Featured Stock in August's Safest Dividend Yields Model Portfolio

Eight new stocks made August's Safest Dividend Yields Model Portfolio, which was made available to members on August 23, 2023.

Recap from July's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (-3.0%) underperformed the S&P 500 (-2.8%) by 0.2% from July 20, 2023 through August 21, 2023. On a total return basis, the Model Portfolio (-2.5%) outperformed the S&P 500 (-2.8%) by 0.3% over the same time. The best performing large-cap stock was up 21%, and the best performing small-cap stock was up 9%. Overall, 11 out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from July 20, 2023 through August 21, 2023.

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 only includes stocks that earn an Attractive or Very Attractive rating, have positive free cash flow (FCF) 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 strong FCF supports the dividend. We think this portfolio provides a uniquely well-screened group of stocks that can help clients outperform.

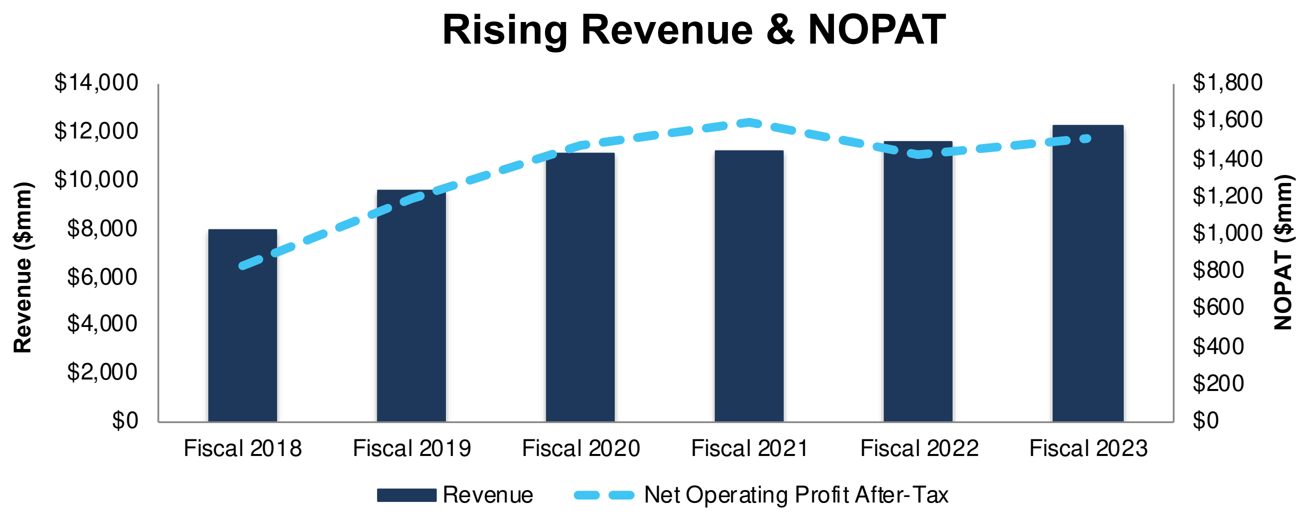
Featured Stock for August: Conagra Brands Inc. (CAG: $30/share)

Conagra Brands Inc. (CAG) is the featured stock in August's Safest Dividend Yields Model Portfolio.

Since fiscal 2018, Conagra Brands has grown revenue by 9% compounded annually and net operating profit after tax (NOPAT) by 13% compounded annually. Conagra Brands' NOPAT margin improved from 10.5% in fiscal 2018 to 12.3% in fiscal 2023 (year ends May 28, 2023). An improved NOPAT margin is enough to offset a slight decline in invested capital turns and help maintain the company's return on invested capital (ROIC) around 6% over the same time.

[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.

Figure 1: Conagra Brands' Revenue & NOPAT Since 2018



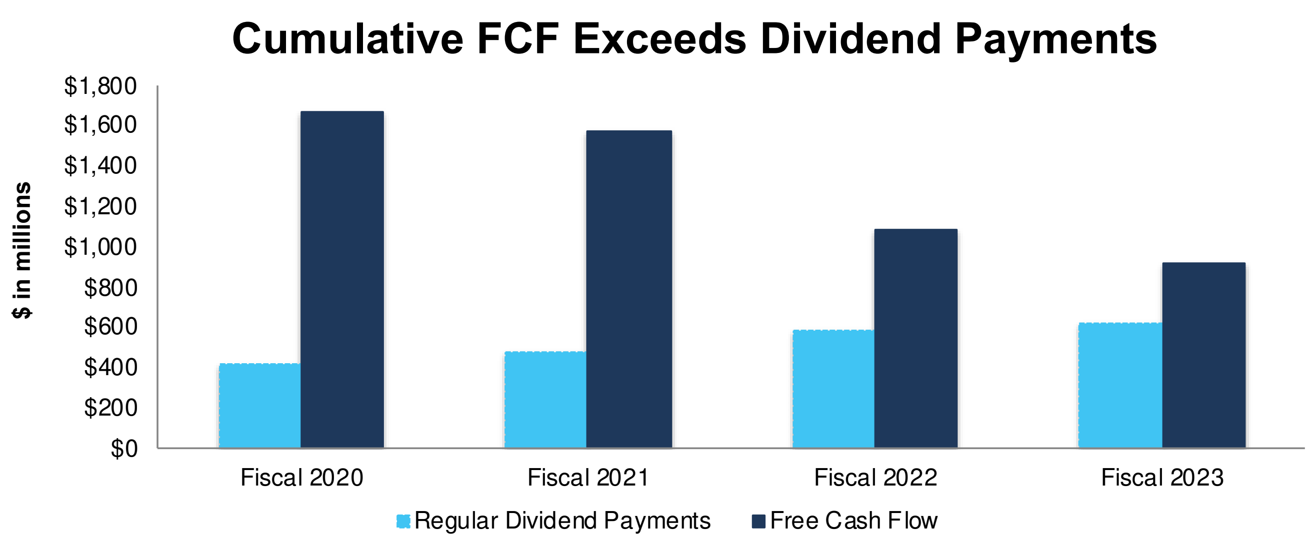
Sources: New Constructs, LLC and company filings

Free Cash Flow Exceeds Regular Dividend Payments

Conagra Brands has increased its regular dividend from $0.21/share in 1Q18 to $0.35/share in 3Q23. The current quarterly dividend, when annualized, equals $1.40/share and provides an 4.7 % dividend yield.

More importantly, Conagra Brands' free cash flow (FCF) easily exceeds its regular dividend payments. From fiscal 2020 to fiscal 2023, Conagra Brands generated $5.2 billion (21% of current enterprise value) in FCF while paying $2.1 billion in dividends. See Figure 2.

Figure 2: Conagra Brands' FCF Vs. Regular Dividends Since 2020



Sources: New Constructs, LLC and company filings

As Figure 2 shows, Conagra Brands' regular dividends are backed by a history of reliable cash flows. Dividends from companies with low or negative FCF are less dependable since the company may not be able to sustain paying dividends.

CAG Is Undervalued

At its current price of $30/share, Conagra Brands has a price-to-economic book value (PEBV) ratio of 0.8. This ratio means the market expects Conagra Brands' NOPAT to permanently fall 20% from TTM levels. This expectation seems overly pessimistic given that Conagra Brands has grown NOPAT by 13% compounded annually since fiscal 2018 and 5% compounded annually since fiscal 2012.

If Conagra Brands' NOPAT margin falls to 11% (vs. 12.3% in the TTM and 10-year average of 11.5%) and the company's revenue grows by 3% compounded annually for the next decade, the stock would be worth $45+/share today – a 53% upside. See the math behind this reverse DCF scenario. In this scenario, Conagra Brands' NOPAT would grow 2% compounded annually through 2032. Should the company's NOPAT grow more in line with historical growth rates, 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 Conagra Brands' 10-K and 10-Qs:

Income Statement: we made $839 million in adjustments with a net effect of removing $54 million in non-operating expenses (<1% of revenue). Clients can see all adjustments made to Conagra Brands' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made $8.8 billion in adjustments to calculate invested capital with a net increase of $8.1 billion. The most notable adjustment was $5.1 billion (29% of reported net assets) in asset write downs. See all adjustments made to Conagra Brands' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made $10.7 billion in adjustments, with a net decrease of $10.5 billion in shareholder value. Apart from $9.4 billion in total debt, the most notable adjustment to shareholder value was $1.1 billion in net deferred tax liabilities. This adjustment represents 8% of Conagra Brands' market value. See all adjustments to Conagra Brands' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on August 29, 2023.

Disclosure: David Trainer, Kyle Guske II, Italo Mendonça, and Hakan Salt 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.

DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first two days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.