



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

Four new stocks made July's [Safest Dividend Yields Model Portfolio](#), which was made available to members on July 20, 2023.

### Recap from June's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+6.3%) outperformed the S&P 500 (+4.1%) by 2.2% from June 22, 2023 through July 18, 2023. On a total return basis, the Model Portfolio (+6.5%) outperformed the S&P 500 (+4.1%) by 2.4% over the same time. The best performing large-cap stock was up 22%, and the best performing small-cap stock was up 15%. Overall, 11 out of the 20 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from June 22, 2023 through July 18, 2023.

[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 ([FCF](#)) and [economic earnings](#), and offer a dividend yield greater than 3%. Companies with strong free cash flow provide higher quality and safer dividend yields because strong FCF supports the dividend. We think this portfolio provides a uniquely well-screened group of stocks that can help clients outperform.

### Featured Stock for July: OneMain Holdings Inc. (OMF: \$45/share)

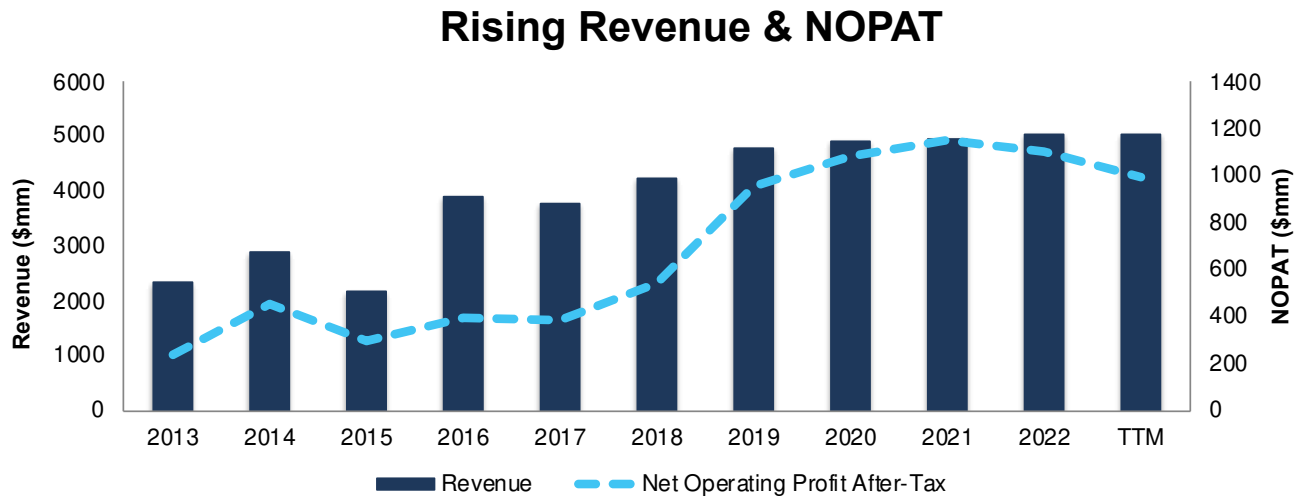
OneMain Holdings Inc. (OMF) is the featured stock in July's Safest Dividend Yields Model Portfolio.

Since 2013, OneMain Holdings has grown revenue by 9% compounded annually and net operating profit after tax ([NOPAT](#)) by 17% compounded annually. OneMain Holdings' NOPAT margin improved from 10% in 2013 to 20% over the trailing-twelve-months (TTM). An increase in NOPAT margins is enough to offset a slight decline in [invested capital turns](#) and help drive the company's return on invested capital ([ROIC](#)) from 10% in 2013 to 18% over the TTM.

<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: OneMain Holdings' Revenue & NOPAT Since 2013**



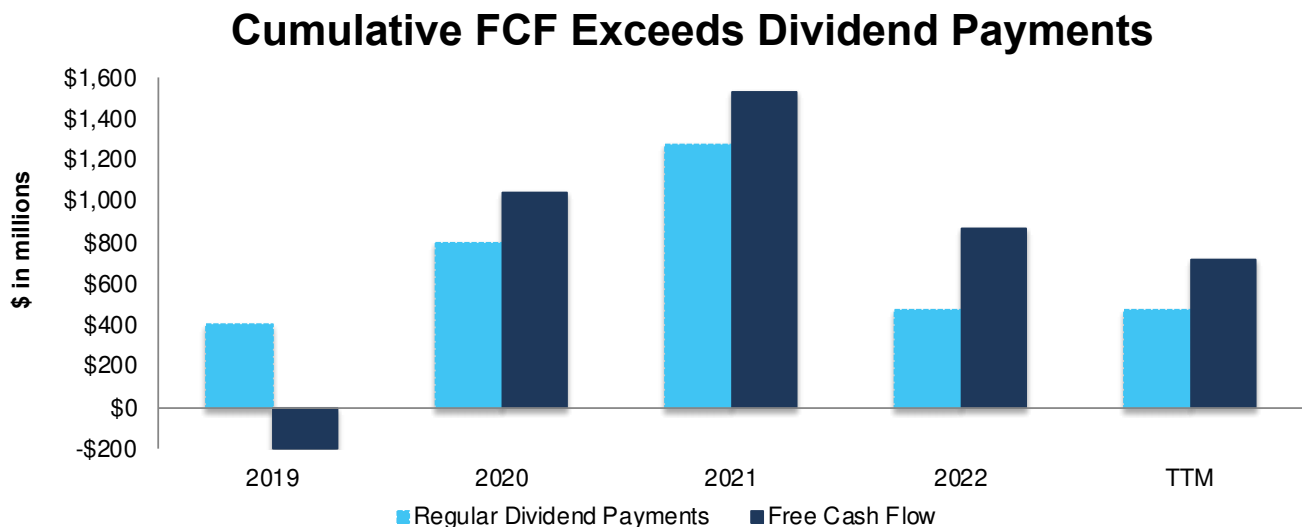
Sources: New Constructs, LLC and company filings

### Free Cash Flow Exceeds Regular Dividend Payments

OneMain Holdings has increased its regular dividend from \$0.25/share in 1Q19 to \$1.00/share in 3Q23. The current quarterly dividend, when annualized, equals \$4.00/share and provides an 8.9% dividend yield.

More importantly, OneMain Holdings' free cash flow (FCF) easily exceeds its regular dividend payments. From 2019 to 1Q23, OneMain Holdings generated \$3.5 billion (63% of current [enterprise value](#)) in FCF while paying \$3.1 billion in dividends. See Figure 2.

**Figure 2: OneMain Holdings' FCF Vs. Regular Dividends Since 2019**



Sources: New Constructs, LLC and company filings

As Figure 2 shows, OneMain Holdings' regular dividends are backed by a history of reliable cash flows. Dividends from companies with low or negative FCF are less dependable since the company may not be able to sustain paying dividends.

### OMF Is Undervalued

At its current price of \$45/share, OneMain Holdings has a price-to-economic book value (PEBV) ratio of 0.6. This ratio means the market expects OneMain Holdings' NOPAT to permanently fall 40% from TTM levels. This



expectation seems overly pessimistic given that OneMain Holdings has grown NOPAT by 20% compounded annually since 2017 and 17% compounded annually since 2013.

Even if OneMain Holdings' NOPAT margin falls to 17% (vs. 20% in the TTM) and the company's revenue declines by 2% compounded annually for the next decade, the stock would be worth \$58+/share today – a 29% upside. [See the math behind this reverse DCF scenario](#). In this scenario, OneMain's NOPAT would decline 5% compounded annually through 2032. 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 OneMain Holdings' 10-K and 10-Qs:

**Income Statement:** we made \$262 million in adjustments with a net effect of removing \$226 million in [non-operating expenses](#) (4% of revenue). Clients can see all adjustments made to OneMain Holdings' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

**Balance Sheet:** we made \$3 billion in adjustments to calculate invested capital with a net increase of \$1.9 billion. The most notable adjustment was \$2.3 billion (63% of reported net assets) in [total reserves](#). See all adjustments made to OneMain Holdings' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

**Valuation:** we made \$188 million in adjustments, with a net increase of \$182 million in shareholder value. The most notable adjustment to shareholder value was \$185 million in [total debt](#). This adjustment represents 3% of OneMain Holdings' market value. See all adjustments to OneMain Holdings' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

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*Disclosure: David Trainer, Kyle Guske II, Italo Mendonça, and Hakan Salt 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, 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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