



Featured Stock in July's Safest Dividend Yields Model Portfolio

Eight new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on July 19, 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

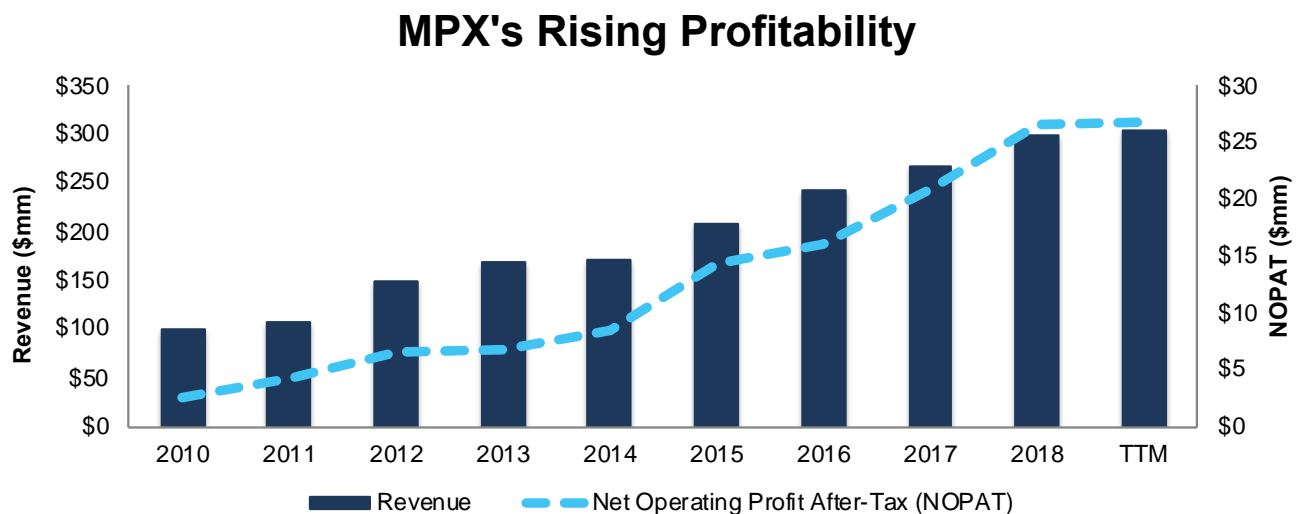
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating, have positive free cash flow and [economic earnings](#), and offer a dividend yield greater than 3%. Companies with strong [free cash flow](#) provide higher quality and safer dividend yields because we 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 July: Marine Products Corp (MPX: \$13/share)

Marine Products Corp (MPX) is the featured stock in July's Safest Dividend Yields Model Portfolio.

MPX has grown revenue by 15% compounded annually and after-tax operating profit (NOPAT) by 33% compounded annually since 2010. Trailing twelve months (TTM) NOPAT is up 16% over the prior TTM period. NOPAT margin has increased from 3% in 2010 to 9% TTM while return on invested capital (ROIC) has improved from 5% to a top-quintile 36% over the same time.

Figure 1: MPX Profitability Since 2010



Sources: New Constructs, LLC and company filings

MPX's Free Cash Flow Supports Dividend Payments

Since 2014, MPX has increased its annual dividend from \$0.16/share to \$0.50/share, or 33% compounded annually. This dividend payment has been supported by MPX's strong [free cash flow](#). Despite fluctuations year-over-year, the company generates the free cash flow necessary to pay its dividend, per Figure 2. Since 2014, MPX has generated \$69 million (15% of market cap) in FCF while paying \$69 million in dividends.

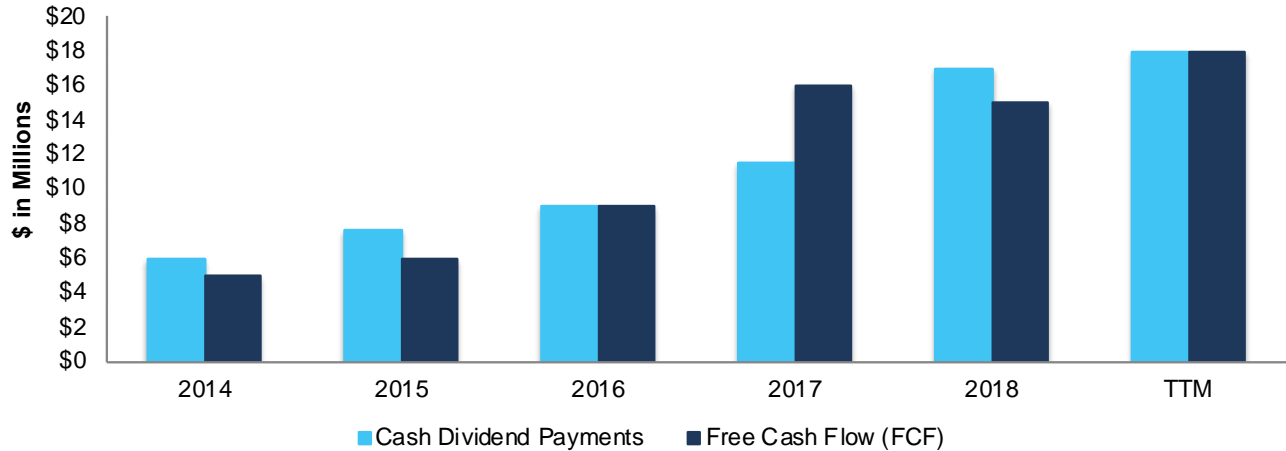
¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.



Figure 2: MPX's FCF Vs. Dividends Since 2014

Cumulative FCF Covers Dividend Payments



Sources: New Constructs, LLC and company filings

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.

MPX's Valuation Provides Upside

At its current price of \$13/share, MPX has a price-to-economic book value ([PEBV](#)) ratio of 1.0. This ratio means the market expects MPX's NOPAT to never meaningfully grow from current levels. This expectation seems pessimistic given that MPX has grown NOPAT by 8% compounded annually since 2001.

If MPX can maintain TTM NOPAT margins (9%) and grow NOPAT by just 5% compounded annually for the next decade, the stock is worth \$19/share today – a 46% 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 Marine Products' 2018 10-K:

Income Statement: we made \$3 million of adjustments with a net effect of removing \$1 million in [non-operating income](#) (<1% of revenue). See all adjustments made to MPX's income statement [here](#).

Balance Sheet: we made \$14 million of adjustments to calculate invested capital with a net decrease of \$9 million. The most notable adjustment was \$3 million (4% of reported net assets) related to [deferred tax assets](#). See all adjustments to MPX's balance sheet [here](#).

Valuation: we made \$5 million of adjustments with a net effect of increasing shareholder value by \$4 million. The largest adjustment to shareholder value was \$3 million in [excess cash](#). This adjustment represents 1% of MPX's market value. See all adjustments to MPX's valuation [here](#).

This article originally published on [July 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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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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