Featured Stock in April's Safest Dividend Yields Model Portfolio

Four new stocks make our Safest Dividend Yield Model Portfolio this month, which was made available to members on April 18, 2019.

Get the best fundamental research

This Model Portfolio leverages our Robo-Analyst technology[1], which scales our forensic accounting expertise (featured in Barron's) across thousands of stocks.[2]

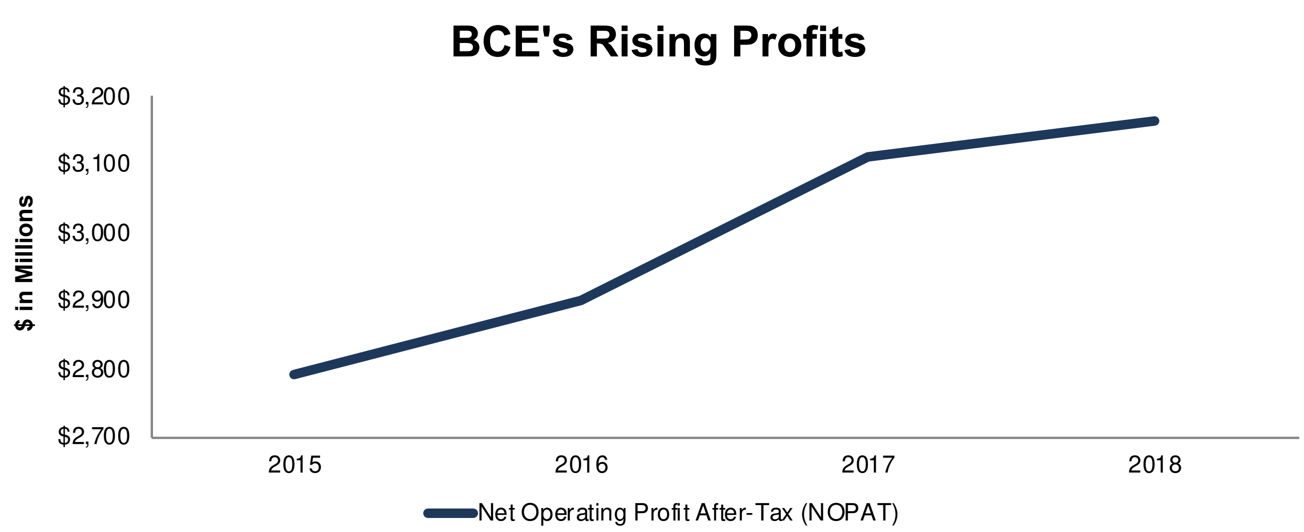
This Model Portfolio only includes stocks that earn an Attractive or Very Attractive rating, have positive free cash flow and economic earnings, and offer a dividend yield greater than 3%. Companies with strong free cash flow provide higher quality and safer dividend yields because we know they have the cash to support the dividend. We think this portfolio provides a uniquely well-screened group of stocks that can help clients outperform.

Featured Stock for April: BCE Inc. (BCE: $45/share)

Canadian Telecom company BCE Inc. is the featured stock in April's Safest Dividend Yield Model Portfolio.

Since 2015, BCE has grown both revenue and after-tax operating profit (NOPAT) by 4% compounded annually. BCE has maintained an 8% return on invested capital (ROIC) over the same time, and the company has generated cumulative FCF of $17 billion (42% of market cap) since 2013.

Figure 1: BCE NOPAT Since 2015



Sources: New Constructs, LLC and company filings

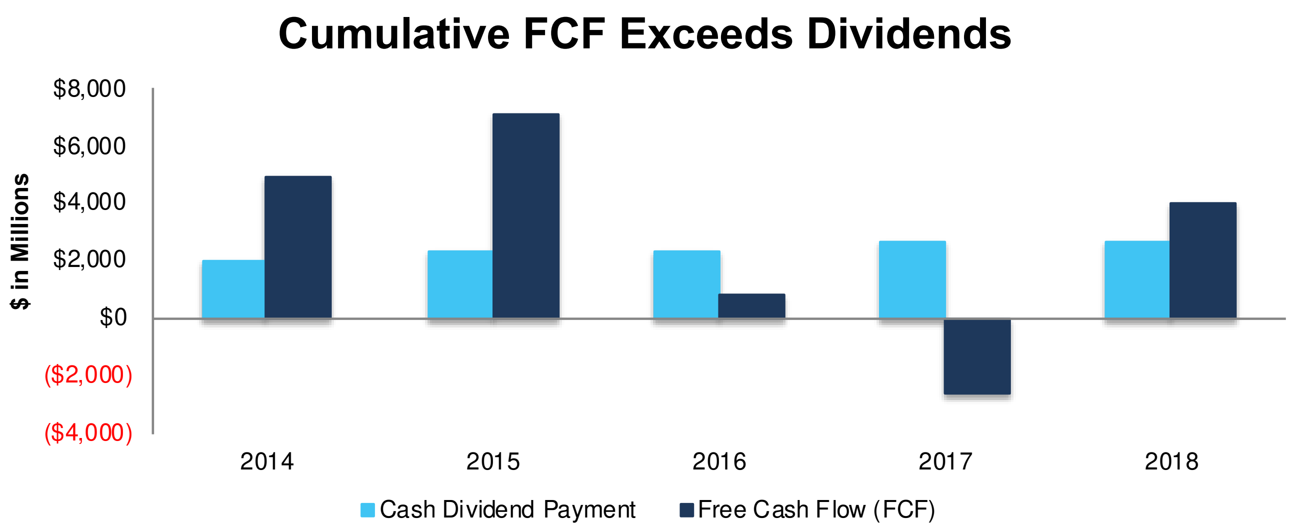
BCE's Free Cash Flow Supports Dividend Payments

Over the past five years, BCE has increased its annual dividend from $2.47/share to $3.02/share, or 5% compounded annually. This dividend payment has been supported by BCE's cumulative free cash flow. From 2014-2018, BCE generated a cumulative $14.3 billion (35% of market cap) in FCF, even after accounting for the $2.9 billion acquisition of MTS in 2017. Over the same time, BCE paid $12 billion in dividends.

[1] Harvard Business School features the powerful impact of our research automation technology in the case New Constructs: Disrupting Fundamental Analysis with Robo-Analysts.
[2] Ernst & Young's recent white paper "Getting ROIC Right" demonstrates the superiority of our stock research and analytics.

Companies with strong free cash flow provide higher quality dividend yields because we know the firm has the cash to support its dividend. On the flip side, dividends from companies with low or negative free cash flow cannot be trusted as much because the company may not be able to sustain paying dividends.

Figure 2: BCE FCF vs. Dividends Since 2014



Sources: New Constructs, LLC and company filings

BCE Remains Undervalued

At its current price of $45/share, BCE has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means the market expects BCE's NOPAT to permanently decline 10%. This expectation seems pessimistic given that BCE has grown NOPAT by 4% compounded annually since 2015.

If BCE can maintain 2018 NOPAT margins (18%) and grow NOPAT by just 3% compounded annually for the next decade, the stock is worth $73/share today – a 62% upside. See the math behind this dynamic DCF scenario.

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 BCE's 2018 40-F:

Income Statement: we made $2.0 billion of adjustments with a net effect of removing $1.1 billion in non-operating expenses (7% of revenue). See all adjustments made to BCE's income statement here.

Balance Sheet: we made $5.8 billion of adjustments to calculate invested capital with a net increase of $5.0 billion. The most notable adjustment was $981 million (3% of reported net assets) related to off-balance sheet operating leases. See all adjustments to BCE's balance sheet here.

Valuation: we made $26.4 billion of adjustments with a net effect of decreasing shareholder value by $26.2 billion. Apart from $19.8 billion in total debt, which includes the operating leases noted above, the largest adjustment to shareholder value was $2.9 billion in preferred stock. This adjustment represents 7% of BCE's market value. See all adjustments to BCE's valuation here.

This article originally published on April 25, 2019.

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

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Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

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1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide tangible, quantifiable correlation to stock, ETF or mutual fund performance.

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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