



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

Three new stocks made October's [Safest Dividend Yields Model Portfolio](#), which was made available to members on October 20, 2022.

### Recap from September's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (-0.9%) outperformed the S&P 500 (-1.7%) by 0.8% from September 21, 2022 through October 18, 2022. On a total return basis, the Model Portfolio (-0.7%) outperformed the S&P 500 (-1.7%) by 1.0% over the same time. The best performing large cap stock was up 5%, and the best performing small cap stock was up 26%. Overall, 11 out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from September 21, 2022 through October 18, 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 there is strong evidence 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 October: LyondellBasell Industries NV (LYB: \$82/share)

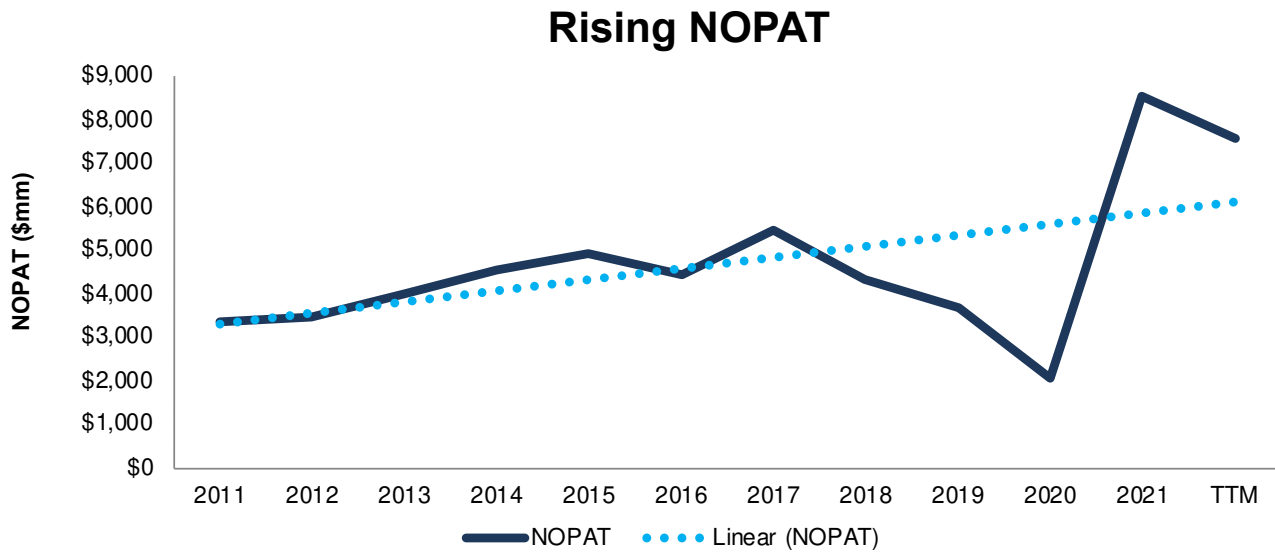
LyondellBasell Industries NV (LYB) is the featured stock in October's Safest Dividend Yields Model Portfolio.

Though LyondellBasell operates in a cyclical industry, the company's profits have trended higher over the long term. In fact, net operating profit after-tax ([NOPAT](#)) has grown by 8% compounded annually since 2011. See Figure 1. The company has improved its operating efficiency during this time, too. LyondellBasell's NOPAT margin has risen from 7% in 2011 to 14% over the trailing twelve months (TTM), while return on invested capital ([ROIC](#)) has risen from 17% to 20% over the same time.

<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: LyondellBasell's Revenue & NOPAT Since 2011**



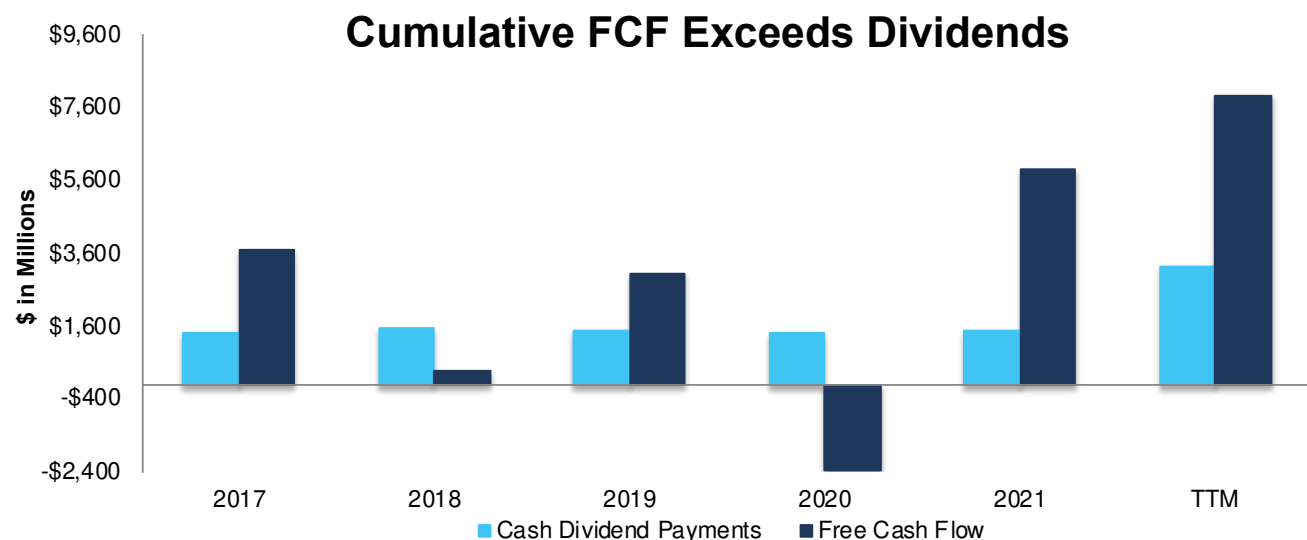
Sources: New Constructs, LLC and company filings

### Free Cash Flow Supports Regular Dividend Payments

LyondellBasell has increased its regular dividend from \$3.55/share in 2017 to \$4.44/share in 2021. The current quarterly dividend, when annualized, provides a 5.8% dividend yield.

More importantly, LyondellBasell's free cash flow (FCF) exceeds its regular dividend payments. From 2017 to 2021, LyondellBasell generated \$10.7 billion (25% of current [enterprise value](#)) in FCF while paying \$7.3 billion in dividends. Over the TTM, LyondellBasell has generated \$7.9 billion in FCF and paid out \$3.2 billion in FCF. See Figure 2.

**Figure 2: LyondellBasell's FCF vs. Regular Dividends Since 2017**



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 are less dependable since the company may not be able to sustain paying dividends.

## LYB Is Undervalued

At its current price of \$82/share, LyondellBasell has a price-to-economic book value ([PEBV](#)) ratio of 0.3. This ratio means the market expects LyondellBasell's NOPAT to permanently decline by 70%. This expectation seems overly pessimistic given that LyondellBasell has grown NOPAT by 10% compounded annually since 2016 and 8% compounded annually since 2011.

Even if LyondellBasell's NOPAT margin falls to 12% (ten-year average vs. 14% over the TTM) and revenue falls by 3% compounded annually over the next decade, the stock would be worth \$150+/share today – an 83% upside. [See the math behind this reverse DCF scenario](#). In this scenario, LyondellBasell's NOPAT would fall 7% compounded annually through 2031. 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 LyondellBasell's 10-Ks and 10-Qs:

**Income Statement:** we made \$3.4 billion in adjustments with a net effect of removing \$2.9 billion in [non-operating expenses](#) (6% of revenue). Clients can see all adjustments made to LyondellBasell's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

**Balance Sheet:** we made \$8.2 billion in adjustments to calculate invested capital with a net increase of \$5.2 billion. The most notable adjustment was \$2.5 billion (8% of reported net assets) in [total reserves](#). See all adjustments made to LyondellBasell's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

**Valuation:** we made \$16.0 billion in adjustments, all of which decreased shareholder value. Apart from [total debt](#), one of the most notable adjustments to shareholder value was \$2.3 billion in [deferred tax liabilities](#). This adjustment represents 8% of LyondellBasell's market value. See all adjustments to LyondellBasell's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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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, 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](#).



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