



## Featured Stock in September's Safest Dividend Yields Model Portfolio

Seven new stocks make September's [Safest Dividend Yields Model Portfolio](#), which was made available to members on September 21, 2022.

### Recap from August's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (-10.0%) underperformed the S&P 500 (-8.0%) by 2.0% from August 19, 2022 through September 19, 2022. On a total return basis, the Model Portfolio (-9.5%) underperformed the S&P 500 (-7.6%) by 1.9% over the same time. The best performing large cap stock and the best performing small cap stock were each up 1%. Overall, nine out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from August 19, 2022 through September 19, 2022.

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

This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)<sup>1</sup> 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 September: Seagate Technology Holdings PLC (STX: \$54/share)

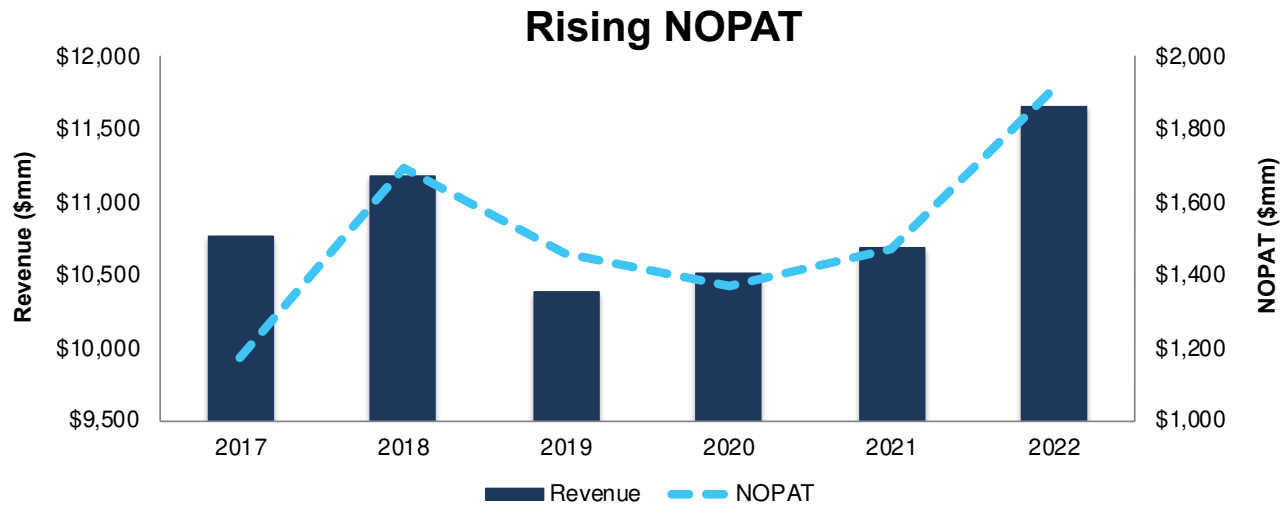
Seagate Technology Holdings PLC (STX) is the featured stock in September's Safest Dividend Yields Model Portfolio.

Seagate Technology has grown revenue by 2% compounded annually and net operating profit after-tax ([NOPAT](#)) by 10% compounded annually over the past five years. The company's NOPAT margin rose from 11% in fiscal 2017 (fiscal year end was 6/30/17) to 16% in fiscal 2022, while [invested capital turns](#) rose from 1.6 to 1.7 over the same time. Rising NOPAT margins and invested capital turns drive Seagate Technology's return on invested capital ([ROIC](#)) from 17% in fiscal 2017 to 27% in fiscal 2022.

<sup>1</sup> 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](#).



**Figure 1: Seagate Technology's Revenue & NOPAT Since Fiscal 2017**



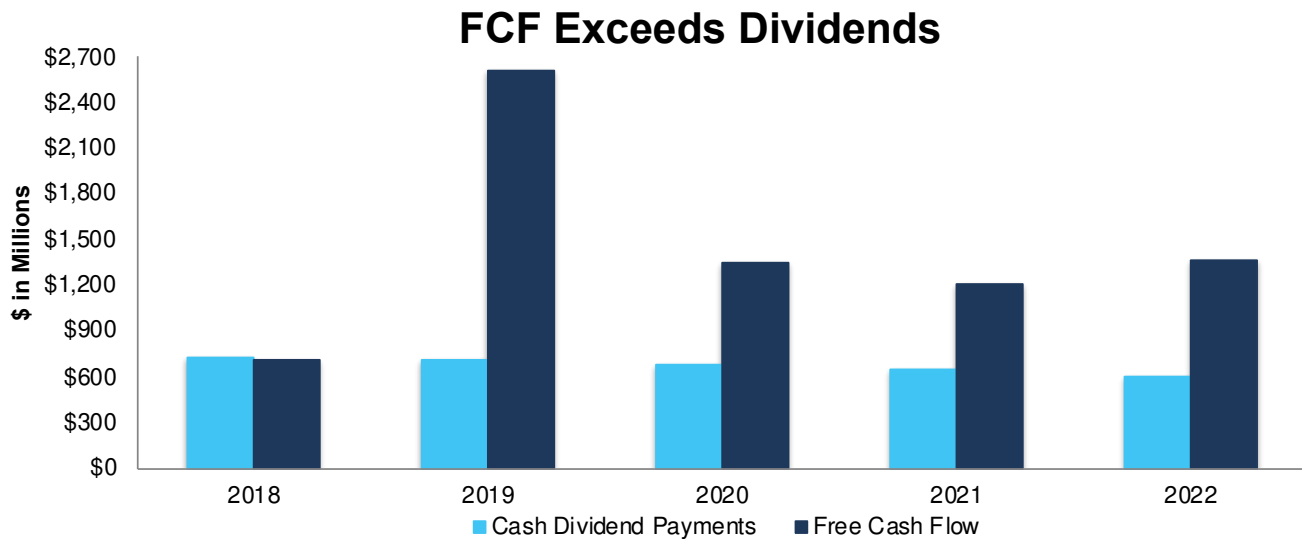
Sources: New Constructs, LLC and company filings

**Free Cash Flow Easily Supports Regular Dividend Payments**

Seagate Technology has increased its regular dividend from \$2.52/share in fiscal 2017 to \$2.77/share in fiscal 2022. The current quarterly dividend, when annualized, provides a 5.1% dividend yield.

Seagate Technology's free cash flow (FCF) easily exceeds its regular dividend payments. From fiscal 2018 to 2022, Seagate Technology generated \$7.3 billion (44% of current [enterprise value](#)) in FCF while paying \$3.4 billion in dividends. See Figure 2.

**Figure 2: Seagate Technology'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.

**STX Is Undervalued**

At its current price of \$57/share, Seagate Technology has a price-to-economic book value (PEBV) ratio of 0.4. This ratio means the market expects Seagate Technology's NOPAT to permanently decline by 60%. This



expectation seems overly pessimistic given that Seagate Technology grew NOPAT by 10% compounded annually over the past five years and 7% compounded annually over the past 15 years.

Even if Seagate Technology's NOPAT margin falls to 13% (ten-year average vs. 16% over the TTM) and the company's NOPAT falls by 4% compounded annually over the next decade, the stock would be worth \$90+/share today – a 67% 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 Seagate Technology's 10-Ks and 10-Qs:

Income Statement: we made \$298 million in adjustments with a net effect of removing \$269 million in [non-operating expenses](#) (2% of revenue). Clients can see all adjustments made to Seagate Technology's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made \$4.7 billion in adjustments to calculate invested capital with a net increase of \$1.6 billion. The most notable adjustment was \$2.6 billion (48% of reported net assets) in [asset write-downs](#). See all adjustments made to Seagate Technology's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made \$5.4 billion in adjustments with a net effect of decreasing shareholder value by \$5.2 billion. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$120 million in [excess cash](#). This adjustment represents 1% of Seagate Technology's market value. See all adjustments to Seagate Technology's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

*This article originally published on [September 30, 2022](#).*

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



## *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, 1<sup>st</sup> 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, 2<sup>nd</sup> 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, 5<sup>th</sup> 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, 2<sup>nd</sup> 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, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> 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](#).



## ***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 two 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.