Free Stock Pick from our Dividend Growth Model Portfolio for February 2025

Did you know corporate bankruptcies hit a 14-year high in 2024? Almost 700 companies filed for bankruptcy, and among them were big name companies like Red Lobster, Spirit Airlines, Big Lots, Party City and more.

As Trump shakes up the global economic landscape, many business models look increasingly wobbly. As detailed in our Earnings Watch parties, we're not surprised to see many stocks plummet even if the company beat earnings expectations.

For example, early Thursday, AI chipmaker Marvell Technology (MRVL) beat both revenue and EPS estimates, but its stock fell more than 18% on the day. Even beats aren't sending shares soaring anymore, as investors look past the meaningless EPS figures and weigh future economic uncertainty against already overvalued stock prices.

Looking for a safe haven in this uncertain market? New Constructs has answers. We leverage our superior fundamental data to bring truth to the markets. How? We calculate the real cash flows of businesses and deliver the truth about stock valuations.

We scour our proprietary database to identify companies that not only generate real cash flows but also generate enough cash flows to easily cover their dividend payments. Growing dividends are a great way to protect a portfolio in uncertain times. Finding companies with the ability to grow their dividends can lead to a gold mine. That's exactly what our Dividend Growth Stocks Model Portfolio finds.

The report below features one stock from this Model Portfolio. It is not an in depth Long Idea report, but it will give you a good understanding of how our research combines fundamental research with expectations investing.

We hope you enjoy this free stock pick. Feel free to share this report with friends and colleagues.

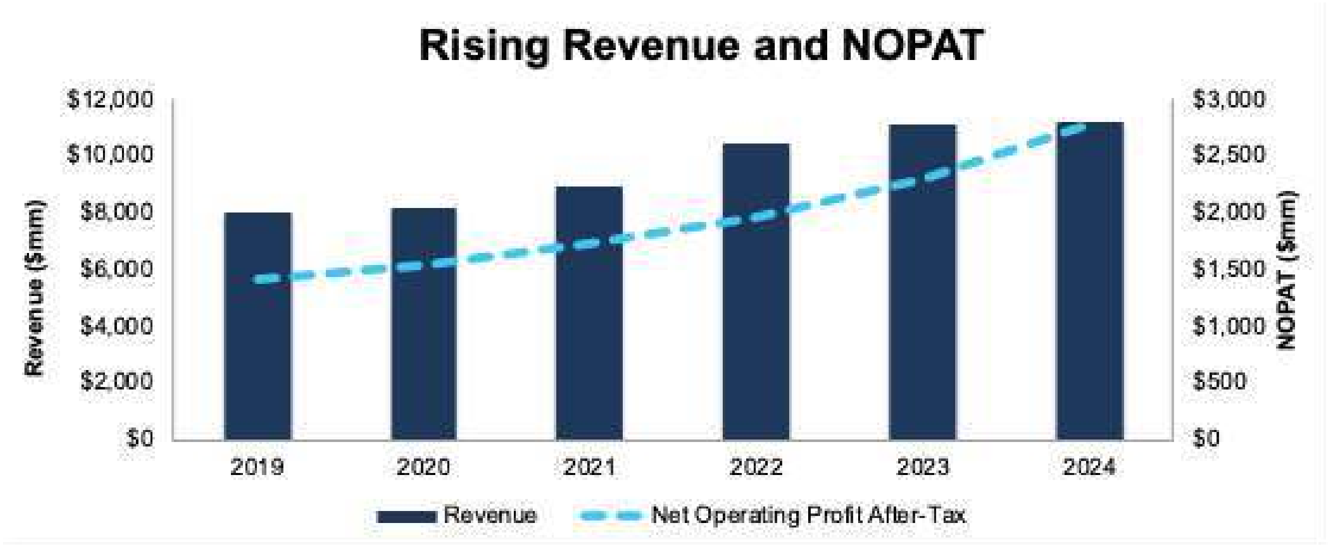
We update this Model Portfolio monthly. February's Dividend Growth Model Portfolio was updated and published for clients on February 27, 2025.

Free Stock Feature February: The Hershey Company (HSY: $177/share)

The Hershey Company (HSY) is the featured stock in February's Dividend Growth Model Portfolio.

Hershey has grown revenue and net operating profit after-tax (NOPAT) by 7% and 15% compounded annually, respectively, over the last five years. The company's NOPAT margin increased from 18% in 2019 to 25% in 2024, while invested capital turns fell from 1.0 to 0.9 over the same time. Rising NOPAT margins are enough to offset falling invested capital turns and drive return on invested capital (ROIC) from 17% in 2019 to 22% in 2024.

Figure 1: Hershey's Revenue & NOPAT Since 2019



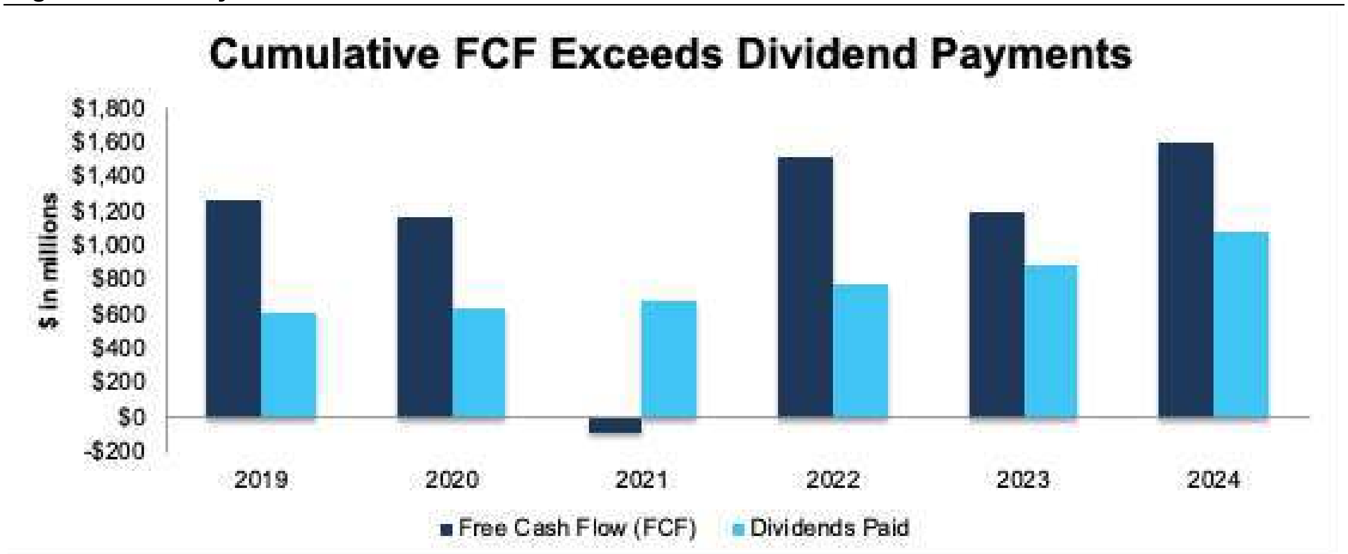
Sources: New Constructs, LLC and company filings

Free Cash Flow Supports Dividend Payments

Hershey has increased its regular, quarterly dividend from $0.72/share in 1Q19 to $1.37/share in 1Q25. The quarterly dividend, when annualized, equals $5.48/share and provides a 3.1% dividend yield.

More importantly, Hershey's cumulative free cash flow (FCF) easily exceeds its dividend payments. From 2019 through 2024, Hershey generated $6.7 billion (17% of current enterprise value) in FCF while paying $4.7 billion in dividends. See Figure 2.

Figure 2: Hershey's FCF vs. Dividends Since 2019



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.

HSY Is Undervalued

At its current price of $177/share, Hershey has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means the market expects Hershey's NOPAT to permanently fall 10% from current levels. This expectation seems overly pessimistic given that Hershey has grown NOPAT by 15% compounded annually and 11% compounded annually over the past five and ten years, respectively.

Even if Hershey's:

- NOPAT margin falls to 20% (equal to five-year average and below 2024 margin of 25%) and
- revenue grows 4% compounded annually (compared to 7% compounded annually over the last five years) for the next decade,

the stock would be worth $218/share today – a 23% upside. See the math behind this reverse DCF scenario. In this scenario, Hershey's NOPAT would grow just 2% compounded annually through 2034.

Add in Hershey's 3.1% dividend yield and a history of dividend growth, and it's clear why this stock is in February'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 Hershey Inc.'s 10-K:

Income Statement: we made over $850 million in adjustments with a net effect of removing over $550 million in non-operating expense. Clients can see all adjustments made to Hershey's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made just over $6 billion in adjustments to calculate invested capital with a net increase of over $3 billion. The most notable adjustment was for asset write downs. See all adjustments made to Hershey's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over $6 billion in adjustments, with a net effect of decreasing shareholder value by just under $5 billion. Apart from total debt, the most notable adjustment to shareholder value was for excess cash. See all adjustments to Hershey's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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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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