



Featured Stock in February's Safest Dividend Yields Model Portfolio

13 new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on February 18, 2021.

Recap from January's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+4.2%) outperformed the S&P 500 (+2.1%) by 2.1% from January 21, 2021 through February 16, 2021. On a total return basis, the Model Portfolio (+4.4%) outperformed the S&P 500 (+2.1%) by 2.3% over the same time. The best performing large cap stock was up 13%, and the best performing small cap stock was up 19%. Overall, nine out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from January 21, 2021 through February 16, 2021.

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

More reliable & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research. Our proprietary [Robo-Analyst technology](#)¹ scales our forensic accounting expertise ([featured in Barron's](#)) across thousands of stocks² to produce an unrivaled database of fundamental data.

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 February: General Mills, Inc. (GIS: \$56/share)

General Mills, Inc. (GIS) is the featured stock in February's Safest Dividend Yields Model Portfolio.

General Mills has grown revenue by 4% compounded annually and net operating profit after tax ([NOPAT](#)) by 8% compounded annually since 2017. General Mills' NOPAT margin increased from 13% in 2017 to 15% over the trailing-twelve-months (TTM), while its return on invested capital ([ROIC](#)) improved from 9.0% to 9.3% over the same time.

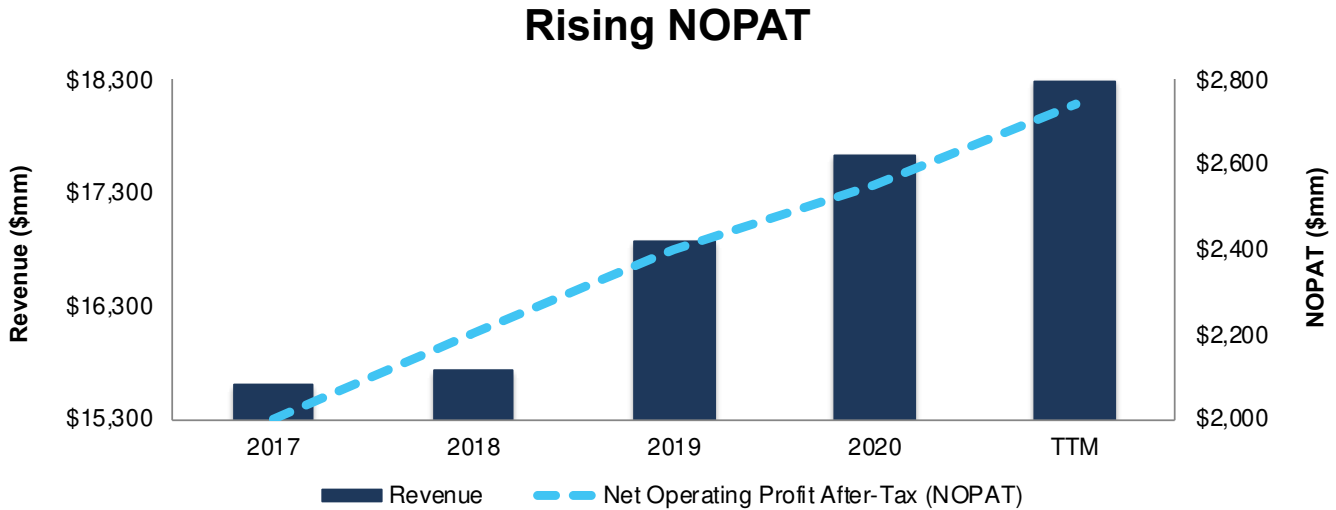
The firm's [economic earnings](#), or the true cash flows of the business, rose from \$1.2 billion in 2017 to \$1.9 billion TTM.

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

² See how our models overcome flaws in Bloomberg and Capital IQ's (SPGI) analytics in the [detailed appendix of this paper](#).



Figure 1: General Mills' Revenue & NOPAT Since 2017



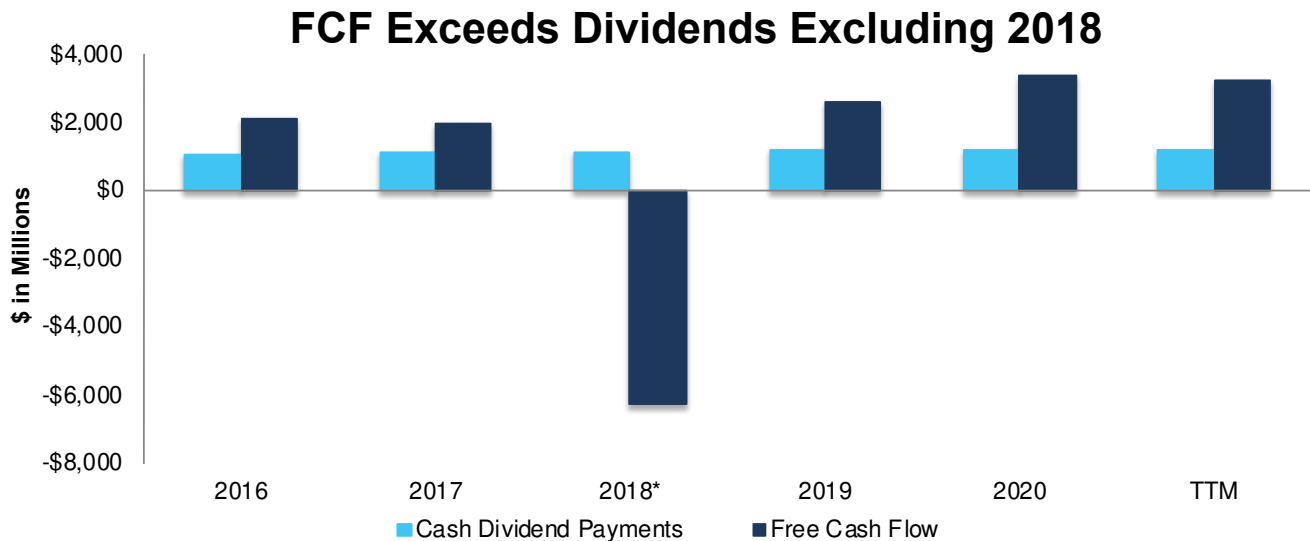
Sources: New Constructs, LLC and company filings

Cash Flow Supports Dividend Payments

General Mills has paid a dividend for [120 consecutive years](#). The firm increased its dividend payments from \$1.78/share in 2016 to \$1.96/share in 2020, or 2% compounded annually. The current quarterly dividend, when annualized provides a 3.6% dividend yield.

In 2018, General Mills acquired [Blue Buffalo Pet Products](#) for ~\$8 billion, which contributed to the firm's -\$6.2 billion free cash flow (FCF) that year. Going forward, General Mills' dividend payment is supported by the firm's strong free cash flow, which has improved from \$2 billion in 2017 (the year before the acquisition) to \$3.3 billion TTM. Over the past two years, General Mills generated \$6 billion (17% of current market cap) in FCF while paying \$2.4 billion in dividends, per Figure 2. Over the TTM, General Mills generated \$2 billion more in FCF than it paid in dividends.

Figure 2: General Mills' FCF vs. Dividends Since 2016



Sources: New Constructs, LLC and company filings

*Impacted by the \$8 billion Blue Buffalo acquisition



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.

GIS Is Undervalued

At its current price of \$56/share, GIS has a price-to-economic book value ([PEBV](#)) ratio of 0.4. This ratio means the market expects General Mills' NOPAT to permanently decline by 60%. This expectation seems overly pessimistic given that General Mills has grown NOPAT by 6% compounded annually over the past five years and 4% compounded annually over the past decade.

Even if General Mills' NOPAT margin falls to 11% (ten-year low, vs. 15% TTM) and the firm grows revenue by just 0.5% compounded annually over the next decade, the stock is worth \$92/share today – a 64% upside. In this scenario, General Mills' NOPAT falls by 3% compounded annually over the next ten years. [See the math behind this reverse DCF scenario.](#)

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

Fact: we provide [superior fundamental data](#) and earnings models – unrivaled in the world.

Proof: [Core Earnings: New Data & Evidence](#), forthcoming in The Journal of Financial Economics.

Below are specifics on the adjustments we make based on Robo-Analyst findings in General Mills' 10-Q's and 10-K:

Income Statement: we made \$812 million of adjustments with a net effect of removing \$372 million in [non-operating expenses](#) (2% of revenue). See all adjustments made to General Mills' income statement [here](#).

Balance Sheet: we made \$8.1 billion of adjustments to calculate invested capital with a net increase of \$6.4 billion. The most notable adjustment was \$2.9 billion (13% of reported net assets) in [other comprehensive income](#). See all adjustments to General Mills' balance sheet [here](#).

Valuation: we made \$21 billion of adjustments with a net effect of decreasing shareholder value by \$17.7 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$1.9 billion in [deferred tax liabilities](#). This adjustment represents 6% of General Mills' market value. See all adjustments to General Mills' valuation [here](#).

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

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It's Official: We Offer 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. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

Forthcoming 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

A top accounting firm 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 Indiana’s Kelley School of Business. 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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