



Featured Stock in September's Safest Dividend Yields Model Portfolio

Four new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on September 20, 2018.

Recap from August's Picks

The best performing large cap stock was up 3% Overall, four out of the 20 Safest Dividend Yields stocks outperformed the S&P in August.

This Model Portfolio leverages our [Robo-Analyst technology](#)¹, which scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks.²

This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating, have positive free cash flow 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 we know they have the cash to support the dividend. We think this portfolio provides a uniquely well-screened group of stocks that can help clients outperform.

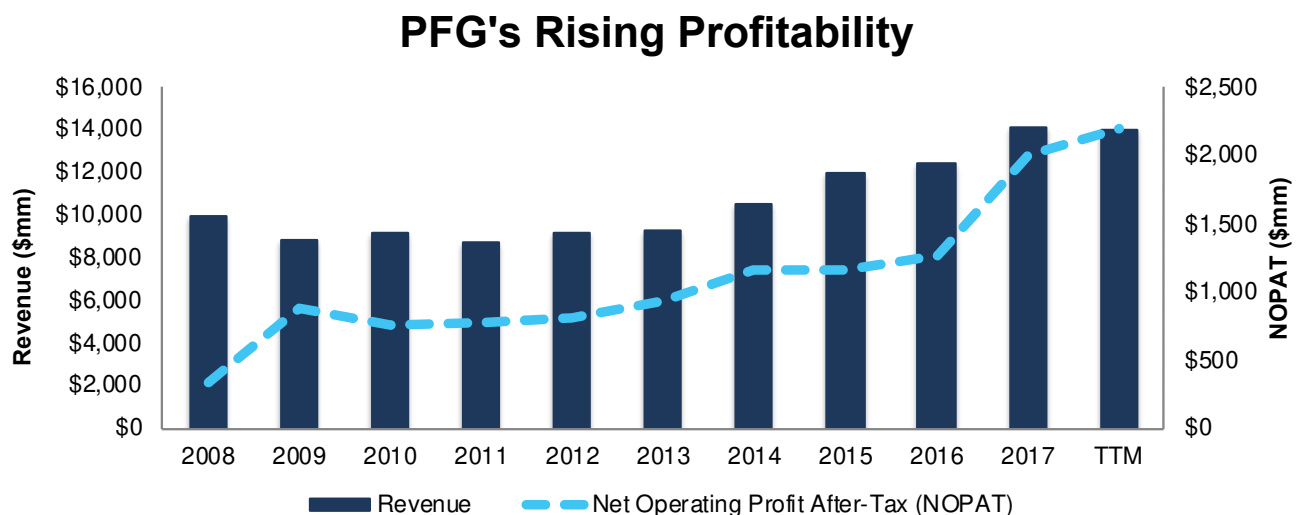
Get the best fundamental research

Featured Stock for September: Principal Financial Group (PFG: \$60/share)

Principal Financial Group (PFG) is the featured stock in September's Safest Dividend Yields Model Portfolio. PFG was also featured as a Long Idea in [February 2018](#).

Since 2008, PFG has grown after-tax profit ([NOPAT](#)) by 20% compounded annually, to \$2.0 billion in 2017. The company's NOPAT increased to \$2.2 billion over the trailing twelve months (TTM). NOPAT margins have increased from 4% in 2008 to 15% TTM while return on invested capital ([ROIC](#)) improved from 3% to 11% over the same time.

Figure 1: PFG Revenue & NOPAT Since 2008



Sources: New Constructs, LLC and company filings

¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).

² Ernst & Young's recent white paper "[Getting ROIC Right](#)" proves the superiority of our holdings research and analytics.

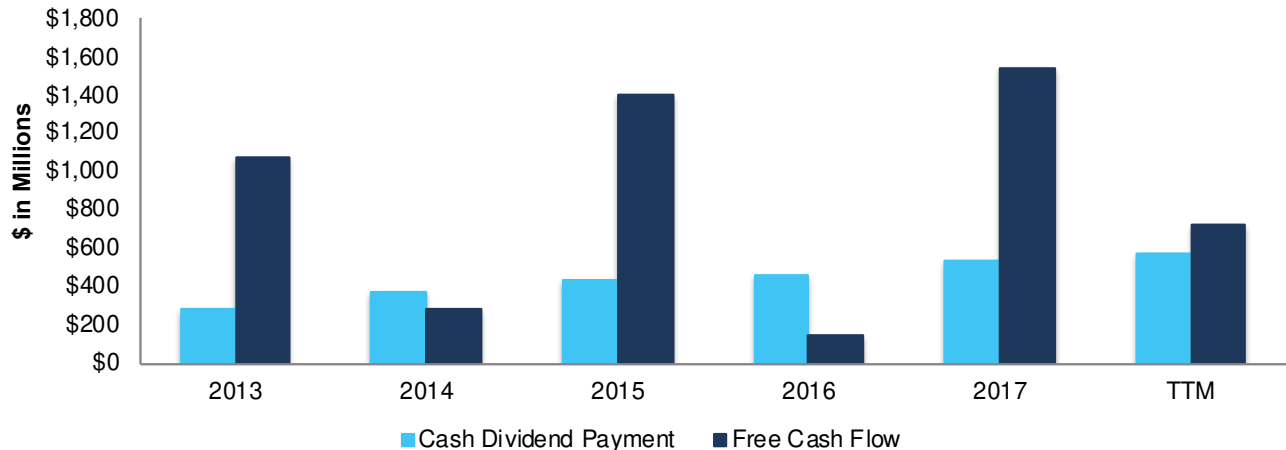


Free Cash Flow Easily Covers Dividend Payments

Over the past five years, PFG has increased its annual dividend from \$0.98/share to \$1.87/share, or 18% compounded annually. TTM dividend payments have totaled \$2.05/share. This dividend payment has been supported by PFG’s [free cash flow](#). From 2013-2017, PFG generated a cumulative \$4.4 billion (26% of market cap) in FCF while paying \$2.1 billion in dividends. Over the TTM period, PFG has generated \$721 million in FCF and paid \$573 million in dividends.

Figure 2: PFG’s FCF vs. Dividends Since 2013

Cumulative FCF Exceeds Dividends



Sources: New Constructs, LLC and company filings

PFG Remains Undervalued

At its current price of \$60/share, PFG has a price-to-economic book value ([PEBV](#)) ratio of 0.7. This ratio means the market expects PFG’s NOPAT to permanently decline by 30%. This expectation seems pessimistic given that PFG has grown NOPAT by 20% compounded annually since 2008.

If PFG can maintain TTM NOPAT margins (16%) and grow NOPAT by just 3% compounded annually for the next 10 years, the stock is worth \$91/share today – a 52% upside. [See the math behind this dynamic DCF scenario.](#)

Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

As investors [focus more](#) on fundamental research, research automation technology is needed to analyze all the critical financial [details in financial filings](#). Below are specifics on the adjustments we make based on Robo-Analyst findings in Principal Financial Group’s 2017 10-K:

Income Statement: we made \$738 million of adjustments with a net effect of removing \$298 million in [non-operating income](#) (2% of revenue). See all adjustments made to PFG’s income statement [here](#).

Balance Sheet: we made \$4.9 billion of adjustments to calculate invested capital with a net decrease of \$1.0 billion. The most notable adjustment was \$2.9 billion (15% of reported net assets) related to [other comprehensive income](#). See all adjustments to PFG’s balance sheet [here](#).

Valuation: we made \$701 million of adjustments with a net effect of decreasing shareholder value by \$701 million. There were no adjustments that increased shareholder value. The largest adjustment to shareholder value was \$254 million in [underfunded pensions](#). This adjustment represents 1% of PFG’s market value.

This article originally published on [September 25, 2018](#).

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

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Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



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