



Featured Stock in March’s Dividend Growth Model Portfolio

Eleven stocks were added to our [Dividend Growth Stocks Model Portfolio](#) this month, which was made available to members on March 30, 2022.

Recap From February’s Picks

On a price return basis our Dividend Growth Stocks Model Portfolio (+0.5%) underperformed the S&P 500 (+4.1%) by 3.6%, and on a total return basis the Model Portfolio (+0.6%) underperformed the S&P 500 (+4.5%) by 3.9%. The best performing stock was up 23%. Overall, 8 out of the 30 Dividend Growth Stocks outperformed the S&P 500 from February 25, 2022 through March 28, 2022.

[Buy the Dividend Growth Stocks Model Portfolio](#)

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.

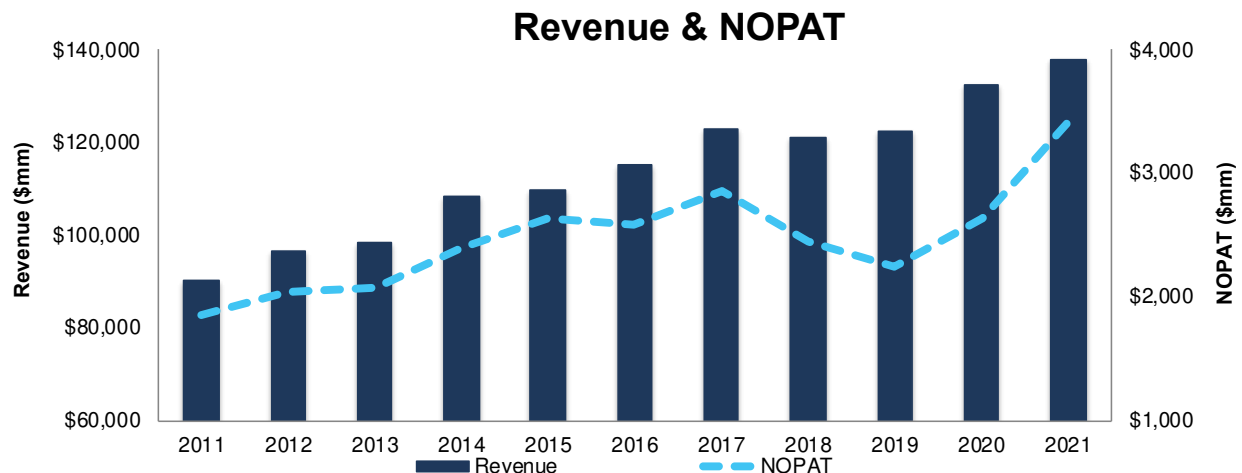
More [reliable](#) and [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and provides investors with a [new source of alpha](#). Our proprietary [Robo-Analyst technology](#)¹ scales our forensic accounting expertise ([featured in Barron’s](#))² to produce an unrivaled database of fundamental data.

Featured Stock From March: The Kroger Company (KR: \$60/share)

The Kroger Company (KR) is the featured stock from March’s Dividend Growth Stocks Model Portfolio.

Kroger has grown revenue by 4% compounded annually and net operating profit after-tax (NOPAT) by 6% compounded annually over the past decade. Kroger’s NOPAT margin improved from 2.0% in 2011 (FYE is 1/28/12) to 2.5% in 2021, while the company’s return on invested capital (ROIC) rose from 6% to 7% over the same time.

Figure 1: Kroger’s NOPAT & Revenue Since 2011



Sources: New Constructs, LLC and company filings

¹ Harvard Business School features our research automation technology in the case [Disrupting Fundamental Analysis with Robo-Analysts](#).
² See how our models and financial ratios are superior to Bloomberg and Capital IQ’s (SPGI) analytics in the [detailed appendix of this paper](#).

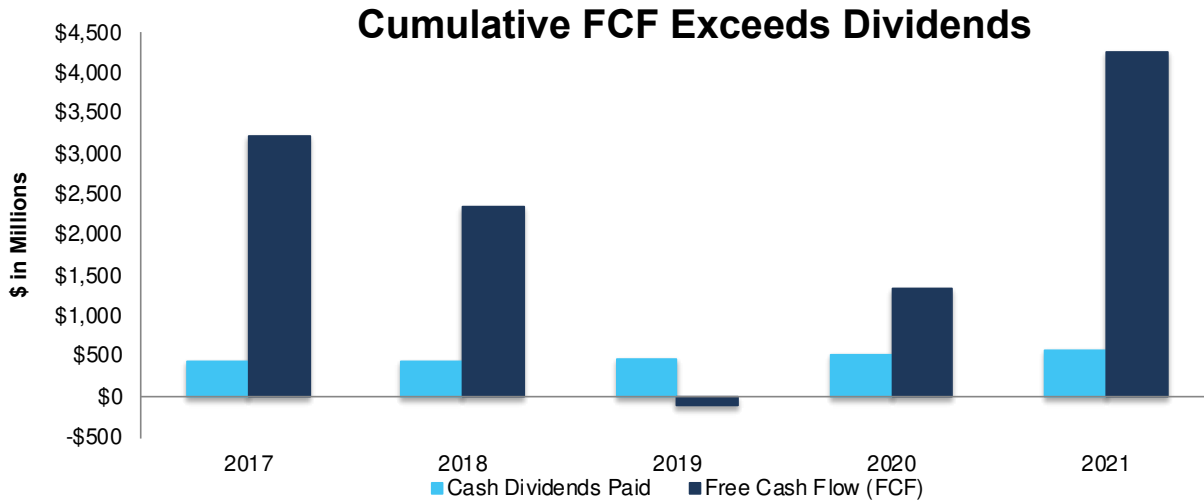


FCF Exceeds Dividends by Wide Margin

Kroger has increased its dividend each year [since 2006](#). The company increased its regular dividend from \$0.49/share in 2017 to \$0.78/share in 2021, or 12% compounded annually. The current quarterly dividend, when annualized, equals \$0.84/share and provides a 1.4% dividend yield.

More importantly, Kroger's strong free cash flow ([FCF](#)) exceeds the company's growing dividend payments. Kroger's cumulative \$11.1 billion (26% of current market cap) in FCF is more than 4x the \$2.5 billion in dividends paid out from 2017 – 2021, per Figure 2. Figure 2 also shows that Kroger's FCF significantly exceeded its dividend payments in four of the past five years.

Figure 2: Free Cash Flow vs. Regular Dividend Payments



Sources: New Constructs, LLC and company filings

Companies with FCF well above dividend payments provide higher quality dividend growth opportunities because we know the company 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 maintain its dividend because of inadequate free cash flow.

Kroger Has Upside Potential

At its current price of \$60/share, KR has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio means the market expects Kroger's NOPAT to permanently decline by 50%. This expectation seems overly pessimistic for a company that has grown NOPAT by 6% compounded annually over the past decade.

Even if Kroger's NOPAT margin falls to 2.1% (five-year average vs. 2.5% in 2021) and the company grows NOPAT by <1% compounded annually for the next decade, the stock is worth \$112/share today – an 87% upside. [See the math behind the reverse DCF scenario.](#)

Should the company grow NOPAT more in line with historical growth rates, the stock has even more upside. Add in Kroger's 1.4% dividend yield and history of dividend growth, and it's clear why this stock is in March's Dividend Growth Stocks Model Portfolio.

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 Kroger's 10-K:

Income Statement: we made \$2.8 billion in adjustments with a net effect of removing \$1.7 billion in [non-operating expenses](#) (1% of revenue). Clients can see all adjustments made to Kroger's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$12.9 billion of adjustments (all of which increased invested capital) to calculate invested capital. The most notable adjustment was \$6.6 billion (20% of reported net assets) related to [goodwill](#). Clients can see all adjustments made to Kroger's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.



Valuation: we made \$24.6 billion in adjustments with a net effect of decreasing shareholder value by \$24.6 billion. Other than [total debt](#), the most notable adjustment to shareholder value was \$1.6 billion in [net deferred tax liabilities](#). This adjustment represents 4% of Kroger's market value. Clients can see all adjustments to Kroger'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” can overcome these flaws and provides [materially superior](#) fundamental data.
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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