



Featured Stock in August'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 August 19, 2022.

Recap from July's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+5.8%) underperformed the S&P 500 (+7.0%) by 1.2% from July 21, 2022 through August 17, 2022. On a total return basis, the Model Portfolio (+6.1%) underperformed the S&P 500 (+7.0%) by 0.9% over the same time. The best performing large cap stock was up 10% and the best performing small cap stock was up 22%. Overall, nine out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from July 21, 2022 through August 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](#).

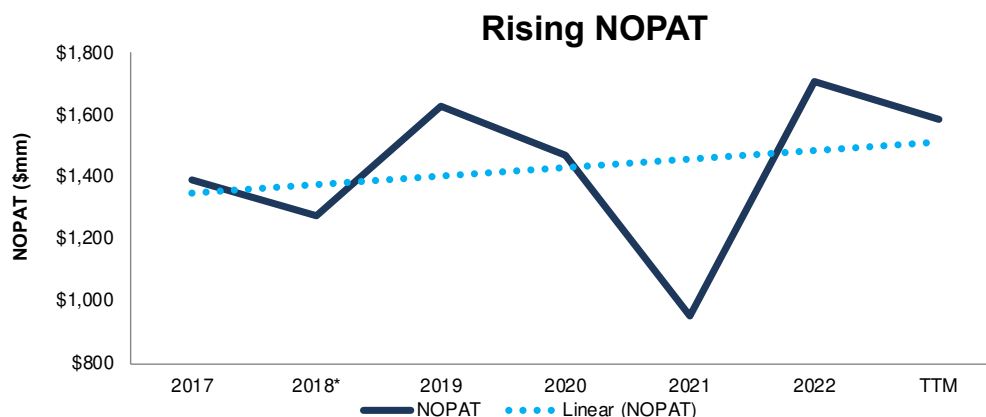
This Model Portfolio only includes stocks that earn an [Attractive or Very Attractive](#) rating, have positive free cash flow and [economic earnings](#), and offer a dividend yield greater than 3%. Companies with strong free cash flow ([FCF](#)) provide higher quality and safer dividend yields because 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: VF Corporation Inc (VFC: \$44/share)

VF Corporation Inc (VFC) is the featured stock in August's Safest Dividend Yields Model Portfolio.

VF Corporation has grown net operating profit after-tax ([NOPAT](#)) by 4% compounded annually over the past five years. VF Corporation's NOPAT margin rose from 12% in fiscal 2017 (fiscal year end was 12/30/17) to 13% over the trailing twelve months (TTM). Rising NOPAT drives the company's [economic earnings](#) from \$583 million in fiscal 2017 to \$692 million TTM.

Figure 1: VF Corporation's NOPAT Since Fiscal 2017



Sources: New Constructs, LLC and company filings

*VF Corporation's fiscal year transitioned in 2018. NOPAT in 2018 is the TTM value for the period ended 3/30/18.

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](#).

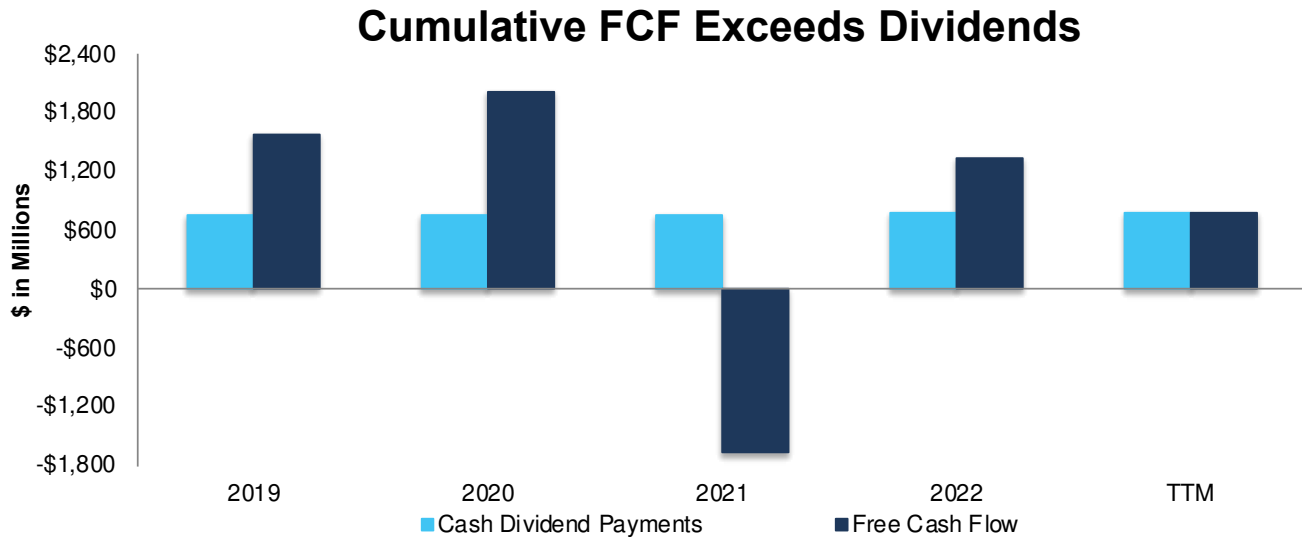


Free Cash Flow Supports Regular Dividend Payments

VF Corporation has increased its regular dividend from \$1.94/share in fiscal 2019 (fiscal year end was 3/30/19) to \$1.98/share in fiscal 2022. The current quarterly dividend, when annualized, provides a 4.6% dividend yield.

VF Corporation's free cash flow (FCF) exceeds its regular dividend payments. From fiscal 2019 to 2022, VF Corporation generated \$3.3 billion (20% of current market cap) in FCF while paying \$3.0 billion in dividends. Over the TTM, VF Corporation has generated \$781 million in FCF and paid \$775 million in dividends. See Figure 2.

Figure 2: VF Corporation'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.

VFC Is Undervalued

At its current price of \$44/share, VF Corporation has a price-to-economic book value (PEBV) ratio of 0.9. This ratio means the market expects VF Corporation's NOPAT to permanently decline by 10%. This expectation seems overly pessimistic given that VF Corporation grew NOPAT by 7% compounded annually over the past two decades.

Even if VF Corporation's NOPAT margin falls to 12% (five-year average vs. 13% over the TTM) and the company's NOPAT grows by just 3% compounded annually over the next decade, the stock would be worth \$60+/share today – a 36% upside. See the math behind this reverse DCF scenario. Should the company's NOPAT grow 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 VF Corporation's 10-Ks and 10-Qs:

Income Statement: we made \$952 million in adjustments with a net effect of removing \$318 million in non-operating expenses (3% of revenue). Clients can see all adjustments made to VF Corporation's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$6.8 billion in adjustments to calculate invested capital with a net increase of \$4.2 billion. The most notable adjustment was \$3.3 billion (33% of reported net assets) in asset write-downs. See all adjustments made to VF Corporation's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.



Valuation: we made \$6.6 billion in adjustments with a net effect of decreasing shareholder value by \$6.5 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$86 million in [overfunded pensions](#). This adjustment represents 1% of VF Corporation's market value. See all adjustments to VF Corporation's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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Disclosure: David Trainer, Kyle Guske II, Matt Shuler, and Brian Pellegrini 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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