



## Featured Stock in October's Dividend Growth Model Portfolio

Six new stocks made [October's Dividend Growth Stocks Model Portfolio](#), which was made available to members on October 27, 2023.

### Recap from September's Picks

On a price return basis, our Dividend Growth Stocks Model Portfolio (-4.2%) underperformed the S&P 500 (-2.6%) by 1.6% from September 28, 2023 through October 25, 2023. On a total return basis, the Model Portfolio (-4.0%) underperformed the S&P 500 (-2.6%) by 1.4% over the same time. The best performing stock was up 9%. Overall, 12 out of 30 Dividend Growth stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from September 28, 2023 through October 25, 2023.

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

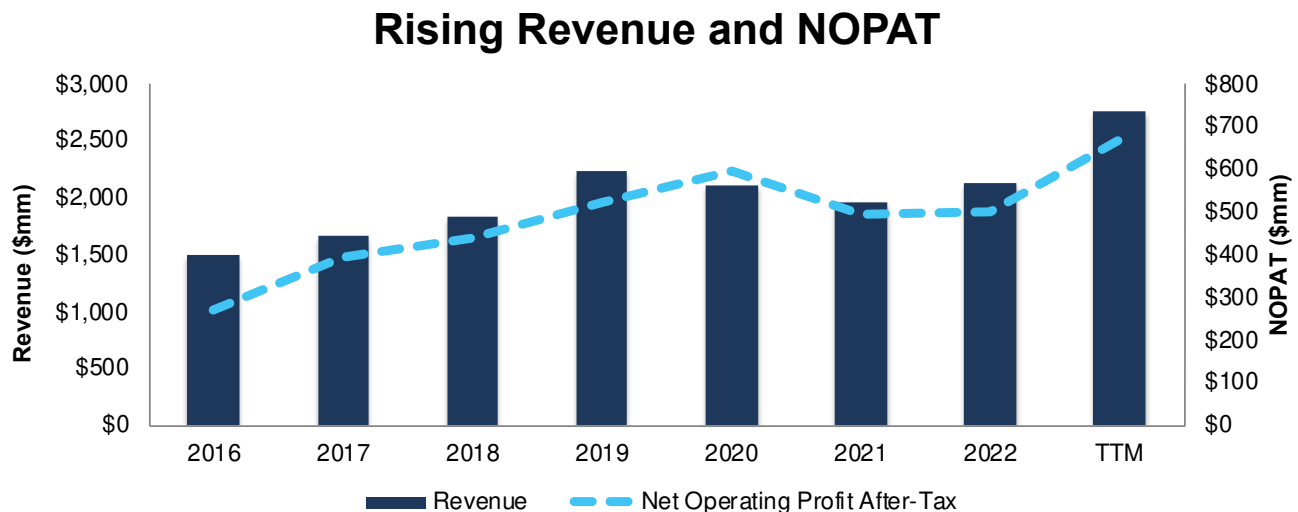
This Model Portfolio mimics an "All Cap Blend" style with a focus on dividend growth. Selected stocks earn an [Attractive or Very Attractive rating](#), generate positive free cash flow (FCF) and [economic earnings](#), offer a current dividend yield >1%, and have a 5+ year track record of consecutive 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 October: BOK Financial Corp (BOKF: \$66/share)

BOK Financial (BOKF) is the featured stock in October's Dividend Growth Stocks Model Portfolio.

BOK Financial has grown revenue by 10% compounded annually and net operating profit after tax (NOPAT) by 15% compounded annually since 2016. The company's NOPAT margin increased from 18% in 2016 to 24% over the TTM, while [invested capital turns](#) rose from 0.4 to 0.5 over the same time. Higher invested capital turns and NOPAT margins drive return on invested capital (ROIC) from 7% in 2016 to 11% in TTM.

**Figure 1: BOK Financial's Revenue & NOPAT Since 2016**



Sources: New Constructs, LLC and company filings

<sup>1</sup> 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](#).



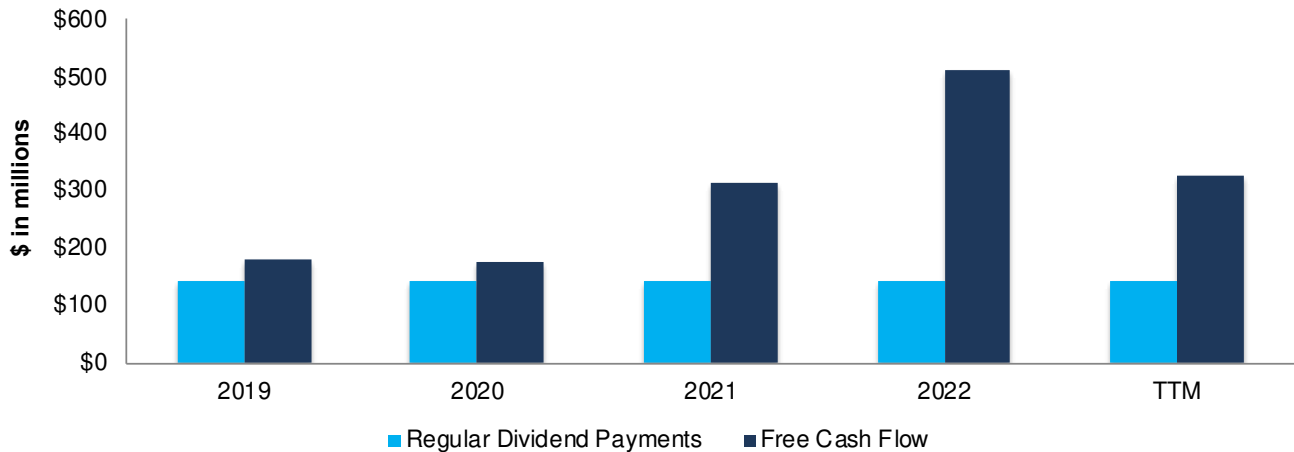
**Free Cash Flow Supports Regular Dividend Payments**

BOK Financial has increased its regular dividend from \$0.43/share in 3Q16 to \$0.54/share in 3Q23. The current quarterly dividend, when annualized, equals \$2.16/share and provides a 3.3% dividend yield.

More importantly, BOK Financial's free cash flow (FCF) easily exceeds its regular dividend payments. From 2019 through 2Q23, BOK Financial generated \$1.3 billion (28% of current [enterprise value](#)) in FCF while paying \$648 million in dividends. See Figure 2.

**Figure 2: BOK Financial's FCF vs. Regular Dividends Since 2019**

**Cumulative FCF Exceeds Dividend Payments**



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.

**BOKF Is Undervalued**

At its current price of \$66/share, BOK Financial has a price-to-economic book value (PEBV) ratio of 0.5. This ratio means the market expects BOK Financial's NOPAT to permanently fall 50% from current levels. This expectation seems overly pessimistic given that BOK Financial has grown NOPAT by 7% compounded annually since 2012 and 9% compounded annually since 1998.

Even if BOK Financial's NOPAT margin falls to 18% (BOK Financials' lowest NOPAT margin in the last decade), and revenue grows just 2% compounded annually through 2032, the stock would be worth \$85/share today – a 28% upside. [See the math behind this reverse DCF scenario.](#) In this scenario, BOK Financials' NOPAT would actually decline 1% 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 BOK Financial's 3.3% dividend yield and a history of dividend growth, and it's clear why this stock is in October'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 BOK Financial's 10-K and 10-Qs:

Income Statement: we made \$43 million in adjustments with a net effect of removing \$13 million in [non-operating income](#) (<1% of revenue). Clients can see all adjustments made to BOK Financial's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$1.6 billion in adjustments to calculate invested capital with a net increase of \$907 million. The most notable adjustment was \$837 million (16% of reported net assets) in [other comprehensive](#)



[income](#). See all adjustments made to BOK Financial's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$188 million in adjustments, all of which decreased shareholder value. The most notable adjustment to shareholder value was \$28 million in [operating leases](#). This adjustment represents 1% of BOK Financial's market value. See all adjustments to BOK Financial's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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*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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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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