



## Featured Stock in December’s Dividend Growth Model Portfolio

Four new stocks made December’s [Dividend Growth Stocks Model Portfolio](#), which was made available to members on December 29, 2022.

### Recap From November’s Picks

On a price return basis, our Dividend Growth Stocks Model Portfolio (-3.8%) outperformed the S&P 500 (-6.4%) by 2.6%, and on a total return basis, the Model Portfolio (-3.5%) outperformed the S&P 500 (-6.0%) by 2.5%. The best-performing stock outperformed the S&P 500 by 10%. Overall, 20 out of 30 Dividend Growth Stocks outperformed the S&P 500 from November 30, 2022 to December 27, 2022.

[Buy the Dividend Growth Stocks Model Portfolio](#)

This Model Portfolio mimics an “All Cap Blend” style with a focus on dividend growth. Selected stocks earn an [Attractive or Very Attractive rating](#), generate positive free cash flow (FCF) and [economic earnings](#), offer a current dividend yield >1%, and have a 5+ year track record of consecutive dividend growth. This Model Portfolio is designed for investors who favor long-term capital appreciation over current income, but still appreciate the power of growing dividends.

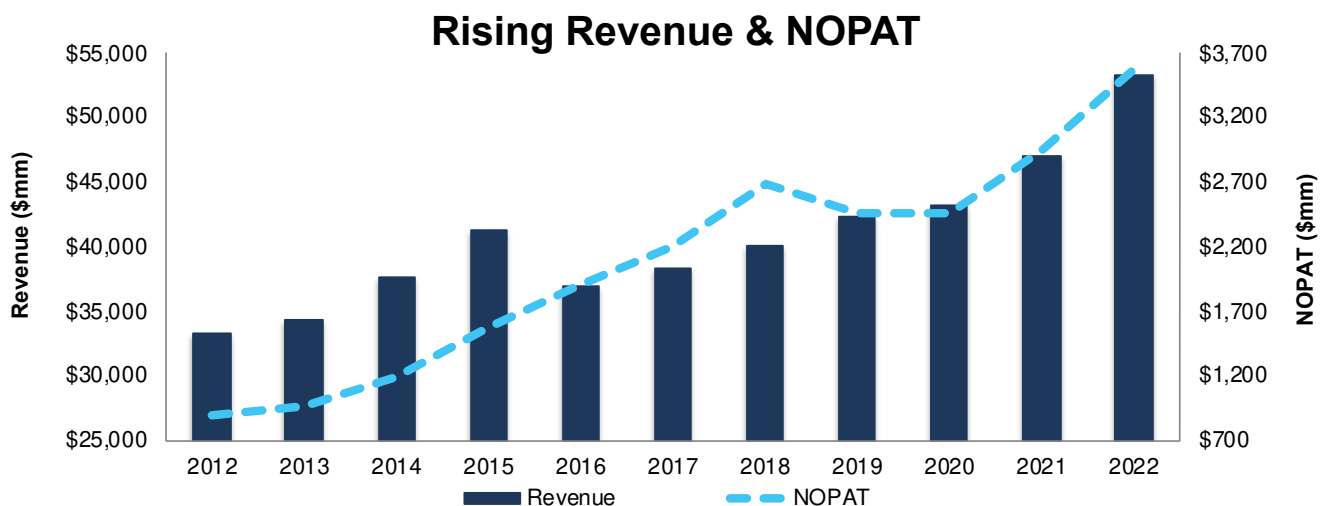
This report leverages our cutting-edge [Robo-Analyst technology](#) to deliver [proven-superior](#)<sup>1</sup> fundamental research and support more cost-effective fulfillment of the [fiduciary duty of care](#).

### December’s Featured Stock: Tyson Foods, Inc. (TSN: \$64/share)

Tyson Foods, Inc. (TSN) is the featured stock from December’s Dividend Growth Stocks Model Portfolio. We made TSN a [Long Idea](#) on [October 12, 2022](#). Since then, the stock is down 2% vs. a 4% gain for the S&P 500.

Tyson has grown revenue by 5% compounded annually and net operating profit after-tax (NOPAT) by 15% compounded annually over the past decade. The company’s NOPAT margin rose from 3% in fiscal 2012 (FYE 9/29/12) to 7% in fiscal 2022, while return on invested capital (ROIC) rose from 8% to 11% over the same time.

Figure 1: Tyson’s Revenue and NOPAT Since 2012



Sources: New Constructs, LLC and company filings

<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](#).

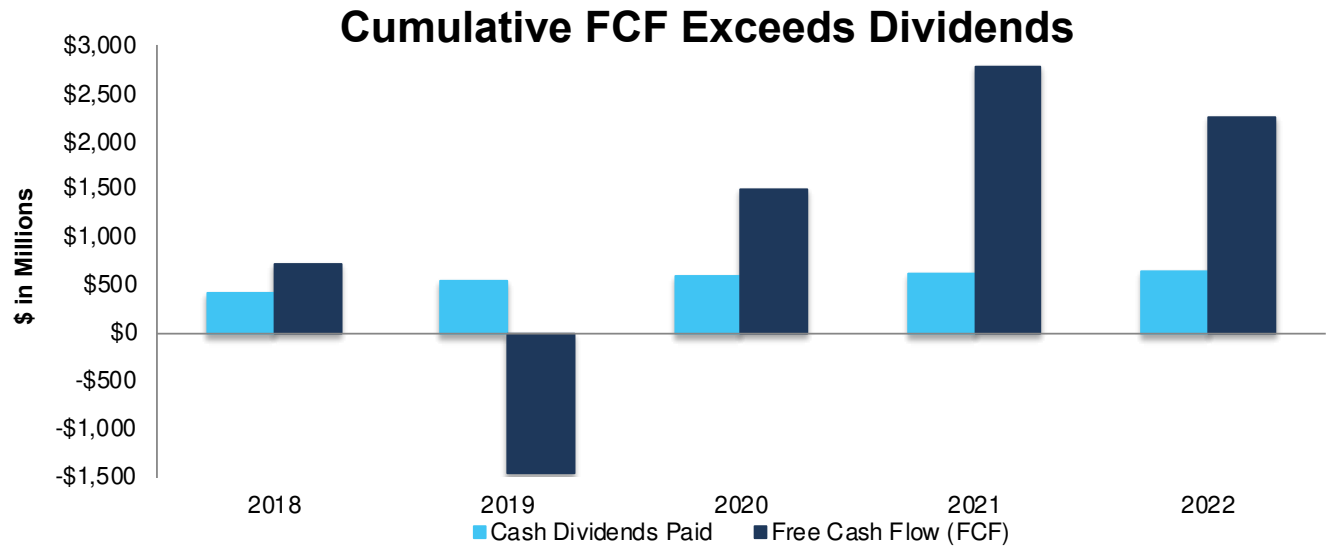


### FCF Exceeds Dividends by a Wide Margin

Tyson has increased its Class A dividend in each of the past [11 years](#). The company increased its Class A dividend from \$1.28/share in fiscal 2018 to \$1.86/share in fiscal 2022, or 10% compounded annually. The current quarterly Class A dividend, when annualized, equals \$1.92/share and provides a 3.0% dividend yield.

More importantly, Tyson’s strong free cash flow ([FCF](#)) easily exceeds the company’s growing dividend payments. From fiscal 2018 – 2022, Tyson’s cumulative \$5.8 billion (17% of [enterprise value](#)) in FCF is 2x the \$2.9 billion paid out in dividends, per Figure 2.

**Figure 2: Free Cash Flow vs. Dividend Payments**



Sources: New Constructs, LLC and company filings

Companies with FCF well above dividend payments provide higher-quality dividend growth opportunities because we know the company generates the cash to support a higher dividend. On the other hand, dividends that exceed FCF cannot be trusted to grow or even be maintained.

### Tyson Has Upside Potential

At its current price of \$64/share, TSN has a price-to-economic book value ([PEBV](#)) ratio of 0.4. This means the market expects Tyson’s NOPAT to permanently decline by 60%. This expectation seems overly pessimistic for a company that has grown NOPAT by 10% compounded annually over the past five years and 15% compounded annually over the past 10 years.

Even if Tyson’s NOPAT margin falls to 5% (vs. 7% in fiscal 2022) and the company grows revenue by just 1% compounded annually for the next 10 years, the stock would be worth \$100/share today – a 56% upside. In this scenario, Tyson’s NOPAT would fall 2% compounded annually over the next decade. [See the math behind the reverse DCF scenario.](#)

Should the company grow NOPAT more in line with historical growth rates, the stock has even more upside. Add in Tyson’s 3.0% dividend yield and a history of dividend growth, and it’s clear why this stock is in December’s Dividend Growth Stocks Model Portfolio.

### Critical Details Found in Financial Filings by Our [Robo-Analyst Technology](#)

Below are specific adjustments we made based on Robo-Analyst findings in Tyson’s 10-Ks and 10-Qs:

Income Statement: We made \$694 million in adjustments with a net effect of removing \$301 million in [non-operating expenses](#) (1% of revenue). Clients can see all adjustments made to Tyson’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: We made \$9.3 billion in adjustments to calculate invested capital with a net increase of \$2.5 billion. The most notable adjustment was \$4.9 billion (16% of reported net assets) in [deferred tax assets](#). Clients



can see all adjustments made to Tyson's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: We made \$11.9 billion in adjustments with a net decrease to shareholder value of \$11.2 billion. Apart from [total debt](#), the most notable adjustment to shareholder value was \$2.5 billion in [deferred tax liabilities](#). This adjustment represents 11% of Tyson's market value. Clients can see all adjustments to Tyson'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 Italo Mendonça 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” can overcome these flaws and provides [materially superior](#) fundamental data.
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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