



Featured Stock in September's Safest Dividend Yields Model Portfolio

Seven new stocks made September's [Safest Dividend Yields Model Portfolio](#), which was made available to members on September 21, 2023.

Recap from August's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+0.4%) outperformed the S&P 500 (-0.1%) by 0.5% from August 23, 2023 through September 19, 2023. On a total return basis, the Model Portfolio (+1.1%) outperformed the S&P 500 (+0.3%) by 0.8% over the same time. The best performing large-cap stock was up 8%, and the best performing small-cap stock was up 20%. Overall, 11 out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from August 23, 2023 through September 19, 2023.

[Buy the Safest Dividend Yields 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 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 September: Haverty Furniture Companies, Inc. (HVT: \$29/share)

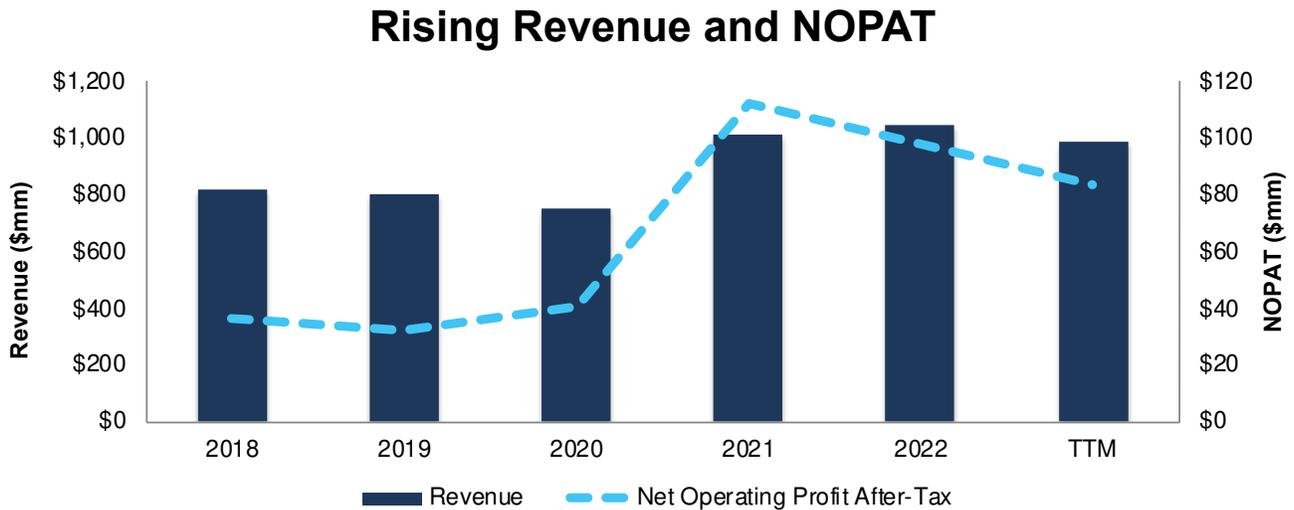
Haverty Furniture Companies, Inc. (HVT) is the featured stock in September's Safest Dividend Yields Model Portfolio.

Since 2018, Haverty Furniture has grown revenue by 4% compounded annually and net operating profit after tax ([NOPAT](#)) by 20% compounded annually. Haverty Furniture's NOPAT margin improved from 4.5% in 2018 to 8.5% in the trailing twelve months (TTM), while [invested capital turns](#) increased from 1.8 to 1.9 over the same time. Rising NOPAT and invested capital turns drive the company's return on invested capital ([ROIC](#)) from 8% in 2018 to 16% in the TTM.

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: Haverty Furniture’s Revenue & NOPAT Since 2018



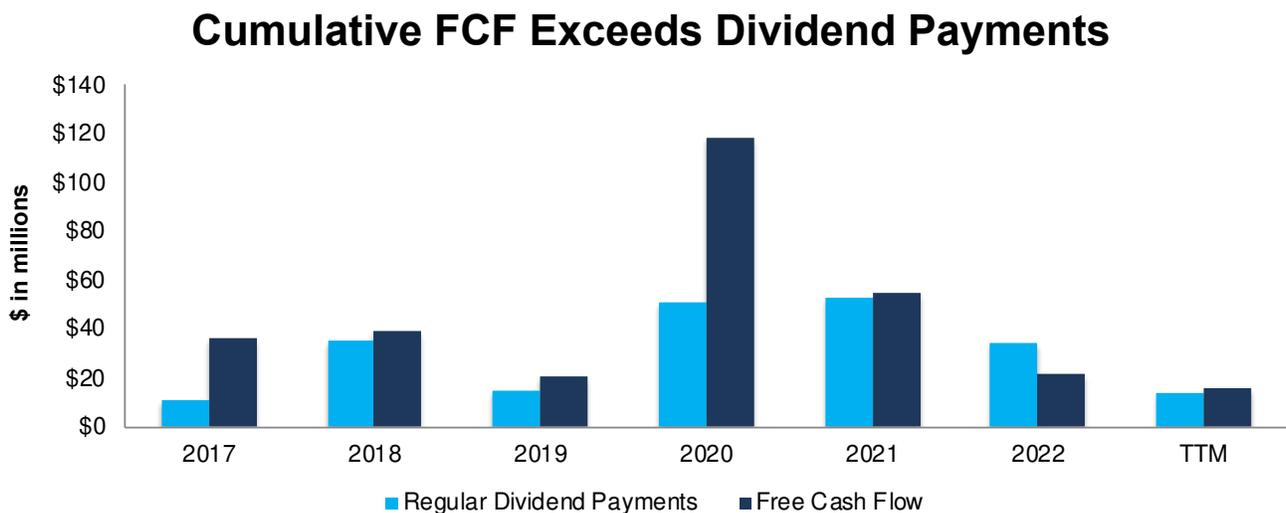
Sources: New Constructs, LLC and company filings

Free Cash Flow Exceeds Regular Dividend Payments

Haverty Furniture has increased its regular dividend from \$0.18/share in 1Q18 to \$0.30/share in 2Q23. The current quarterly dividend, when annualized, equals \$1.20/share and provides a 4.2% dividend yield.

More importantly, Haverty Furniture’s free cash flow (FCF) easily exceeds its regular dividend payments. From 2017 to the TTM, Haverty Furniture generated \$315 million (49% of current [enterprise value](#)) in FCF while paying \$213 million in dividends. See Figure 2.

Figure 2: Haverty Furniture’s FCF Vs. Regular Dividends Since 2017



Sources: New Constructs, LLC and company filings

As Figure 2 shows, Haverty Furniture’s 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.

**HVT Is Undervalued**

At its current price of \$29/share, Haverty Furniture has a price-to-economic book value ([PEBV](#)) ratio of 0.4. This ratio means the market expects Haverty Furniture's NOPAT to permanently fall 60% from TTM levels. This expectation seems overly pessimistic given that Haverty Furniture has grown NOPAT by 20% compounded annually since 2018 and 13% compounded annually since 2012.

Even if Haverty Furniture's NOPAT margin falls to 6% (10-year average vs. 8.5% in the TTM) and the company's revenue declines by 2% compounded annually for the next decade, the stock would be worth \$37+/-share today – a 28% upside. [See the math behind this reverse DCF scenario](#). In this scenario, Haverty Furniture's NOPAT would decline 7% 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 Haverty Furniture's 10-K and 10-Qs:

Income Statement: we made \$15 million in adjustments with a net effect of removing \$9 million in [non-operating expenses](#) (<1% of revenue). Clients can see all adjustments made to Haverty Furniture's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$223 million in adjustments to calculate invested capital with a net decrease of \$43 million. The most notable adjustment was \$46 million (9% of reported net assets) in [total reserves](#). See all adjustments made to Haverty Furniture's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$295 million in adjustments, with a net decrease of \$175 million in shareholder value. The most notable adjustment was \$228 million in [total debt](#), which includes \$12 million in [operating leases](#). This lease adjustment represents 2% of Haverty Furniture's market value. See all adjustments to Haverty Furniture's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [September 27, 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](#).



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