Featured Stocks in April's Most Attractive/Most Dangerous Model Portfolios

Eighteen new stocks made our Most Attractive list this month, while ten new stocks joined the Most Dangerous list. We published April's Most Attractive and Most Dangerous stocks to members on April 5, 2023.

March Performance Recap

Our Most Attractive Stocks (-6.4%) underperformed the S&P 500 (+3.6%) last month by 10.0%. The best performing large cap stock gained 10% and the best performing small cap stock was up 15%. Overall, 10 out of the 40 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (-3.9%) outperformed the S&P 500 (+3.6%) as a short portfolio last month by 7.5%. The best performing large cap short stock fell by 25% and the best performing small cap short stock fell by 47%. Overall, 31 out of the 36 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios underperformed as an equal-weighted long/short portfolio by 2.5%.

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.

All of our Most Attractive stocks have high (and rising) return on invested capital (ROIC) and low price to economic book value ratio. Most Dangerous stocks have misleading earnings and long growth appreciation periods implied by their market valuations.

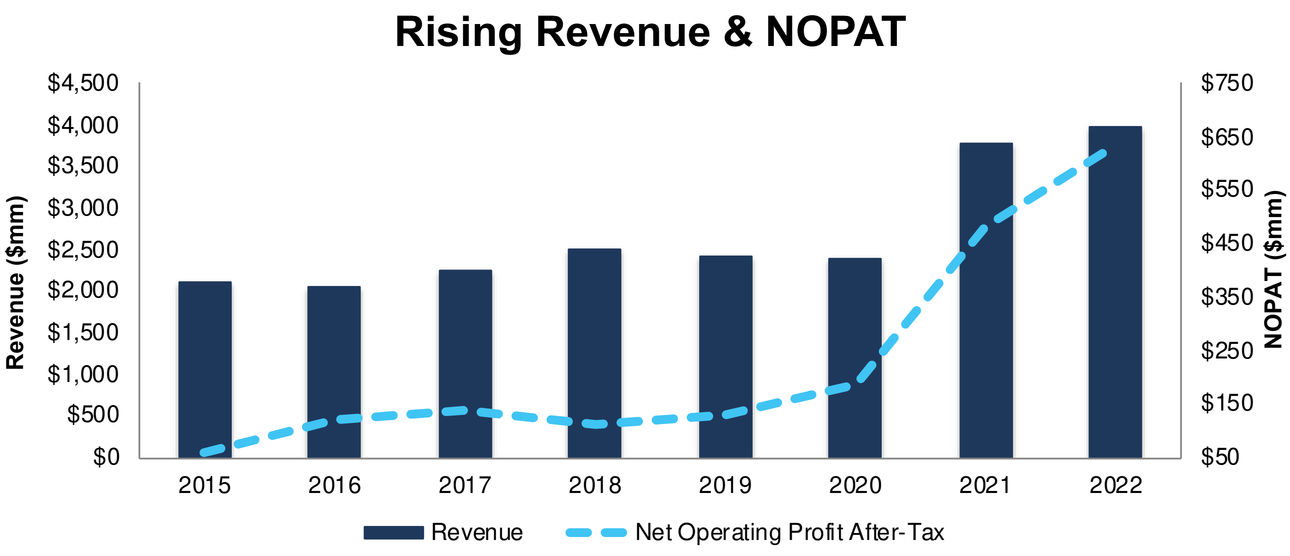
Most Attractive Stocks Feature for April: Mueller Industries, Inc. (MLI: $69/share)

Mueller Industries is the featured stock from April's Most Attractive Stocks Model Portfolio.

Mueller Industries has grown revenue by 12% compounded annually and net operating profit after tax (NOPAT) by 36% compounded annually since 2017. Mueller's NOPAT margin increased from 6% in 2017 to 16% in 2022, while invested capital turns increased from 1.8 to 2.3 over the same time. Rising NOPAT margins and invested capital turns drive Mueller Industries' return on invested capital (ROIC) from 11% in 2017 to 36% in 2022.

[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.

Figure 1: Mueller Industries Revenue and NOPAT Since 2015



Sources: New Constructs, LLC and company filings

Mueller Industries Is Undervalued

At its current price of $69/share, MLI has a price-to-economic book value (PEBV) ratio of 0.5. This ratio means the market expects Mueller Industries' NOPAT to permanently decline by 50%. This expectation seems overly pessimistic for a company that has grown NOPAT by 36% compounded annually since 2017 and 22% compounded annually since 2012.

Even if Mueller Industries' NOPAT margin falls to 9% (from a three-year average of 12%) and the company grows revenue by just 6% compounded annually for the next decade, the stock would be worth $103/share today – a 49% upside. In this scenario, Mueller Industries' NOPAT would be effectively unchanged over the next ten years. See the math behind this reverse DCF scenario. Should Mueller Industries grow profits more in line with historical levels, the stock has even more upside.

Critical Details Found in Financial Filings by Our Robo-Analyst Technology

Below are specifics on the adjustments we made based on Robo-Analyst findings in Mueller Industries' 10-Qs and 10-Ks:

Income Statement: we made $62 million in adjustments, with a net effect of removing $21 million in non-operating income (<1% of revenue). Clients can see all adjustments made to Mueller Industries' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made $842 million in adjustments to calculate invested capital with a net decrease of $246 million. One of the most notable adjustments was $148 million in adjustments for total reserves. This adjustment represents 8% of reported net assets. Clients can see all adjustments made to Mueller Industries' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made $552 million in adjustments, with a net increase of $412 million. The most notable adjustment was $480 million in excess cash. This adjustment represents 12% of Mueller Industries' market value. Clients can see all adjustments to Mueller Industries' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

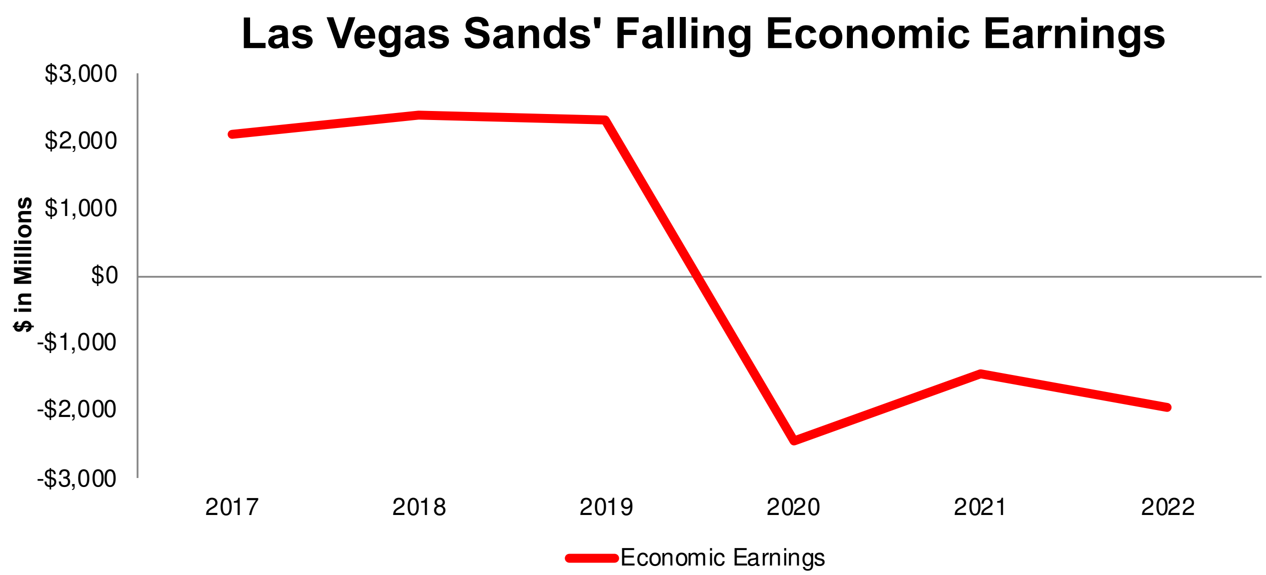
Most Dangerous Stocks Feature: Las Vegas Sands Corp (LVS: $57/share)

Las Vegas Sands Corp (LVS) is the featured stock from April's Most Dangerous Stocks Model Portfolio.

Las Vegas Sands' revenue, NOPAT margin, and ROIC have yet to recover from the impact of the COVID pandemic. Las Vegas Sands' revenue fell 20% compounded annually from 2017 to 2022. Over the same time, Las Vegas Sands' NOPAT margin fell from 25% to -19%, while invested capital turns fell from 0.8 to 0.3. Falling

NOPAT margins and invested capital turns drive Las Vegas Sands' ROIC from 20% in 2017 to -5% in 2022. Since 2017, Las Vegas Sands' economic earnings fell from $2.1 billion to -$1.9 billion in 2022. See Figure 2.

Figure 2: Las Vegas Sands Economic Earnings Since 2017



Sources: New Constructs, LLC and company filings

Las Vegas Sands Provides Poor Risk/Reward

Despite its poor fundamentals, Las Vegas Sands' stock is priced for significant profit growth, and we believe the stock is overvalued.

To justify its current price of $57/share, Las Vegas Sands must improve its NOPAT margin to 25% (compared to -19% in 2022) and grow revenue by 18% compounded annually for the next 10 years. See the math behind this reverse DCF scenario. In this scenario, Las Vegas Sands' NOPAT in 2032 would equal $5.4 billion, or 1.4x higher than the company's previous record NOPAT of $3.8 billion in 2014. We think these expectations are overly optimistic.

Even if Las Vegas Sands improves its NOPAT margin to 15% and grows revenue by 10% compounded annually for the next decade, the stock would be worth no more than $9/share today – an 84% downside to the current stock price. See the math behind this reverse DCF scenario.

Each of these scenarios also assumes Las Vegas Sands can grow revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is unlikely but allows us to create best case scenarios that demonstrate the high expectations embedded in the current valuation.

Critical Details Found in Financial Filings by Our Robo-Analyst Technology

Below are specifics on the adjustments we made based on Robo-Analyst findings in Las Vegas Sands' 10-Qs and 10-Ks:

Income Statement: we made $4.4 billion in adjustments, with a net effect of removing $2.6 billion in non-operating income (63% of revenue). Clients can see all adjustments made to Las Vegas Sands' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made $9 billion in adjustments to calculate invested capital with a net decrease of $2.7 billion. One of the most notable adjustments was $1.1 billion in asset write-downs. This adjustment represented 6% of reported net assets. Clients can see all adjustments made to Las Vegas Sands' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made $21.0 billion in adjustments, with a net decrease to shareholder value of $10 billion. Apart from total debt, the most notable adjustment to shareholder value was $225 million in the fair value of minority interests. This adjustment represents 1% of Las Vegas Sands' market value. Clients can see all adjustments to Las Vegas Sands' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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Disclosure: David Trainer, Kyle Guske II, and Italo Mendonça receive no compensation to write about any specific stock, style, or theme.

Questions on this report or others? Join our Society of Intelligent Investors and connect with us directly.

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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