



Featured Stock in May's Safest Dividend Yields Model Portfolio

Seven new stocks make our [Safest Dividend Yields Model Portfolio](#) this month, which was made available to members on May 19, 2022.

Recap from April's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (-2.0%) outperformed the S&P 500 (-6.8%) by 4.8% from April 21, 2022 through May 17, 2022. On a total return basis, the Model Portfolio (-1.8%) outperformed the S&P 500 (-6.8%) by 5.0% over the same time. The best performing large cap stock was up 14% and the best performing small cap stock was up 7%. Overall, 18 out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from April 21, 2022 through May 17, 2022.

Buy the Safest Dividend Yields Model Portfolio

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)¹ fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

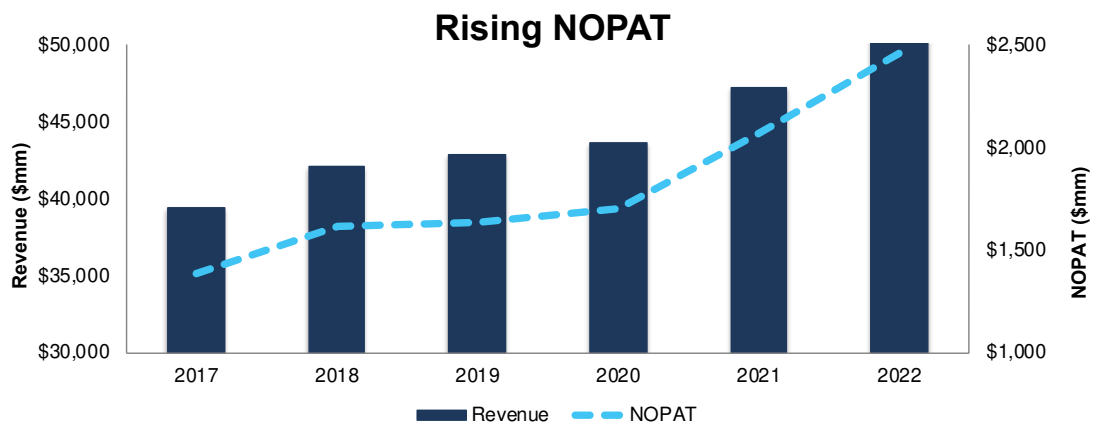
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating, have positive free cash flow and [economic earnings](#), and offer a dividend yield greater than 3%. Companies with strong [free cash flow](#) provide higher quality and safer dividend yields because we 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 May: Best Buy Co, Inc. (BBY: \$80/share)

Best Buy (BBY) is the featured stock in May's Safest Dividend Yields Model Portfolio. We originally made Best Buy a [Long Idea](#) in [November 2018](#) and recently reiterated the pick in [October 2021](#). Since our original report, the stock is up 7% vs. a 40% rise for the S&P 500.

Best Buy has grown revenue by 6% compounded annually and net operating profit after-tax ([NOPAT](#)) by 12% compounded annually since fiscal 2017 (FYE is 1/29/22). Best Buy's NOPAT margin rose from 4% in fiscal 2017 to 5% in fiscal 2022, while [invested capital turns](#) improved from 4.1 to 5.6 over the same time. Rising NOPAT margins and invested capital turns drive the company's return on invested capital ([ROIC](#)) from 14% in fiscal 2017 to 27% in fiscal 2022.

Figure 1: Best Buy's Revenue and NOPAT Since Fiscal 2017



Sources: New Constructs, LLC and company filings

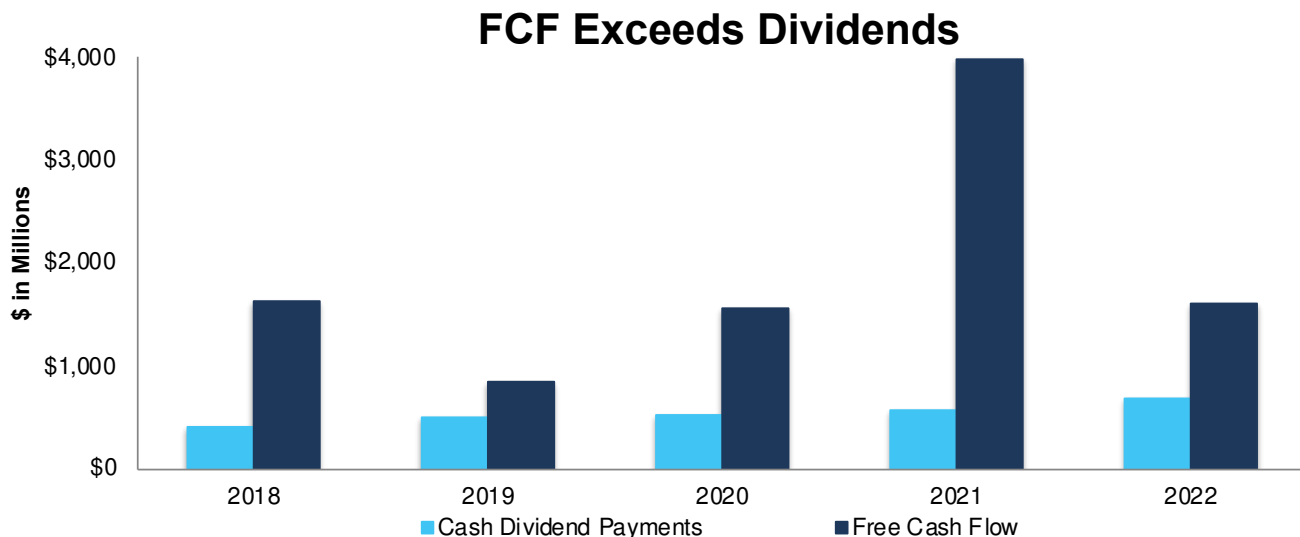
¹ Our research utilizes our [Core Earnings](#), a more reliable measure of profits, as proven in [Core Earnings: New Data & Evidence](#), written by professors at Harvard Business School (HBS) & MIT Sloan and published in [The Journal of Financial Economics](#).

**Free Cash Flow Supports Regular Dividend Payments**

Best Buy has paid dividends in each year since fiscal 2003 and increased its regular dividend from \$1.36/share in fiscal 2018 to \$2.80/share in fiscal 2022. The current quarterly dividend, when annualized, provides a 4.4% dividend yield.

Best Buy's cumulative FCF easily exceeds its regular dividend payments. From fiscal 2018 to fiscal 2022, Best Buy generated \$9.6 billion (58% of current market cap) in FCF while paying \$2.7 billion in dividends, per Figure 2.

Should the economic slowdown in 2022 worsen, and the company's FCF turn negative as it did in fiscal 2009, the company's \$2.9 billion of cash and cash equivalents provide an extra layer of protection for the dividend. For reference, the company paid \$688 million in dividends in fiscal 2021.

Figure 2: Best Buy's FCF vs. Regular Dividends Since Fiscal 2018

Sources: New Constructs, LLC and company filings

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

Best Buy Is Undervalued

At its current price of \$80/share, Best Buy has a price-to-economic book value ([PEBV](#)) ratio of 0.5. This ratio means the market expects Best Buy's NOPAT to permanently decline by 50%. This expectation seems overly pessimistic given that Best Buy grew NOPAT by 7% compounded annually over the past two decades and 12% compounded annually over the past five years.

Even if Best Buy's NOPAT margin falls to 4% (five-year average vs. 5% over the TTM) and the company's NOPAT falls by 1% compounded annually over the next decade, the stock is worth \$153/share today – a 91% upside. [See the math behind this reverse DCF scenario](#). 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 Best Buy's 10-K:

Income Statement: we made \$315 million in adjustments with a net effect of removing \$9 million in [non-operating expenses](#) (<1% of revenue). Clients can see all adjustments made to Best Buy's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$3.9 billion in adjustments to calculate invested capital with a net increase of \$1.0 billion. The most notable adjustment was \$2.4 billion (36% of reported net assets) in [asset write-downs](#). See all



adjustments made to Best Buy's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$4.2 billion in adjustments with a net effect of decreasing shareholder value by \$3.4 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$348 million in [excess cash](#). This adjustment represents 2% of Best Buy's market value. See all adjustments to Best Buy's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article originally published on [May 26, 2022](#).

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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