



Featured Stock in January's Safest Dividend Yields Model Portfolio

Nine new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on January 20, 2022.

Recap from December's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+3.4%) outperformed the S&P 500 (-2.4%) by 5.8% from December 22, 2021 through January 18, 2022. On a total return basis, the Model Portfolio (+3.5%) outperformed the S&P 500 (-2.4%) by 5.9% over the same time. The best performing large cap stock was up 15% and the best performing small cap stock was up 6%. Overall, 18 out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from December 22, 2021 through January 18, 2022.

[Buy the Safest Dividend Yields Model Portfolio](#)

More [reliable](#) & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#), drives our research and provides investors with a [new source of alpha](#). 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.

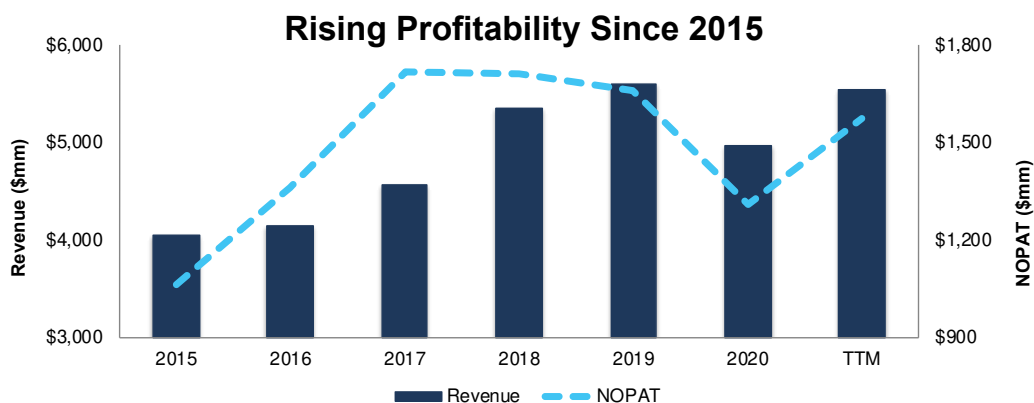
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating, have positive free cash flow and [economic earnings](#), and offer a dividend yield greater than 3%. Companies with strong [free cash flow](#) provide higher quality and safer dividend yields because we 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 January: Restaurant Brands International Inc (QSR: \$55/share)

Restaurant Brands International (QSR) is the featured stock in January's Safest Dividend Yields Model Portfolio.

After its acquisition of Tim Hortons and prior to the COVID-19 pandemic, Restaurant Brands International grew revenue and net operating profit after-tax (NOPAT) by 8% and 12% compounded annually, respectively, from 2015 to 2019. Restaurant Brands International's NOPAT margins have risen from 26% in 2015 to 28% over the trailing twelve months (TTM). Return on invested capital (ROIC) has risen from 5% to 8% over the same time.

Figure 1: Restaurant Brands International's NOPAT Since 2015



Sources: New Constructs, LLC and company filings

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](#).

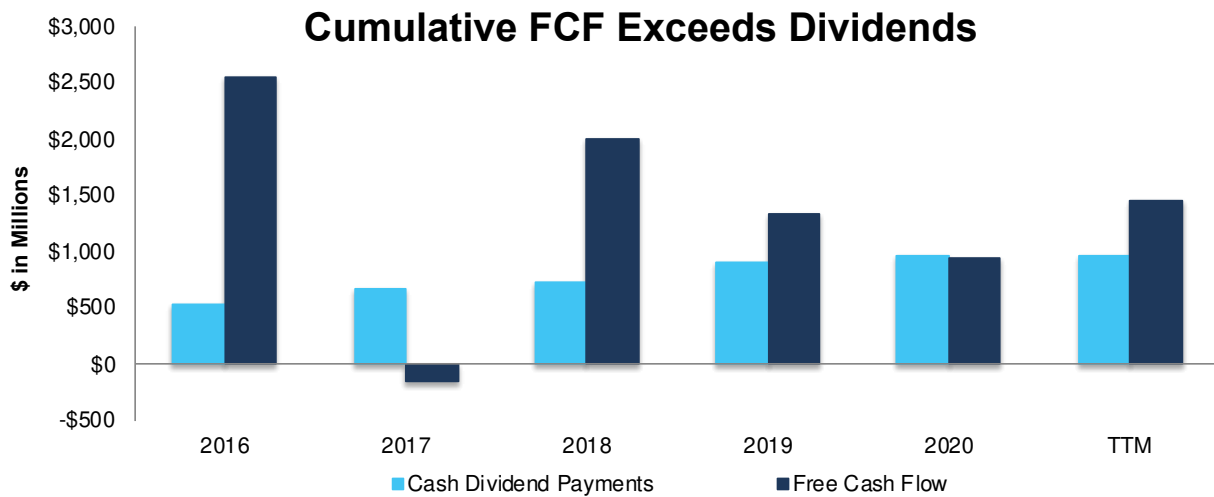


Free Cash Flow Exceeds Dividend Payments

Restaurant Brands International’s business generates significant free cash flow (FCF) to support its dividend payment. The company has paid dividends every year since 2014 and increased its dividend from \$0.62/share in 2016 to \$2.08/share in 2020. The current regular quarterly dividend, when annualized, provides a 3.9% dividend yield.

Since 2016, Restaurant Brands International’s cumulative FCF easily exceeds its regular dividend payments. From 2016 to 2020, Restaurant Brands International generated \$6.7 billion (39% of current market cap) in FCF while paying \$3.8 billion in dividends, per Figure 2. Over the TTM, the firm generated \$1.5 billion in FCF and paid \$973 million in dividends.

Figure 2: Restaurant Brands International’s FCF vs. Dividends Since 2016



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.

Restaurant Brands International Is Undervalued

At its current price of \$55/share, Restaurant Brands International has a price-to-economic book value (PEBV) ratio of 0.7. This ratio means the market expects Restaurant Brands International’s NOPAT to permanently decline by 30%. This expectation seems overly pessimistic given that Restaurant Brands International grew NOPAT by 12% compounded annually from 2015 to 2019 before the pandemic and has seen a rebound in profits over the TTM.

Even if Restaurant Brands International maintains its TTM NOPAT margin of 28% (vs. 5-year average of 32%) and the company’s NOPAT grows by just 3% compounded annually over the next decade, the stock is worth \$77/share today – a 40% upside. [See the math behind this reverse DCF scenario.](#) In this scenario, Restaurant Brands International’s NOPAT in 2030 is just 4% above 2019 levels. Should the company grow NOPAT more in line with historical growth rates, the stock has even more upside.

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 Restaurant Brands International’s 10-K and 10-Qs:

Income Statement: we made \$1.3 billion in adjustments with a net effect of removing \$821 million in [non-operating expenses](#) (17% of revenue). See all adjustments made to Restaurant Brands International’s income statement [here](#).



Balance Sheet: we made \$5.4 billion in adjustments to calculate invested capital with a net decrease of \$766 million. The most notable adjustment was \$2.8 billion (12% of reported net assets) in [deferred tax assets](#). See all adjustments made to Restaurant Brands International's balance sheet [here](#).

Valuation: we made \$18.6 billion in adjustments with a net effect of decreasing shareholder value by \$15.2 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$1.7 billion in [excess cash](#). This adjustment represents 10% of Restaurant Brands International's market value. See all adjustments to Restaurant Brands International's 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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