



Featured Stock in January's Safest Dividend Yields Model Portfolio

Six new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on January 22, 2020.

Recap from December's Picks

Our Safest Dividend Yields Model Portfolio underperformed the S&P 500 from December 19, 2019 through January 17, 2020. The Model Portfolio rose 0.5% on a price return basis and 1.3% on a total return basis. The S&P 500 rose 3.4% on a price return basis and 3.9% on a total return basis. The best performing large cap stock was up 6%, and the best performing small cap stock was up 8%. Overall, six out of the 20 Safest Dividend Yield stocks outperformed the S&P 500 & Russell 2000 from December 19, 2019 through January 17, 2020.

Get the best fundamental research

Only our research utilizes the superior data and earnings adjustments featured by the HBS & MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)." 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 January: General Mills, Inc. (GIS: \$53/share)

General Mills (GIS), is the featured stock in January's Safest Dividend Yields Model Portfolio. We made GIS a Long Idea in [December 2019](#) and the stock remains undervalued.

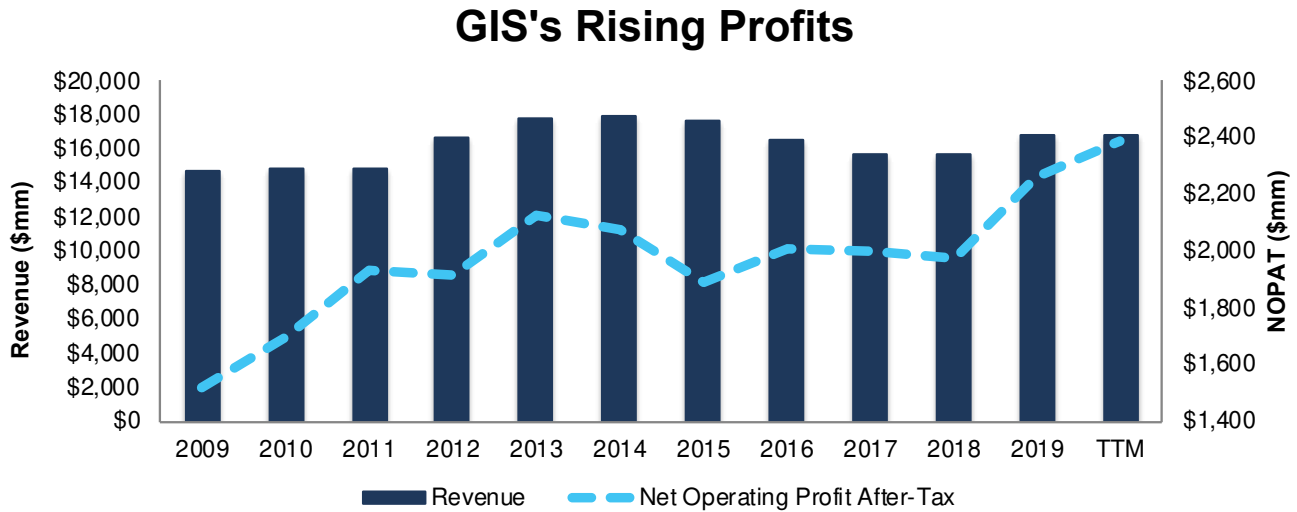
GIS has grown revenue by 1% compounded annually and after-tax operating profit ([NOPAT](#)) by 4% compounded annually since 2009. Trailing twelve month (TTM) NOPAT is up 15% over the prior TTM period. Profit growth is driven by GIS's NOPAT margin rising from 10% in 2009 to 14% TTM.

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 Bloomberg and Capital IQ (SPGI) in a detailed appendix.



Figure 1: GIS's Revenue & NOPAT Since 2009

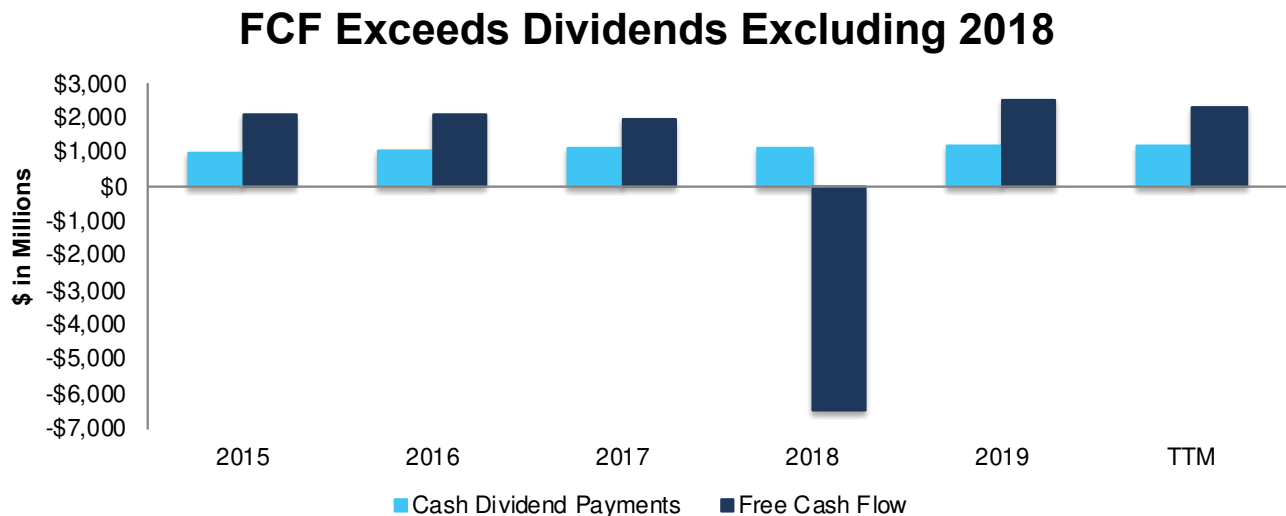


Sources: New Constructs, LLC and company filings

GIS's Free Cash Flow Supports Dividend Payments

Since 2015, GIS has increased its annual dividend from \$1.67/share to \$1.96/share, or 4% compounded annually. This dividend payment has been supported by GIS's cumulative [free cash flow](#). With the exception of 2018, when General Mills acquired Blue Buffalo Pet Products, the company consistently generates the free cash flow necessary to pay its dividend, per Figure 2. Excluding 2018, GIS generated \$8.7 billion (27% of market cap) in FCF while paying \$4.4 billion in dividends since 2015.

Figure 2: GIS's FCF Vs. Dividends Since 2015



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.



GIS Remains Undervalued

At its current price of \$53/share, GIS has a price-to-economic book value ([PEBV](#)) ratio of 0.7. This ratio means the market expects GIS's NOPAT to permanently decline by 30%. This expectation seems too pessimistic given that GIS has grown NOPAT by 4% compounded annually over the past decade and 7% compounded annually over the past two decades.

If GIS can maintain TTM NOPAT margins (14%) and grow NOPAT by just 2% compounded annually for the next decade, the stock is worth \$81/share today – a 53% upside. [See the math behind this reverse 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](#) as shown in the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)".

Below are specifics on the adjustments we make based on Robo-Analyst findings in General Mills' 2019 10-K:

Income Statement: we made \$1.4 billion of adjustments with a net effect of removing \$512 million in [non-operating expenses](#) (3% of revenue). See all adjustments made to GIS's income statement [here](#).

Balance Sheet: we made \$7.3 billion of adjustments to calculate invested capital with a net increase of \$7.3 billion. The most notable adjustment was \$2.7 billion (12% of reported net assets) related to [other comprehensive income](#). See all adjustments to GIS's balance sheet [here](#).

Valuation: we made \$18.2 billion of adjustments with a net effect of decreasing shareholder value by \$18.2 billion. There were no adjustments that increased shareholder value. Apart from [total debt](#), the largest adjustment to shareholder value was \$2 billion in [deferred tax liabilities](#). This adjustment represents 6% of GIS's market value. See all adjustments to GIS's valuation [here](#).

This article originally published on [January 29, 2020](#).

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

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Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

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

Learn [more](#).

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20

Pick better stocks:

“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract

Avoid losses from using other firms’ data:

“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14

Build better models:

“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4

Exploit market inefficiencies:

“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26

Fulfill fiduciary duties:

“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34



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