



Featured Stock in May's Dividend Growth Model Portfolio

Eight new stocks make our [Dividend Growth Stocks Model Portfolio](#) this month, which was made available to members on May 30, 2019.

Get the best fundamental research

The long-term success of our model portfolio strategies highlights the value of our [Robo-Analyst technology](#)¹, which scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks².

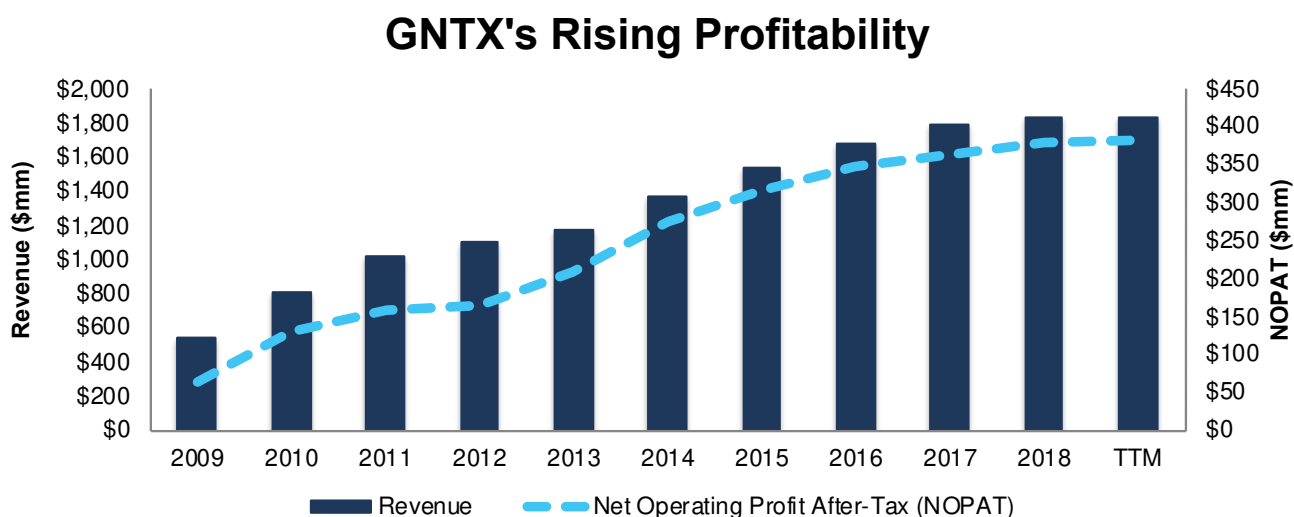
The methodology for this model portfolio mimics an All-Cap Blend style with a focus on dividend growth. Selected stocks earn an [Attractive or Very Attractive rating](#), generate positive free cash flow ([FCF](#)) and [economic earnings](#), offer a current dividend yield >1%, and have a 5+ year track 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 May: Gentex Corporation (GNTX: \$22/share)

Gentex Corporation (GNTX) is the featured stock from May's Dividend Growth Stocks Model Portfolio. GNTX was previously made a Long Idea in [December 2016](#) and reiterated in [April 2019](#).

Since 2009, GNTX has grown revenue by 13% compounded annually and after-tax profit ([NOPAT](#)) by 19% compounded annually. Over the same time, NOPAT margin improved from 12% in 2009 to 21% TTM while its return on invested capital ([ROIC](#)) improved from 18% to 25%.

Figure 1: GNTX's Revenue & NOPAT Since 2009



Sources: New Constructs, LLC and company filings

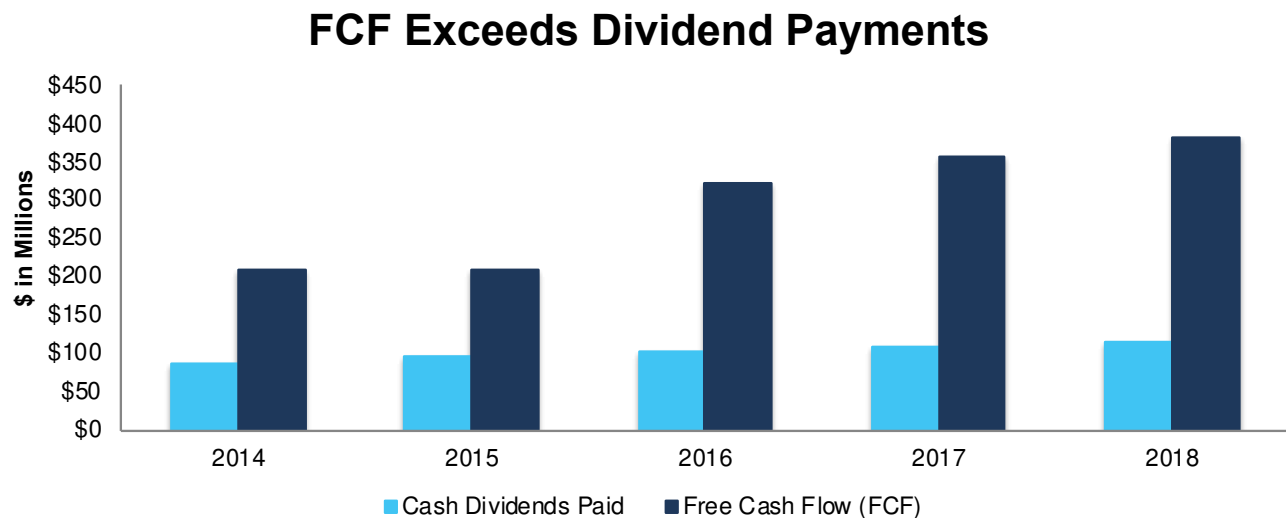
¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² Ernst & Young's recent white paper "[Getting ROIC Right](#)" demonstrates the superiority of our stock research and analytics.

**Steady Dividend Growth Supported by FCF**

Gentex has increased its annual dividend each of the past nine years. GTNX's annual dividend has grown 8% compounded annually over the past five years, from \$0.31/share in 2014 to \$0.46/share in 2019. Most importantly, GNTX easily generates the cash flow needed to continue paying and growing its dividend. Over the past five years, GNTX has generated a cumulative \$1.5 billion in FCF (27% of market cap) while paying \$511 million in dividends.

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 a higher dividend. On the other hand, the dividend of a company where FCF falls short of the dividend payment over time cannot be trusted to grow or even stay the same because of inadequate free cash flow.

Figure 2: Free Cash Flow (FCF) vs. Regular Dividend Payments

Sources: New Constructs, LLC and company filings

GNTX Holds Significant Upside Potential

At its current price of \$22/share, GNTX has a price-to-economic book value ([PEBV](#)) ratio of 1.0. This ratio means the market expects GNTX's NOPAT never to grow from current levels. This expectation seems rather pessimistic for a firm that has grown NOPAT by 19% compounded annually since 2009 and 12% compounded annually over the past two decades.

If GNTX can maintain 2018 margins (21%) and grow NOPAT by just 4% compounded annually for the next decade, the stock is worth \$28/share today – a 27% upside. [See the math behind this dynamic DCF scenario.](#) Add in Gentex's 2.1% dividend yield and history of dividend growth, and it's clear why this stock is in May'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 Gentex Corporation's 2018 10-K:

Income Statement: we made \$61 million of adjustments with a net effect of removing \$59 million in [non-operating income](#) (3% of revenue). See all adjustments made to GNTX's income statement [here](#).

Balance Sheet: we made \$568 million of adjustments to calculate invested capital with a net decrease of \$408 million. The most notable adjustment was \$67 million (3% of reported net assets) related to [asset write-downs](#). See all adjustments to GNTX's balance sheet [here](#).



Valuation: we made \$585 million of adjustments with a net effect of increasing shareholder value by \$399 million. The largest adjustment to shareholder value was \$492 million in [excess cash](#). This adjustment represents 9% of GNTX's market value. See all adjustments to GNTX's valuation [here](#).

This article originally published on [June 6, 2019](#).

Disclosure: David Trainer and Kyle Guske II 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.

To fulfill the Duty of Care, research should be:

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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