



Featured Stocks in March's Most Attractive/Most Dangerous Model Portfolios

Recap From February's Picks

Our Most Attractive Stocks (-3.3%) outperformed the S&P 500 (-3.8%) from February 3, 2022 through March 1, 2022 by 0.5%. The best performing large cap stock gained 1% and the best performing small cap stock was up 20%. Overall, 11 out of the 20 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (-1.2%) underperformed the S&P 500 (-3.8%) as a short portfolio from February 3, 2022 through March 1, 2022 by 2.6%. The best performing large cap short stock fell by <1%, and the best performing small cap short stock fell by 7%. Overall, 5 out of the 14 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios underperformed as an equal-weighted long/short portfolio by 1.1%.

Buy the
Most Attractive Stocks Model Portfolio
for March

Buy the
Most Dangerous Stocks Model Portfolio
for March

More [reliable](#) & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and provides investors with a [new source of alpha](#). Our proprietary [Robo-Analyst Technology](#)¹ scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks² to produce an unrivaled database of fundamental data.

35 new stocks made our Most Attractive list this month, and 16 new stocks fell onto the Most Dangerous list. March's Most Attractive and Most Dangerous stocks were made available to members on March 3, 2022.

Our Most Attractive stocks all have high and rising return on invested capital ([ROIC](#)) and low [price to economic book value ratio](#). Most Dangerous stocks have [misleading earnings](#) and long [growth appreciation periods](#) implied by their market valuations.

Most Attractive Stocks Feature for March: Hanesbrands Inc. (HBI: \$15/share)

Hanesbrands Inc. (HBI) is the featured stock from March's [Most Attractive Stocks Model Portfolio](#).

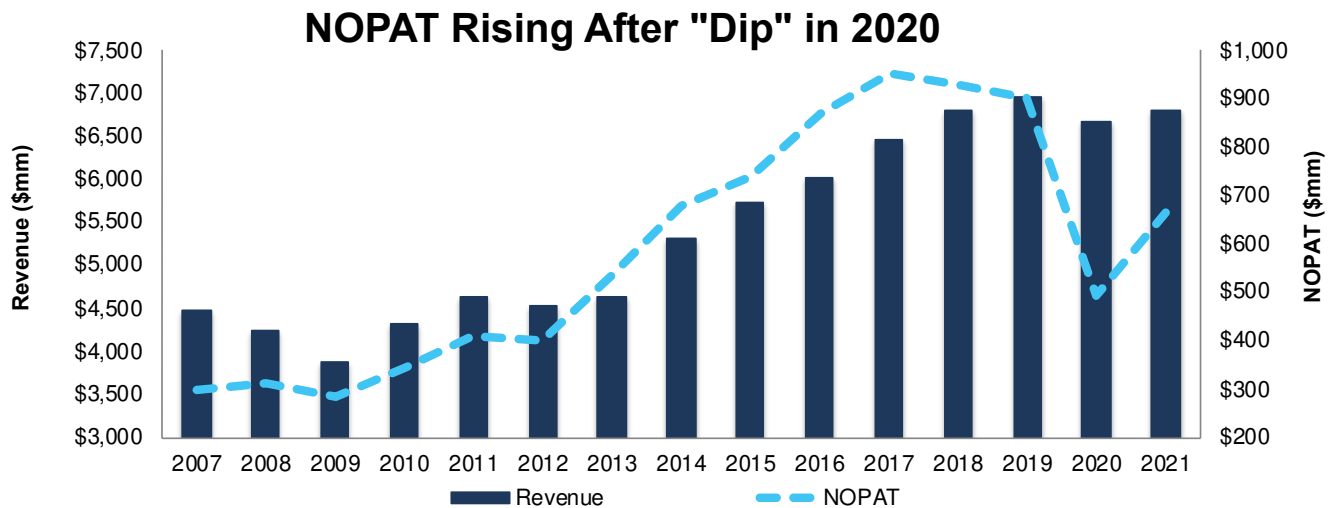
Hanesbrands has grown revenue by 4% compounded annually and net operating profit after-tax ([NOPAT](#)) by 5% compounded annually over the past 10 years.

Before the pandemic-driven disruptions to the company's operations in 2020, the company's NOPAT margin increased from 8% in 2010 to 13% in 2019, while ROIC rose from 12% to 14% over the same time.

Since the pandemic-related disruptions in 2020, Hanesbrands' profitability has improved. The company's NOPAT margin rose from 7% in 2020 to 10% in 2021, while [invested capital turns](#) rose from 1.0 to 1.1 over the same time. Rising NOPAT margin and invested capital turns drove Hanesbrands' ROIC from 7% in 2020 to 11% in 2021.

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

² See how our models overcome flaws in Bloomberg and Capital IQ's (SPGI) analytics in the [detailed appendix of this paper](#).

**Figure 1: Revenue & NOPAT Since 2007**

Sources: New Constructs, LLC and company filings

Hanesbrands Is Undervalued

At its current price of \$15/share, HBI has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio means the market expects Hanesbrands' NOPAT to permanently decline by 50%. This expectation seems overly pessimistic for a company that has grown NOPAT by 5% compounded annually over the past 10 years.

Even if Hanesbrands' NOPAT margin falls to 7% (equal to 10-year low, compared to 10% in 2021) and the company's NOPAT falls by 2% compounded annually for the next decade, the stock is worth \$23/share today – a 53% upside. [See the math behind this reverse DCF scenario](#). Should Hanesbrands grow profits more in line with historical levels, the stock has even more upside.

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

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

Income Statement: we made \$783 million in adjustments, with a net effect of removing \$587 million in [non-operating expense](#) (9% of revenue). Clients can see all adjustments made to Hanesbrands' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

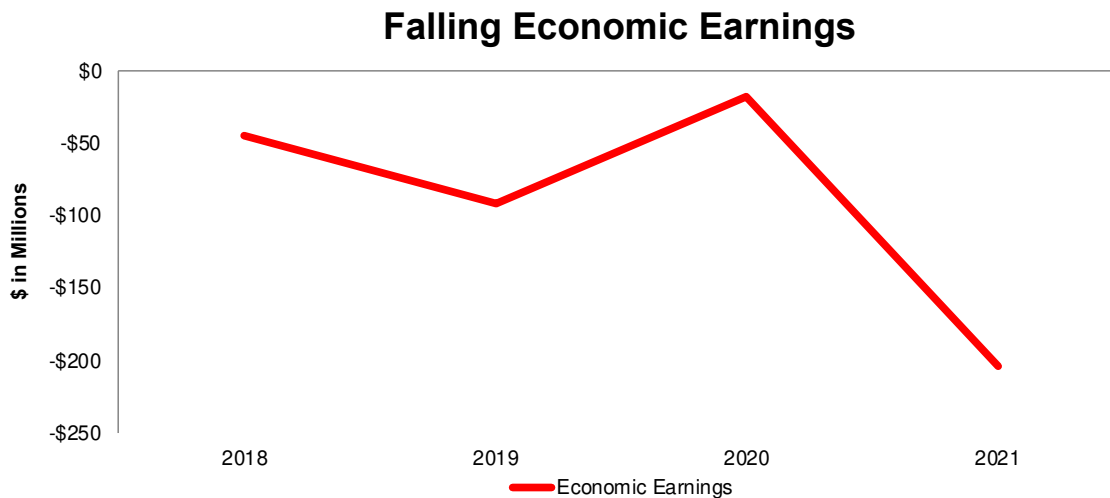
Balance Sheet: we made \$2.9 billion in adjustments to calculate invested capital with a net increase of \$1.2 billion. One of the most notable adjustments was \$936 million in [asset write-downs](#). This adjustment represented 20% of reported net assets. Clients can see all adjustments made to Hanesbrands' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$4.3 billion of adjustments with a net effect of decreasing shareholder value by \$3.9 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$243 million in [underfunded pensions](#). This adjustment represents 5% of Hanesbrands' market cap. Clients can see all adjustments to Hanesbrands' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

Most Dangerous Stocks Feature: KBR Inc (KBR: \$53/share)

KBR Inc (KBR) is the featured stock from March's [Most Dangerous Stocks Model Portfolio](#).

KBR's [economic earnings](#), the true cash flows of the business, fell from -\$44 million in 2018 to -\$203 million in 2021. The company's NOPAT margin fell from 6% to 3%, while ROIC fell from 7% to 3% over the same time.

**Figure 2: Economic Earnings Since 2018**

Sources: New Constructs, LLC and company filings

KBR Provides Poor Risk/Reward

Despite its poor fundamentals, KBR is priced for significant profit growth, and we believe the stock is overvalued.

To justify its current price of \$53/share, KBR must improve its NOPAT margin to 5% (five-year average, compared to 3% in 2021) and grow revenue by 8% compounded annually for the next decade. [See the math behind this reverse DCF scenario](#). In this scenario, KBR grows NOPAT by 17% compounded annually over the next ten years. Given that KBR's NOPAT fell 8% compounded annually over the past decade, we think these expectations are overly optimistic.

Even if KBR can achieve a NOPAT margin of 4% (three-year average) and grow revenue by 5% compounded annually for the next decade, the stock is worth just \$31/share today – a 42% downside to the current stock price. [See the math behind this reverse DCF scenario](#). Should KBR's revenue grow at a slower rate, the stock has even more downside.

Each of these scenarios also assumes KBR can grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely but allows us to create truly best-case scenarios that demonstrate how high expectations embedded in the current valuation are.

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

Below are specifics on the adjustments we make based on Robo-Analyst findings in KBR's 10-K:

Income Statement: we made \$176 million in adjustments, with a net effect of removing \$170 million in [non-operating income](#) (2% of revenue). Clients can see all adjustments made to KBR's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$2.5 billion in adjustments to calculate invested capital with a net increase of \$1.4 billion. One of the most notable adjustments was \$881 million in [other comprehensive income](#). This adjustment represented 20% of reported net assets. Clients can see all adjustments made to KBR's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$2.3 billion in adjustments, with a net decrease to shareholder value of \$2.3 billion. Apart from total debt, the most notable adjustment to shareholder value was \$87 million in [underfunded pensions](#). This adjustment represents 1% of KBR's market cap. Clients can see all adjustments to KBR's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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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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It's Official: We Offer the Best Fundamental Data in the World

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by S&P Global’s (*SPGI*) *Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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