



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

In today's market, which is increasingly defined by elevated valuations and heightened volatility, it's hard for many investors to find reliable opportunities that balance risk and return. Quality dividend stocks stand out as a compelling choice in this environment.

What makes a quality dividend stock?

First, we explained in detail what makes a bad dividend stock in this [special training](#) on:

1. Fake Dividend Stocks
2. False Dividend Stocks
3. Dividend-Trap Stocks

For good dividend stocks, the most important attribute is a company's ability to generate consistent cash flows, which demonstrates the financial resilience needed to sustain dividend payouts.

Our Dividend Growth Stocks Model Portfolio offers even more. It includes stocks that get an Attractive-or-better rating and companies that not only produce ample free cash flow to support their dividend payments, but also consistently increase their dividend payments over time.

Below is an overview of one of the stocks from the August edition of our Dividend Growth 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. It's rare we find a dividend stock this good. Out of the 3,300+ stocks we cover, only about 25 stocks qualify for this Model Portfolio.

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

We update this Model Portfolio monthly. August's [Dividend Growth Model Portfolio](#) was updated and published for clients on August 29, 2025.

Free Stock Pick: Allison Transmission (ALSN: \$89/share)

Allison Transmission grew revenue and net operating profit after-tax ([NOPAT](#)) by 4% and 9% compounded annually, respectively, since 2014. The company's NOPAT margin improved from 15% in 2014 to 25% in the trailing-twelve-months (TTM), while [invested capital turns](#) improved from 0.5 to 0.8 over the same time. Rising NOPAT margin and invested capital turns drives return on invested capital ([ROIC](#)) from 8% in 2014 to 19% over the TTM.

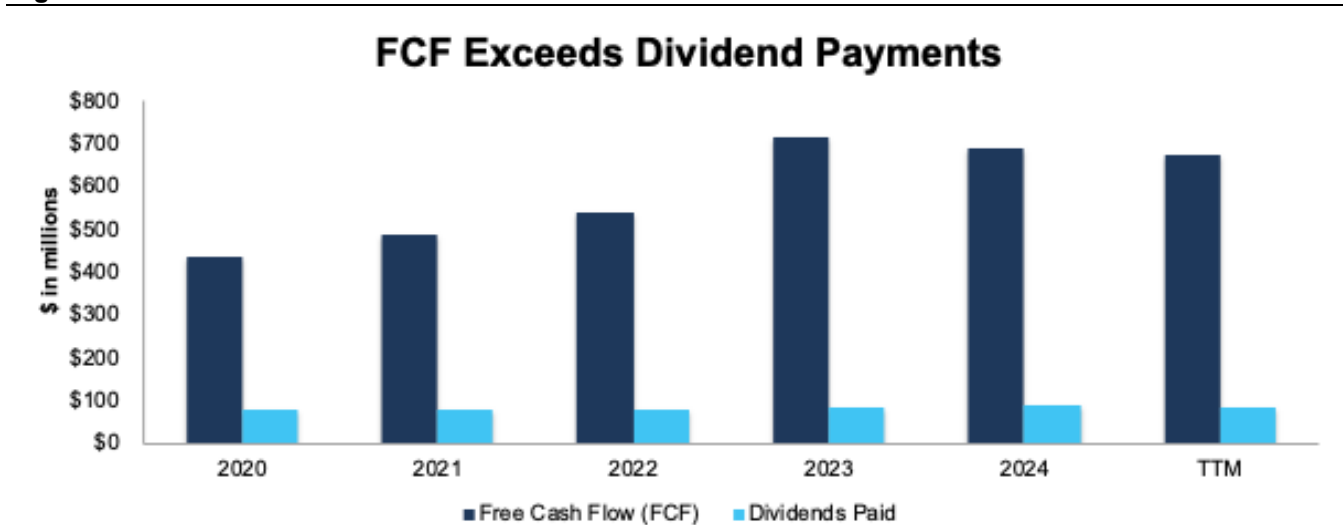
**Figure 1: Allison Transmission's Revenue & NOPAT Since 2014**

Sources: New Constructs, LLC and company filings

Free Cash Flow Exceeds Dividend Payments

Allison Transmission has increased its regular, quarterly dividend from \$0.17/share in 3Q20 to \$0.27/share in 3Q25. The quarterly dividend, when annualized, equals \$1.08/share and provides a 1.2% dividend yield.

More importantly, Allison Transmission's cumulative free cash flow (FCF) easily exceeds its dividend payments. From 2020 through the first half of 2025, Allison Transmission generated \$3.2 billion (33% of current [enterprise value](#)) in FCF while paying over \$455 million in dividends. See Figure 2.

Figure 2: Allison Transmission's FCF vs. Dividends Since 2020

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.

ALSN Is Undervalued

At its current price of \$89/share, ALSN has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means the market expects Allison Transmission's NOPAT to permanently fall 10% from TTM levels. This expectation



seems overly pessimistic given that Allison Transmission has grown NOPAT by 4% compounded annually over the last five years and 9% compounded annually over the last ten years.

Even if Allison Transmission's:

- NOPAT margin falls to 22% (equal to five-year average and below TTM NOPAT margin of 25%) through 2034,
- revenue grows at 2% compounded annually (below ten-year CAGR of 4%) through 2034, then

the stock would be worth \$110/share today – a 24% upside. In this scenario, Allison Transmission's NOPAT would grow just 1% compounded annually through 2024. [Contact us for the math behind this reverse DCF scenario.](#)

Add in Allison Transmission's 1.2% dividend yield and a history of dividend growth, and it's clear why this stock is in August'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 Allison Transmissions 10-Ks and 10-Qs:

Income Statement: we made nearly \$150 million in adjustments with a net effect of removing around \$70 million in [non-operating expense](#). Clients can see all adjustments made to the income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made over \$2 billion in adjustments to calculate invested capital with a net decrease of over \$600 million. The most notable adjustment was for [deferred tax assets](#). See all adjustments made to the balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over \$3.6 billion in adjustments with a net decrease to shareholder value of over \$2.1 billion. The most notable adjustment to shareholder value was [total debt](#). See all adjustments to Allison Transmission's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on [September 5, 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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