



## Featured Stocks in April's Dividend Growth Model Portfolio

This report highlights last month's top performers and features a stock from the current portfolio. April's [Dividend Growth Stocks Model Portfolio](#) was made available to members on April 27, 2018.

### Recap from March's Picks

Our Dividend Growth Stocks Model Portfolio underperformed the S&P 500 last month. The Model Portfolio fell 0.4% on a price return basis and fell 0.3% on a total return basis. The S&P 500 rose 1.5% on a price return and total return basis. The portfolio's best performing stock was American Express Company (AXP), which was up 7%. Overall, 12 out of the 30 Dividend Growth Stocks outperformed the S&P last month, and 14 had positive returns.

The long-term success of our model portfolio strategies highlights the value of our [Robo-Analyst technology](#)<sup>1</sup>, which scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks<sup>2</sup>.

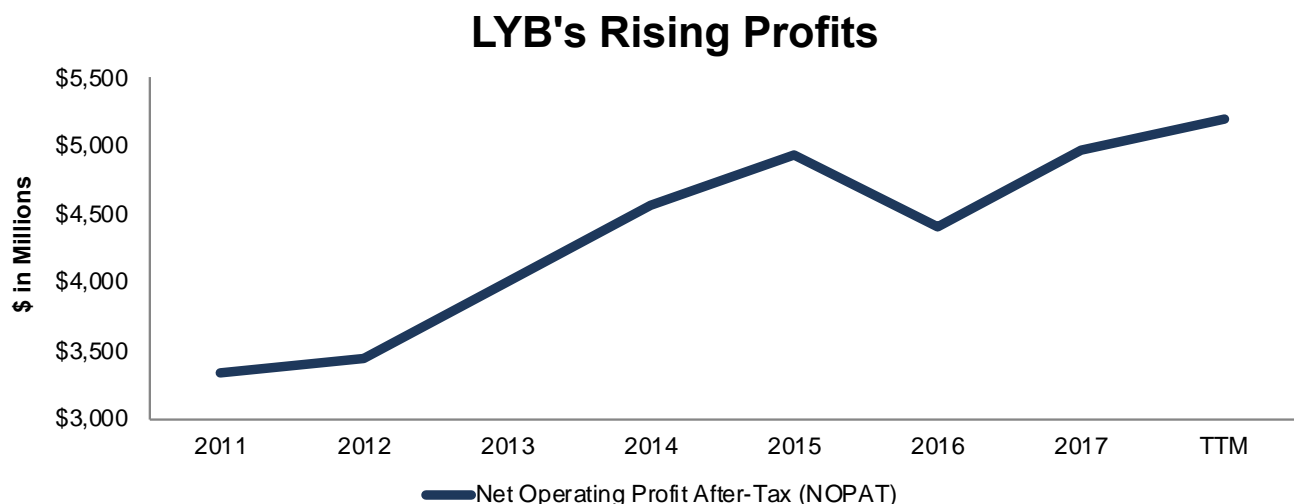
The methodology for this model portfolio mimics an All-Cap Blend style with a focus on dividend growth. Selected stocks earn an [Attractive or Very Attractive rating](#), generate positive free cash flow (FCF) and [economic earnings](#), offer a current dividend yield >1%, and have a 5+ year track record of consecutive dividend growth. This model portfolio is designed for investors who are more focused on long-term capital appreciation than current income, but still appreciate the power of dividends, especially growing dividends.

### Featured Stock from April: LyondellBasell Industries NV (LYB: \$106/share)

Chemicals and plastics company LyondellBasell Industries (LYB) is the featured stock from April's Dividend Growth Stocks Model Portfolio.

Since 2011, LYB has grown after-tax profit (NOPAT) by 7% compounded annually to \$4.9 billion in 2017. Over the last twelve months, LYB's NOPAT has increased to \$5.2 billion. LYB's NOPAT margin has improved from 7% in 2011 to 15% TTM while its return on invested capital (ROIC) improved from 17% to 22% over the same time.

Figure 1: LYB After Tax Profit Since 2011



Sources: New Constructs, LLC and company filings

<sup>1</sup> Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

<sup>2</sup> Ernst & Young's recent white paper "[Getting ROIC Right](#)" proves the superiority of our holdings research and analytics.



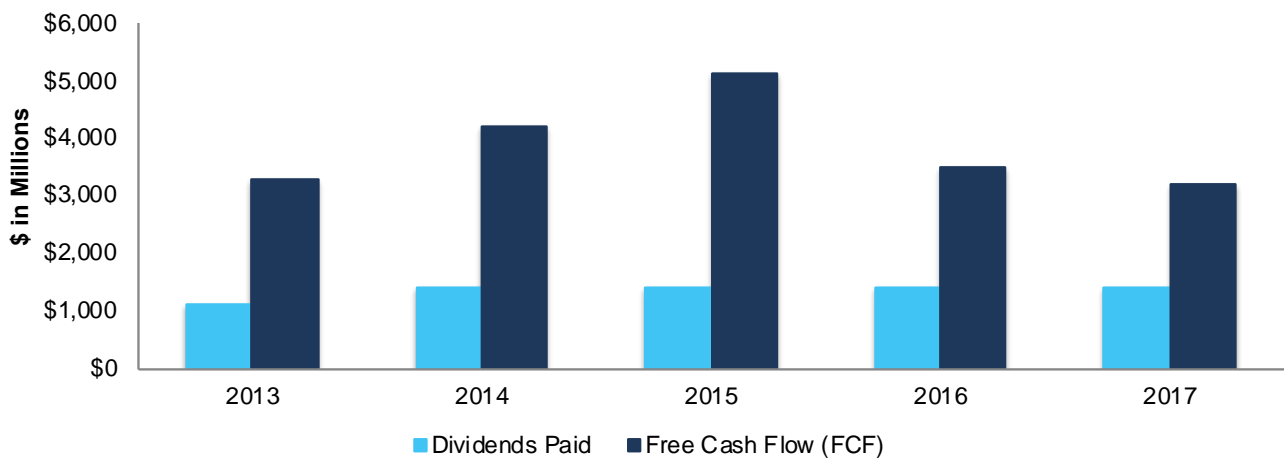
**Steady Dividend Growth Supported by FCF**

LYB has increased its annual dividend for seven consecutive years. The current annualized dividend has grown from \$2/share in 2013 to \$3.55/share in 2017, or 15% compounded annually. Positive FCF has fueled dividend growth in the past and should continue to do so in the future. From 2013-2017, LYB generated cumulative FCF of \$19.3 billion (47% of market cap) and paid out cumulative dividends of \$6.8 billion.

Companies with FCF well in excess of dividend payments provide higher quality dividend growth opportunities because we know the firm generates the cash to support the current dividend as well as a higher dividend. On the flip side, the dividend growth trajectory of a company where FCF falls short of the dividend payment over time cannot be trusted to grow or sustain its dividend because of inadequate free cash flow.

**Figure 2: LYB’s Free Cash Flow (FCF) vs. Regular Dividend Payments**

**Cumulative FCF Exceeds Dividends**



Sources: New Constructs, LLC and company filings

**LYB Presents Significant Upside**

At its current price of \$106/share, LYB has a price-to-economic book value ([PEBV](#)) ratio of 0.7. This ratio means the market expects LYB’s NOPAT to permanently decline by 30%. This expectation seems overly pessimistic for a firm that has grown NOPAT by 7% compounded annually since 2011.

If LYB can maintain current NOPAT margins (15% TTM) and grow NOPAT by 2% compounded annually over the next decade, the stock is worth \$181/share today – a 71% upside. [See the math behind this dynamic DCF scenario here](#). Add in LYB’s 3.8% dividend yield and history of dividend growth, and it’s clear why this stock is in April’s Dividend Growth Stocks Model Portfolio.

**Critical Details Found in Financial Filings By Our [Robo-Analyst Technology](#)**

As investors [focus more](#) on fundamental research, research automation technology is needed to analyze all the critical financial [details in financial filings](#). Below are specifics on the adjustments we make based on Robo-Analyst findings in LyondellBasell Industries’ 2017 10-K:

Income Statement: we made \$2.7 billion of adjustments with a net effect of removing \$82 million in non-operating expense (<1% of revenue). We removed \$1.4 billion related to [non-operating expenses](#) and \$1.3 billion related to [non-operating income](#). See all adjustments made to LYB’s income statement [here](#).

Balance Sheet: we made \$6.8 billion of adjustments to calculate invested capital with a net increase of \$2.5 billion. The most notable adjustment was \$1.3 billion (6% of reported net assets) related to [other comprehensive income](#). See all adjustments to LYB’s balance sheet [here](#).

Valuation: we made \$13.7 billion of adjustments with a net effect of decreasing shareholder value by \$11.6 billion. Apart from \$9.7 billion in [total debt](#), which includes \$1.1 in [off-balance sheet operating leases](#), the largest



adjustment to shareholder value was \$1.7 billion in [deferred tax liabilities](#). This deferred tax adjustment represents 4% of LYB's market value. Despite the decrease in shareholder value, LYB remains undervalued.

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*Disclosure: David Trainer and Kyle Guske II receive no compensation to write about any specific stock, style, or theme.*

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### ***Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale***

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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