



Featured Stock in June's Dividend Growth Model Portfolio

Five new stocks made June's Dividend Growth Stocks Model Portfolio, which was made available to members on June 29, 2023.

Recap from May's Picks

On a price return basis, our Dividend Growth Stocks Model Portfolio (+7.1%) outperformed the S&P 500 (+5.2%) by 1.9% from May 25, 2023 through June 27, 2023. On a total return basis, the Model Portfolio (+7.4%) outperformed the S&P 500 (+5.6%) by 1.8% over the same time. The best performing stock was up 26%. Overall, 16 out of 29 Dividend Growth stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from May 25, 2023 through June 27, 2023.

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

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)¹ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

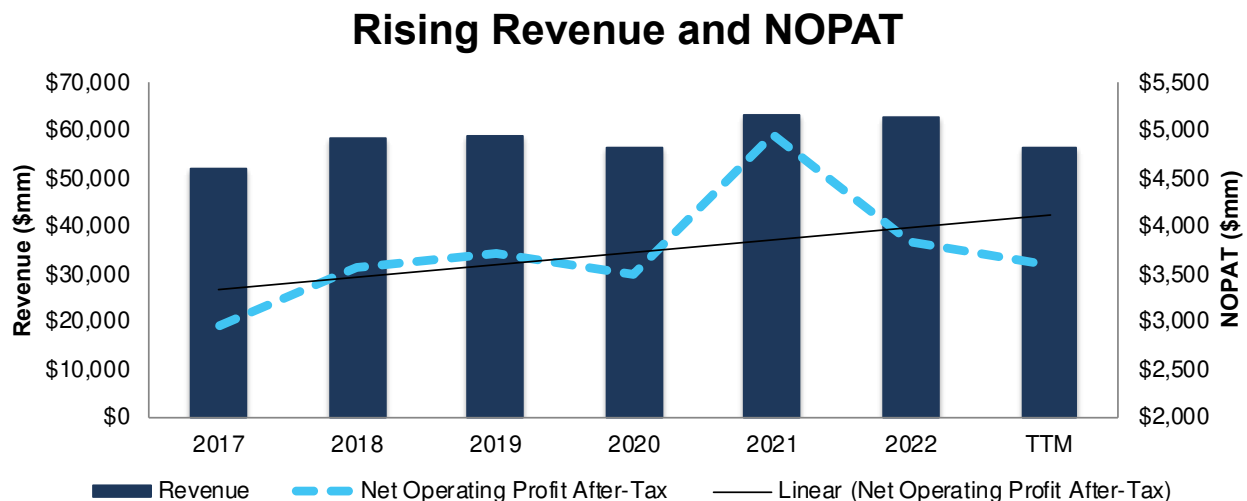
This Model Portfolio mimics an "All Cap Blend" style with a focus on dividend growth. Selected stocks earn an [Attractive or Very Attractive rating](#), generate positive free cash flow (FCF) and [economic earnings](#), offer a current dividend yield >1%, and have a 5+ year track record of consecutive dividend growth. This Model Portfolio is designed for investors who favor long-term capital appreciation over current income, but still appreciate the power of growing dividends.

Featured Stock for June: HP Inc (HPQ: \$30/share)

HP Inc. (HPQ) is the featured stock in June's Dividend Growth Stocks Model Portfolio.

HP has grown revenue by 1% compounded annually and net operating profit after tax (NOPAT) by 4% compounded annually since fiscal 2017. The company's NOPAT margin increased from 6% in fiscal 2017 to 7% over the trailing twelve months (TTM), and [invested capital turns](#) remained unchanged at 1.7 over the same time. Higher NOPAT margins drive return on invested capital (ROIC) from 10% in fiscal 2017 to 12% over the TTM.

Figure 1: HP's Revenue & NOPAT Since 2017



Sources: New Constructs, LLC and company filings

¹ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

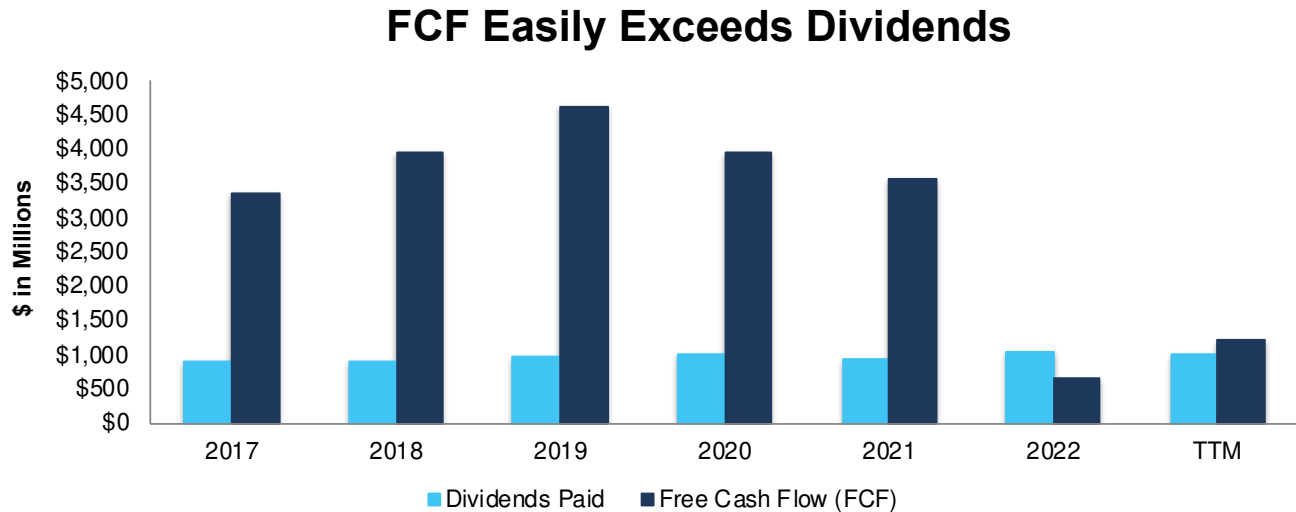


Free Cash Flow Supports Regular Dividend Payments

HP has increased its regular dividend from \$0.56/share in fiscal 2018 to \$1.00/share in fiscal 2022, or 16% compounded annually. The current quarterly dividend, when annualized, equals \$1.05/share and provides a 3.5% dividend yield.

More importantly, HP’s free cash flow (FCF) easily exceeds its regular dividend payments. From fiscal 2017 through fiscal 2Q23, HP generated \$22 billion (54% of current [enterprise value](#)) in FCF while paying \$6.3 billion in dividends. See Figure 2.

Figure 2: HP’s FCF vs. Regular Dividends Since 2017



Sources: New Constructs, LLC and company filings

Companies with FCF well above dividend payments provide higher-quality dividend growth opportunities. On the other hand, dividends that exceed FCF cannot be trusted to grow or even be maintained.

HPQ Is Undervalued

At its current price of \$30/share, HP has a price-to-economic book value (PEBV) ratio of 0.8. This ratio means the market expects HP’s NOPAT to permanently fall 20% from TTM levels. This expectation seems overly pessimistic given that HP has grown NOPAT by 4% compounded annually since 2017.

Even if HP’s NOPAT margin falls to 6% (ten year low compared to 7% over the TTM) and the company’s revenue grows just 2% compounded annually through 2032, the stock would be worth \$40/share today – a 33% upside. [See the math behind this reverse DCF scenario](#). In this scenario, HP’s NOPAT would grow only 2% compounded annually through 2032. Should the company’s NOPAT grow more in line with historical growth rates, the stock has even more upside.

Add in HP’s 3.5% dividend yield and a history of dividend growth, and it’s clear why this stock is in June’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 HP’s 10-K and 10-Qs:

Income Statement: we made \$1.4 billion in adjustments with a net effect of removing \$637 million in [non-operating expenses](#) (2% of revenue). Clients can see all adjustments made to HP’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$27.5 billion in adjustments to calculate invested capital with a net increase of \$21.8 billion. The most notable adjustment was \$22.5 billion (181% of reported net assets) in [asset write-downs](#). See all adjustments made to HP’s balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.



Valuation: we made \$11.6 billion in adjustments, with a net decrease in shareholder value of \$11.3 billion. One of the most notable adjustments to shareholder value was \$11.4 billion in [total debt](#). This adjustment represents 38% of HP's market value. See all adjustments to HP's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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Disclosure: David Trainer, Kyle Guske II, Hakan Salt, and Italo Mendonça receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our [Society of Intelligent Investors](#) and connect with us directly.



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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