



Featured Stock in November’s Exec Comp & ROIC Model Portfolio

Two new stocks made [November’s](#) Exec Comp Aligned with ROIC Model Portfolio, available to members as of November 15, 2023.

Recap from October Picks

Our Exec Comp Aligned with ROIC Model Portfolio (+0.9%) underperformed the S&P 500 (+2.0%) from October 13, 2023 through November 13, 2023. The best performing stock in the portfolio was up 12%. Overall, 6 out of the 15 Exec Comp Aligned with ROIC Stocks outperformed the S&P from October 13, 2023 through November 13, 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](#).

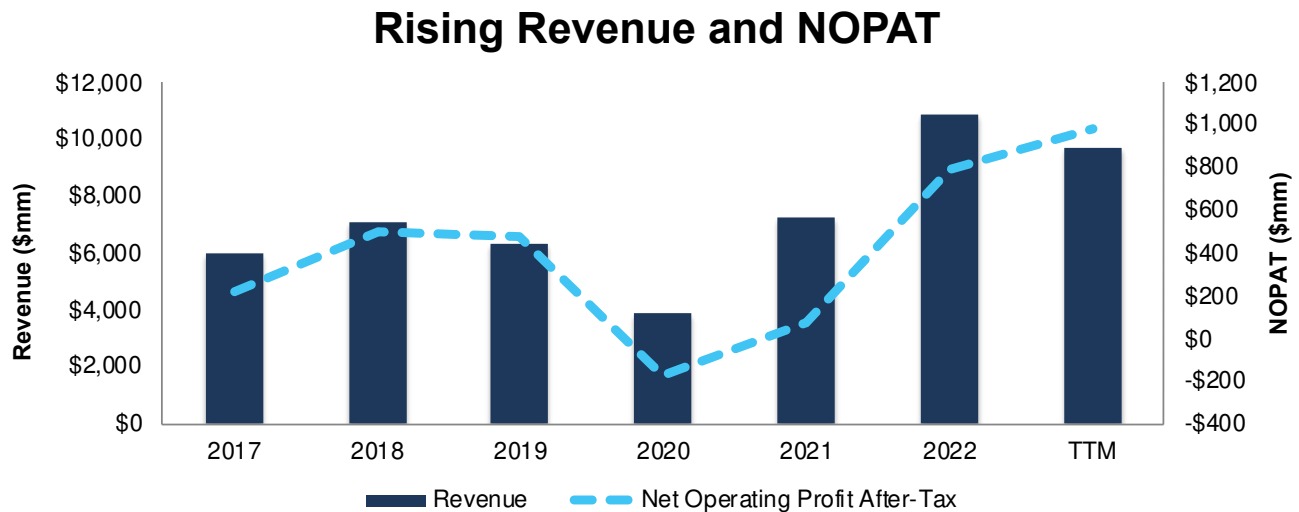
This Model Portfolio includes stocks that earn an [Attractive or Very Attractive](#) rating and align executive compensation with improving ROIC. This combination provides a unique list of long ideas as the [primary driver](#) of shareholder value creation is return on invested capital ([ROIC](#)).

New Stock Feature for November: CVR Energy Inc. (CVI: \$31/share)

CVR Energy Inc. (CVI) is the featured stock in November’s Exec Comp Aligned with ROIC Model Portfolio.

CVR Energy has grown revenue and net operating profit after tax ([NOPAT](#)) by 9% and 30% compounded annually, respectively, since 2017. The company’s NOPAT margin improved from 4% in 2017 to 10% in the trailing twelve months (TTM), while [invested capital turns](#) rose from 2.0 to 3.4 over the same time. Rising NOPAT margins and invested capital turns drive the company’s return on invested capital ([ROIC](#)) from 7% in 2017 to 34% in the TTM.

Figure 1: CVR Energy’s Revenue & NOPAT: 2017 – TTM



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](#).

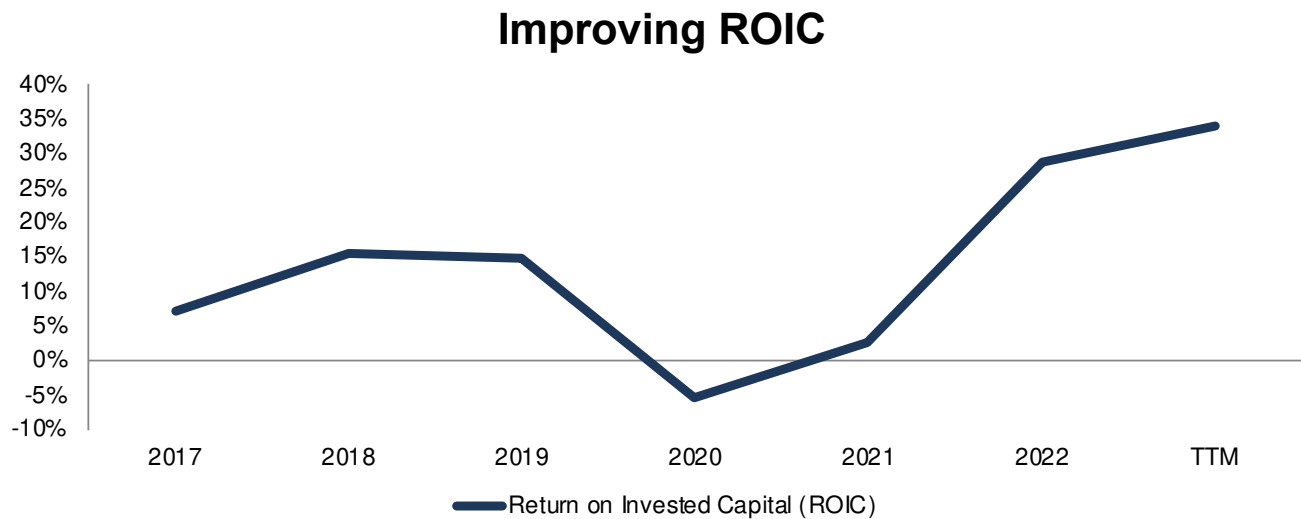


Executive Compensation Properly Aligns Incentives

CVR Energy’s executive compensation plan aligns the interests of executives and shareholders by tying 19% of its annual performance-based bonuses to Return on Capital Employed (ROCE). According to CVR Energy’s proxy [statement](#), the annual performance-based bonuses paid to the CEO and named executive officers in 2022 made up 41% and 35% of their total pay, respectively.

The company’s inclusion of ROCE, a variation of ROIC, as a performance goal has helped create shareholder value by driving higher ROIC and [economic earnings](#). When we calculate ROIC using our [superior fundamental data](#), we find that CVR Energy’s ROIC has increased from 7% in 2017 to 34% in the TTM. Economic earnings rose from \$51 million to \$777 million over the same time.

Figure 2: CVR Energy’s ROIC: 2017 – TTM



Sources: New Constructs, LLC and company filings

CVI Has Further Upside

At the current price of \$31/share, CVI has a price-to-economic book value ([PEBV](#)) ratio of 0.3. This ratio implies the market expects CVR Energy’s NOPAT to permanently fall by 70%. This expectation seems overly pessimistic for a company that has grown NOPAT 30% compounded annually over the last five years and 14% compounded annually since 2008.

Even if CVR Energy’s

- NOPAT margin falls to 4% (compared to 10% in the TTM),
- revenue grows at consensus estimates in 2023 (-11%), 2024 (-11%), and 2025 (12%), and
- revenue grows just 3% each year from 2026 to 2032 (compared to 9% compounded annually since 2017),

the stock would be worth \$46/share today – a 48% upside. [See the math behind this reverse DCF scenario](#). In this scenario, CVR Energy’s NOPAT would still fall 5% compounded annually through 2032.

For reference, CVR Energy has grown NOPAT by 7% compounded annually since 2012. Should the company grow NOPAT 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 made based on Robo-Analyst findings in CVR Energy’s 10-Qs and 10-K:

Income Statement: we made \$377 million in adjustments with a net effect of removing \$334 million in [non-operating expenses](#) (3% of revenue). Clients can see all adjustments made to CVR Energy’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.



Balance Sheet: we made \$237 million in adjustments to calculate invested capital with a net increase of \$149 million. One of the largest adjustments was \$187 million (7% of reported net assets) in [asset write downs](#). Clients can see all adjustments made to CVR Energy's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$2.5 billion in adjustments, with a net effect of decreasing shareholder value by \$1.7 billion. Apart from [total debt](#), the most notable adjustment to shareholder value was \$403 million in [excess cash](#). This adjustment represents 13% of CVR Energy's market value. Clients can see all adjustments to CVR Energy's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [November 21, 2023](#).

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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