWP's Recent Price Pullback Provides Opportunistic Price

5. POWW's leverage is extraordinarily low with cash and receivables equaling all of POWW's combined liabilities plus outstanding preferred stock.
6. POWW's enterprise value covers total liabilities plus preferred stock a huge 10 times.
7. EBITDA covers combined interest expense and preferred dividend expense by seven times.

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

Additional disclosure: Treading Softly, Beyond Saving, PendragonY, and Preferred Stock Trader all are supporting contributors for High Dividend Opportunities.

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23 Jun. 2021, 9:50 AM

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Tooxpensive .

I'm waiting for their potential new issuances , BAMMP and BANGP



BRUCE MILLER

Yesterday, 10:50 AM

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@waldipuc EBITDA is not cash, its a derivative of it. Ultimately, the reason

