Free Stock Pick from our Safest Dividend Yields Model Portfolio for February 2025

Tariffs have been a hot topic since Trump started his second term, and many investors are worried about the long-term consequences. On the surface it's a simple idea, if we tax foreign imports, we will strengthen our own industries by creating more jobs and generating more cash. But, it doesn't always work so simply.

When president Trump instituted tariffs on foreign steel in order to protect U.S. blue collar jobs in 2018, researchers estimate U.S steel producers added about 1,000 new jobs. However, the knock-on effects, namely input costs for U.S. industries that use steel, resulted in an estimated 75,000 fewer manufacturing jobs.

The ongoing tariffs, and the uncertainty surrounding additional tariffs, will continue to stoke market volatility. Finding strong businesses with cheap valuations is hard enough, and new trade policies and tariffs only make that job more difficult.

That's where New Constructs steps in. Even in volatile markets, our database scours the entire market to find the best investment opportunities. Diligence matters, now more than ever, especially in a new Golden Era of Investing.

We work hard to bring you proven-superior research, and we are proud to share it. Below you will find a free stock pick. This summary is not a full Long Idea report, but it will give you insight into the rigor of our research and approach to picking stocks.

Today's free stock pick provides a summary of how we pick stocks for the Safest Dividend Yields Model Portfolio.

We hope you enjoy this free research on this month's featured stock for the Safest Dividend Yields Model Portfolio. Feel free to share this report with friends and colleagues.

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.

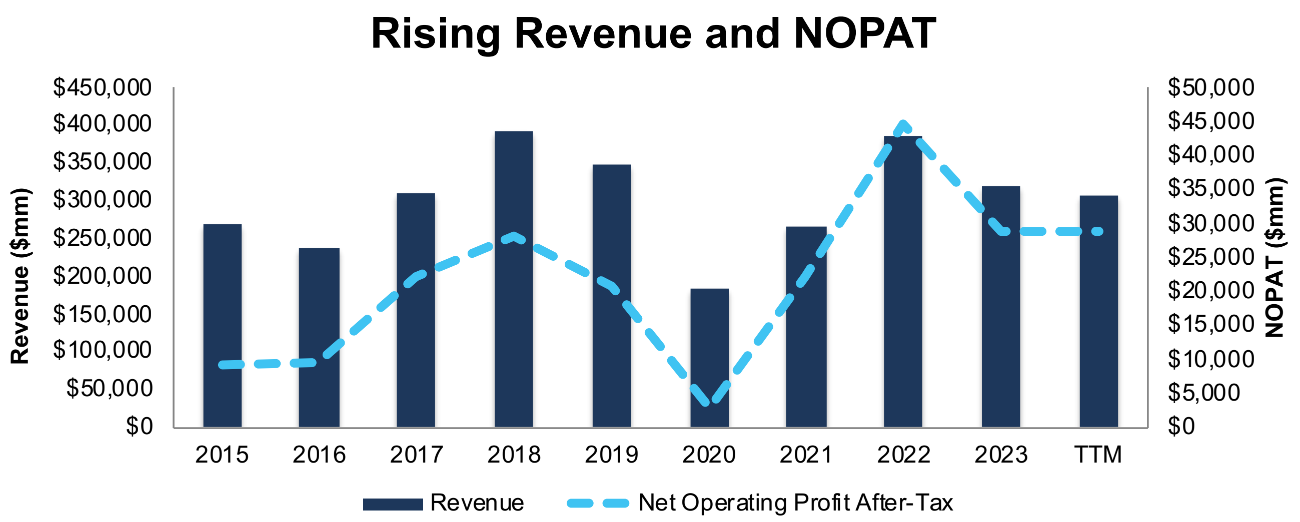
We update this Model Portfolio monthly. February's Safest Dividend Yields Model Portfolio was updated and published for clients on February 21, 2025.

Free Stock Pick: Shell, PLC (SHEL: $67/share)

Shell, PLC (SHEL) is the featured stock in February's Safest Dividend Yields Model Portfolio.

Shell has grown revenue and net operating profit after tax (NOPAT) by 1% and 14% compounded annually, respectively, since 2015. The company's NOPAT margin improved from 3% in 2015 to 9% in the TTM, while invested capital turns remained the same at 0.8 over the same time. Rising NOPAT margins drive the company's return on invested capital (ROIC) from 3% in 2015 to 8% in the TTM.

Figure 1: Shell's Revenue & NOPAT Since 2015



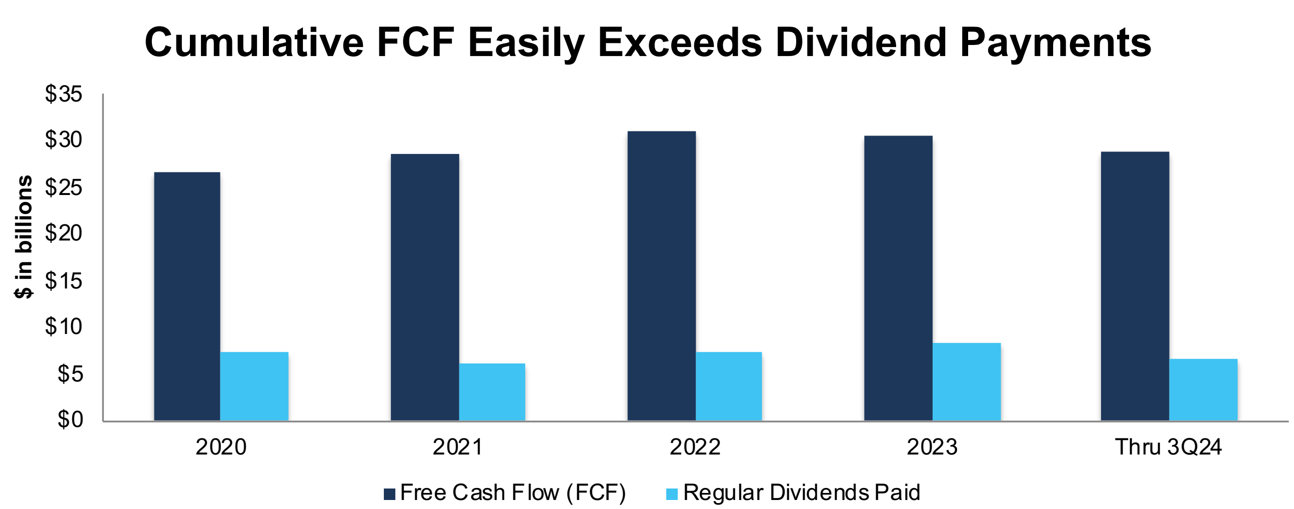
Sources: New Constructs, LLC and company filings

Free Cash Flow Exceeds Regular Dividend Payments

Shell has increased its regular dividend from $0.32/share in 2Q20 to $0.72/share in 1Q25. The current quarterly dividend, when annualized provides a 4.2% dividend yield.

The company's free cash flow (FCF) easily exceeds its regular dividend payments. From 2020 through 3Q24, the company generated $145.7 billion (53% of current enterprise value) in FCF while paying $36 billion in regular dividends. See Figure 2.

Figure 2: Shell's FCF Vs. Regular Dividends Since 2020



Sources: New Constructs, LLC and company filings

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

SHEL Is Undervalued

At its current price of $67/share, this stock has a price-to-economic book value (PEBV) ratio of 0.5. This ratio means the market expects the company's NOPAT to permanently fall 50% from TTM levels. This expectation seems overly pessimistic given that the company has grown NOPAT 14% compounded annually over the last eight years and 3% compounded annually over the past decade.

Even if the company's:

- NOPAT margin falls to 6% (below five-year average margin of 8% and below TTM margin of 9%) and
- revenue grows just 1% compounded annually through 2033,

the stock would be worth $91/share today – a 36% upside. In this scenario, the company's NOPAT would actually fall 3% compounded annually through 2033.

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 this featured stock's 20-F and 6-Ks:

Income Statement: we made nearly $22 billion in adjustments with a net effect of removing just under $9 billion in non-operating expenses. Professional members can see all adjustments made to the company's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made around $127 billion in adjustments to calculate invested capital with a net increase of over $56 billion. The most notable adjustment was for asset write downs. Professional members can see all adjustments made to the company's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over $118 billion in adjustments to shareholder value, with a net decrease of around $52 billion. Other than total debt, the most notable adjustment to shareholder value was for excess cash. Professional members can see all adjustments to the company's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on February 28, 2025.

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

Questions on this report or others? Join our online community and connect with us directly.

It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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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