



Featured Stock in August's Safest Dividend Yields Model Portfolio

Six new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on August 20, 2020.

Recap from July's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+3.0%) underperformed the S&P 500 (+3.6%) by 0.6% from July 22, 2020 through August 18, 2020. On a total return basis, the Model Portfolio (+3.4%) underperformed the S&P 500 (+3.6%) by 0.2% over the same time. The best performing large cap stock was up 23%, and the best performing small cap stock was up 39%. Overall, eight out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from July 22, 2020 through August 18, 2020.

[Learn more about the best fundamental research](#)

Only our research utilizes the superior data and earnings adjustments featured by the HBS & MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)." 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.

Featured Stock for August: Bank of Hawaii Corp (BOH: \$56/share)

Bank of Hawaii Corp (BOH) is the featured stock in August's Safest Dividend Yields Model Portfolio.

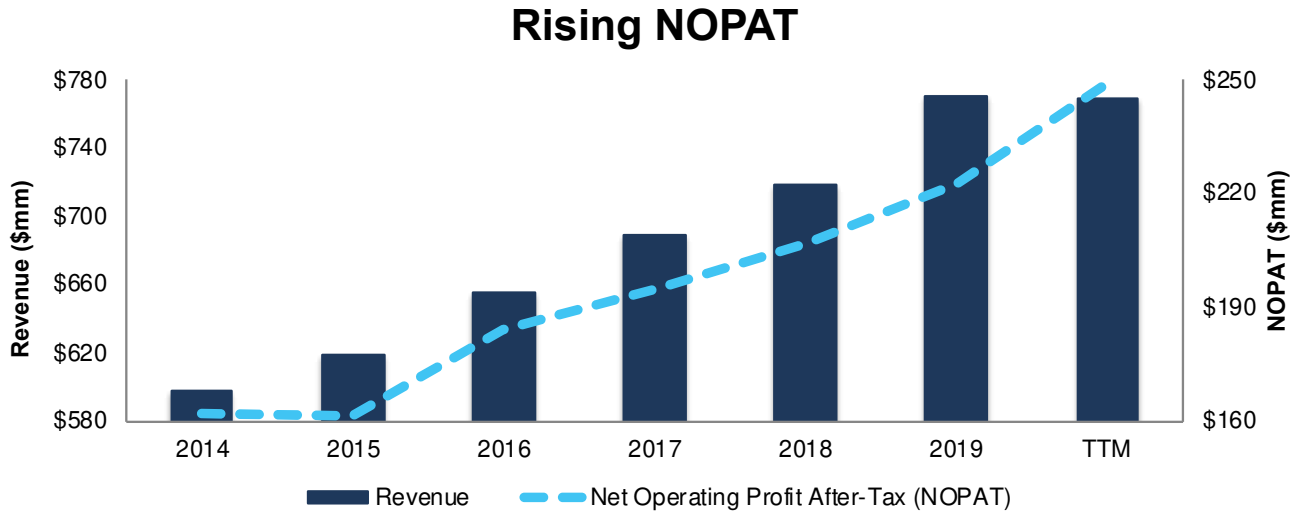
Bank of Hawaii has grown revenue by 5% compounded annually and net operating profit after-tax ([NOPAT](#)) by 7% compounded annually over the past five years. Longer term, Bank of Hawaii has grown NOPAT by 3% compounded annually over the past decade. The firm's NOPAT margin increased from 27% in 2014 to 32% TTM, while its invested capital turns improved from 0.42 to 0.46 over the same time. Rising margins and [invested capital turns](#) drive Bank of Hawaii's return on invested capital ([ROIC](#)) from 11% in 2014 to 15% TTM.

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 Compare our analytics on a mega cap company to Bloomberg and Capital IQ's (SPGI) analytics in the [detailed appendix of this paper](#).



Figure 1: Bank of Hawaii's Revenue & NOPAT Since 2014



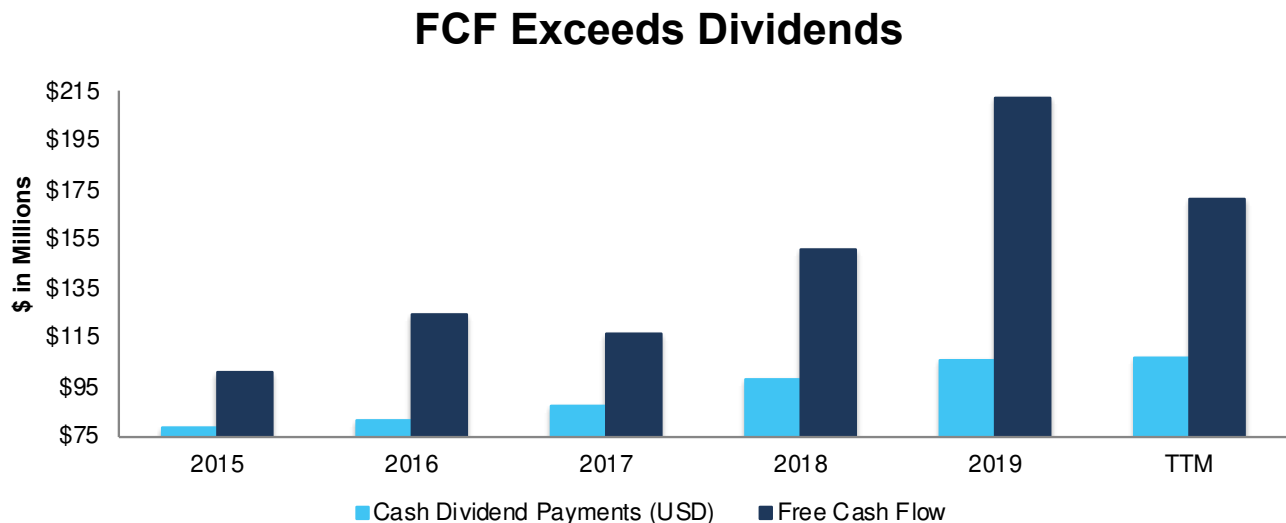
Sources: New Constructs, LLC and company filings

Cash Flow Supports Dividend Payments

Bank of Hawaii has paid a dividend in each of the past five years. The firm increased its dividend payments from \$1.80/share in 2015 to \$2.59/share in 2019, or 10% compounded annually. The current quarterly dividend, when annualized provides a 4.8% dividend yield.

Bank of Hawaii's dividend payment is supported by the firm's strong free cash flow (FCF). Bank of Hawaii generated \$705 million (32% of current market cap) in FCF while paying \$451 billion in dividends from 2015 to 2019, per Figure 2. Over the TTM, Bank of Hawaii has generated \$172 million in FCF and paid out \$107 million in dividends.

Figure 2: Bank of Hawaii's FCF vs. Dividends Since 2015



Sources: New Constructs, LLC and company filings

Companies with strong FCF provide higher quality dividend yields because we know the firm has the cash to support its dividend. On the other hand, dividends from companies with low or negative FCF cannot be trusted as much because the company may not be able to sustain paying dividends.



BOH Is Undervalued

At its current price of \$56/share, BOH has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio means the market expects Bank of Hawaii's NOPAT to permanently decline by 50%. This expectation seems overly pessimistic given that Bank of Hawaii has grown NOPAT by 3% compounded annually over the past two decades.

Even if Bank of Hawaii's NOPAT margin falls to 27% (10-year average vs. 32% TTM) and the firm grows revenue by <1% compounded annually, which results in NOPAT falling by 1% compounded annually over the next decade, the stock is worth \$87/share today – a 55% upside. [See the math behind this reverse 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](#) as shown in the Harvard Business School and MIT Sloan paper, "[Core Earnings: New Data and Evidence](#)".

Below are specifics on the adjustments we make based on Robo-Analyst findings in Bank of Hawaii's 2019 10-K:

Income Statement: we made \$19 million of adjustments with a net effect of removing \$3 million in [non-operating income](#) (<1% of revenue). See all adjustments made to Bank of Hawaii's income statement [here](#).

Balance Sheet: we made \$233 million of adjustments to calculate invested capital with a net increase of \$119 million. The most notable adjustment was \$110 million (7% of reported net assets) in [total reserves](#). See all adjustments to Bank of Hawaii's balance sheet [here](#).

Valuation: we made \$292 million of adjustments with a net effect of decreasing shareholder value by \$44 million. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$45 million in [underfunded pensions](#). This adjustment represents 2% of Bank of Hawaii's market value. See all adjustments to Bank of Hawaii's valuation [here](#).

This article originally published on [August 28, 2020](#).

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

Follow us on [Twitter](#), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.



Footnotes adjustments matter. We are the ONLY source.

We provide ratings, models, reports & screeners on U.S. 3,000 stocks, 700 ETFs and 7,000 mutual funds.

HBS & MIT Sloan research reveals that:

- **Markets are inefficiently assessing earnings because no one reads the footnotes.**
- **Corporate managers hide gains/losses in footnotes to manage earnings.**
- **Our technology brings the material footnotes data to market for the first time ever.**

Combining human expertise with NLP/ML/AI technologies ([featured by Harvard Business School](#)), we shine a light in the dark corners (e.g. footnotes) of hundreds of thousands of financial filings to unearth critical details.

The HBS & MIT Sloan paper, [Core Earnings: New Data and Evidence](#), shows how our superior data drives uniquely comprehensive and independent debt and equity research.

This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.

Learn [more](#).

Quotes from HBS & MIT Sloan professors on our research:

Get better research:

“...the NC dataset provides a novel opportunity to study the properties of non-operating items disclosed in 10-Ks, and to examine the extent to which the market impounds their implications.” – page 20

Pick better stocks:

“Trading strategies that exploit cross-sectional differences in firms’ transitory earnings produce abnormal returns of 7-to-10% per year.” – Abstract

Avoid losses from using other firms’ data:

“...many of the income-statement-relevant quantitative disclosures collected by NC do not appear to be easily identifiable in Compustat...” – page 14

Build better models:

“Core Earnings [calculated using New Constructs’ novel dataset] provides predictive power for various measures of one-year-ahead performance...that is incremental to their current-period counterparts.” – page 4

Exploit market inefficiencies:

“These results ... suggest that the adjustments made by analysts and Compustat to better capture core earnings are incomplete. Moreover, the non-core items identified by NC produce a measure of core earnings that is incremental to alternative measures of operating performance in predicting an array of future income measures.” – page 26

Fulfill fiduciary duties:

“An appropriate measure of accounting performance for purposes of forecasting future performance requires detailed analysis of all quantitative performance disclosures detailed in the annual report, including those reported only in the footnotes and in the MD&A.” – page 33-34



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.