

3 Stocks to Buy Ahead of the Election (No Matter Who Wins)

Editor's Note:

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Dear Benzinga Member,

"This may not be good for America, but it's very good for CBS," said CEO Les Moonves at San Francisco's Palace Hotel in 2016.

He would know... it was early in the cycle, but Moonves was already celebrating Donald Trump's entry into the presidential race, and the billions he would spend on campaign ads - billions that would flow directly to the networks that ran them.

"The more they spend, the better it is for us," he said. "And: Go Donald! Keep getting out there."

It wasn't the first time he had looked at the election landscape with undisguised glee.

In CBS's earnings report the previous quarter, he told shareholders how "The 2016 election is right around the corner, and thank God, the rancor has already begun!"

Vince Sadusky, CEO of Media General, told investors in a conference all how he couldn't wait for the election where political spending "could pass \$5 billion on the presidency alone."

And Peter Liguori, the CEO of Tribune Company, reveled at a conference hosted by JPMorgan over how his media empire would bring in up to \$200 million from political ads that year, \$85 million more than the last cycle.

To hear them tell it, 2016 was the election of a lifetime. But they had no idea how good their companies would have it in 2020.

One billionaire, Mike Bloomberg, spent more than \$500 million on political ads. Meredith Corporation, a broadcasting company with stations in political battlegrounds like Oregon, Alabama, Missouri, Georgia, and Arizona, reported triumphant numbers in 2023 at the height of Bloomberg's spending.

"If the headlines are to be believed," said executive Patrick McCreery, "he's going to double the spending, and that will benefit us certainly."

One broadcasting company, Meredith Corporation, saw its stock surge more than 1,900% since January 2010, when the Supreme Court ruled that corporations and labor unions could spend unlimited amounts on US elections.

The ruling put America one step closer to oligarchy by allowing the rich and powerful even greater influence in elections. One casino owner, Sheldon Adelson, donated \$100 million to Trump and Republicans this year alone. On the Democratic side, billionaire Tom Steyer spent \$123 million to help Democratic candidates in 2022's midterm (non-presidential) elections.

Now GroupM, one of the world's biggest paid advertising agencies, predicts that the 2024 election will see \$16 billion spent in net incremental ad sales, a 30% rise from 2020.

And these estimates came before Elon Musk's July decision to donate \$45 million per month to a Trump-supporting political action committee... or Vice President Harris' record \$83 million in contributions coming 24 hours after President Biden announced he would leave the race.

And that's all before we get to...

The 471 Candidates Spending Millions - or Billions - This Cycle

The presidential election tends to dominate the news cycle. But congressional elections are also being held this November.

435 members of Congress will be elected, along with 34 new Senators, while the two presidential campaigns spend more than a billion each.

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The hundreds of elections being fought around the country really start to add up...

In 2020, for example, Kentucky Senator Mitch McConnell faced a lavishly funded challenger, Amy McGrath, who has raised more than \$30 million for their contest. Congressional candidates have raised millions of dollars, sometimes tens of millions each. And Senators routinely spend upwards of \$10 million in their hard-fought, statewide elections - and again, that's before factoring in out-of-state spenders.

I expect 2024's spending for Congress to blow past those figures for a simple reason: Control of both houses of Congress is balanced on a knife's edge.

In the Senate, Republicans need just 1 pickup to reclaim the majority. In the House, just 5 seats out of 435 separate the majority parties.

That's a recipe for both parties to treat every individual race as the potential tiebreaker for the majority...

The Next President's Path to Power Runs Through This \$5 Stock

Gray Television Inc. (GTN) is a \$626 million broadcasting company based in Atlanta, Georgia.

As you can see below, it has numerous stations in Georgia - but also 35 other states.

Gray's National Footprint in 2024 Reaches 36% of Total US Television Households



48% of Gray TVHH in Midsize Markets
45% of Gray TVHH in Large Markets
7% of Gray TVHH in Small Markets



Source: *Investor Presentation*

It's pretty clear the "battleground states" - states that are almost evenly divided, and ferociously fought over in the election - are well-represented in Gray Television's broadcasting empire.

For instance, Georgia - which was the closest state in 2020, with just 11,780 votes separating Biden and Trump - has no fewer than seven GTN-owned stations. Michigan, Ohio, Wisconsin, North Carolina, Nevada, Arizona, and Virginia are the other swing states where GTN is positioned to collect millions of dollars through each of its local broadcasting stations.

How lucrative can these stations be for GTN?

Just consider one fact... in 2021, the firm collected \$50 million in advertising from two Senate runoff elections in Georgia that year. That's just over \$7 million per broadcasting station... for a runoff election that took place over a span of two months, after the main excitement of the 2020 presidential race had long ago faded.

Even in the 2022 midterm elections, which typically see far lower turnout and voter interest than presidential elections do, Gray Television raked in \$515 million in revenue from political ad spending.

In its February 2024 earnings report, management was tight-lipped on forecasts for 2024's projected advertising windfall.

But as chief financial officer Jim Ryan put it: "We are not going to comment on any growth rates for specific numbers. We will tell you we are confident that 2024 will be a strong political year, given how this year's primaries have shaped up versus 2020, which is just stating the obvious, right? I mean, it's two different cycles."

We think the political will be naturally more back weighted to the second half of the year and especially the traditional general election campaign season of September through Election Day."

This strikes me as unusual behavior for an executive in an earnings call... normally, management is happy to present rosy forecasts to investors and dialed-in analysts. So GTN declining to issue a revenue forecast, at a time when political ad spending has been exploding year after year for almost two decades, is notable.

But this lack of a forecast only makes me more bullish on GTN, because it's possible to guess what's happening... in November 2020, just after the election had concluded, Gray Television announced a massive expansion to its share buyback program, totaling \$150 million.

For a small-cap company, that's a staggering sum... and I believe management is prepared to ramp up its buyback program once more this year.

Because share buybacks are most effective when share prices are low (just like you and I, management prefers to buy low), Gray Television's executives apparently have no interest in hyping the stock for now.

That creates an opening for you today... shares of GTN trade at just over \$5 a share as I write, thanks in part to the cyclical nature of this election play.

Stock #1 - Gray Television Inc. (GTN):



Source: *Benzinga Pro*

Of course, management won't be able to keep the approaching windfall a secret from both Wall Street and regular investors forever...already, two Wall Street analysts have ramped up their earnings per share forecasts for GTN in these first few months of 2024 alone.

Meanwhile, analysts expect 328% growth in the next quarter... and a staggering 436% growth this year.

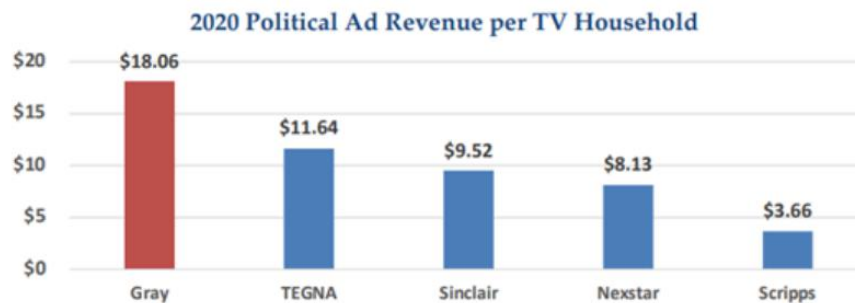
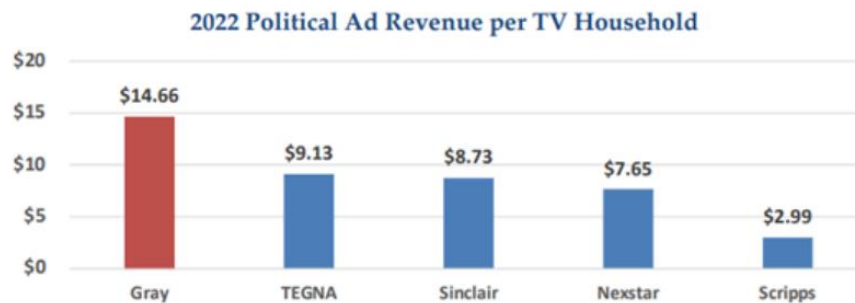
Analysts may be in the dark about management's plans... but they are not blind. They know that as long as deep-pocketed special interests crave power, broadcasting firms like GTN will rake in hundreds of millions of dollars, if not over \$1 billion, for cycle after cycle.

That amount in ad revenue won't move the needle much for mammoth media companies like Fox Corp. (FOX), whose shares have actually trended lower over the last five years.

But as you can see above, GTN's shares nearly tripled in the months leading up to the 2020 election and after it, as the windfall from battleground state political spending showed up in the company's earnings reports.

This is largely because Gray is in a league of its own when it comes to collecting its share of political ad revenue, as you can see from the graphic on a recent earnings report below:

Gray Excels at Political Advertising Revenue



Revenue per company filings. TV Household estimates from Comscore for applicable year. Gray is CHB for 2020. Scripps includes Ion for both periods.

The company has also maintained a 5.3% dividend for years - more than triple the 1.4% yield that the average S&P 500 company offers.

It's rare for a small-cap company to sport such a high dividend yield - and sustain it for years.

But when a company valued at just \$626 million can rake in \$515 million in a year from just one facet of the media landscape, that kind of income is well within the realm of possibility.

And a final note on the sustainability of its dividend... in February 2023, management shrewdly entered into an agreement to cap its interest rate expenditures, which takes the threat of a drag from persistent high interest rates off the table for Gray's investors.

That's an important advantage in that it allows investors to sidestep the parsing of the Federal Reserve's statements at each FOMC meeting. So while most investors await the Fed's next September rate announcement with some degree of dread, GTN has opted out of the drama.

Of course, like any investment, GTN carries risk. It's volatile, as small-cap stocks tend to be. And at 230%, its debt-to-equity ratio is higher than I like to see - although the interest rate caps help to alleviate some of this concern.

But as the battle for America heats up, this stock is uniquely positioned to benefit from the ongoing explosion in campaign spending - no matter who wins.

And if history is any guide, GTN will continue to surprise a lot of people.

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Of course, the \$17 billion in Forecasted Political Ad Spending Will Make its Way to Plenty of Other Media Companies as Well...

The Trade Desk (TTD) is a \$49 billion software company that uses technology to drive marketing automation solutions. Trading at \$100/share as I write, analysts have placed a \$102 price target on the firm... but these are the same analysts who have underestimated TTD's sales growth by 24%, 24%, 24%, and 20% in each of the last four quarters.

TTD has defied the recent "earnings recession" because it's been a vital platform for political advertisers ever since 2016. In 2022 and 2023, it grew revenues by 20% each quarter, with Q4/2023 revenue coming in at \$606 million.

Management has also trumpeted the 2024 elections as a major catalyst for TTD in the months ahead. As CEO and founder Jeff Greene put it in a February 2024 earnings call:

"2024 stands to be a major year for political spending here in the United States.

Since 2016, The Trade Desk has been a vital platform for leading political advertisers. This year, we expect to gain more share in this segment, and we believe that political spend will increase as the year progresses. The Trade Desk is very well positioned as the advertising industry evolves."

In Q2/2024, TTD grew revenues by 28% year-over-year, while earnings surged a stunning 239% year-over-year, thanks largely to the explosion in political ad revenue. And with political ad spending forecasted to climb by 31%, 2024 could provide the stock with an even bigger boost.

Stock #2 - The Trade Desk (TTD):



Source: *Benzinga Pro*

Finally, investors who crave large-cap stability to play this trend might consider **Meta Platforms (META)**.

Formerly known as Facebook, Meta has made news for bold multi-billion-dollar futuristic projects such as the Metaverse.

But for now, Meta is very much a media company. As the it derived 98% of its revenues last year from advertising alone.

For now, Facebook (the platform, not the company) has the biggest critical mass of voters and is a forum that no candidate can ignore in 2024.

In fact, Facebook's dominance gives it the luxury, to a large extent, of writing the rules of political advertising.

Even while the company makes \$1 million per day on political ads - even before Mark Zuckerberg's decision in July to allow President Trump back on Facebook and Instagram - it's laid down rules for generative AI's role in political ads on its forum and is working with state and election officials to send information to voters through its Voter Alerts feature.

And for now at least, META is growing like a small-cap. The company achieved 116% earnings growth year-over-year last quarter, with revenues up 27%. The company is awash in cash, with \$58.1 billion cash on hand compared to \$37.6 billion in debt. With fundamentals like these, the company's first-ever dividend, announced in February, looks well-positioned to grow for years or even decades to come.

Stock #3 - Meta Platforms Inc. (META):



Source: *Benzinga Pro*

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The *Benzinga Research* Team

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