



## Featured Stocks in October's Most Attractive/Most Dangerous Model Portfolios

9 new stocks made our Most Attractive list this month, while 6 new stocks joined the Most Dangerous list. We published October's Most Attractive and Most Dangerous stocks to members on October 4, 2023.

### September Performance Recap

Our Most Attractive Stocks (-1.3%) outperformed the S&P 500 (-3.7%) last month by 2.4%. The best performing large cap stock gained 9% and the best performing small cap stock was up 11%. Overall, 33 out of the 40 Most Attractive stocks outperformed the S&P 500.

Our Most Dangerous Stocks (-6.2%) outperformed the S&P 500 (-3.7%) as a short portfolio last month by 2.5%. The best performing large cap short stock fell by 21% and the best performing small cap short stock fell by 20%. Overall, 22 out of the 33 Most Dangerous stocks outperformed the S&P 500 as shorts.

The Most Attractive/Most Dangerous Model Portfolios outperformed as an equal-weighted long/short portfolio by 4.9%.

[Buy the Most Attractive Stocks Model Portfolio](#)

[Buy the Most Dangerous Stocks 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](#).

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 October: Photronics Inc. (PLAB)

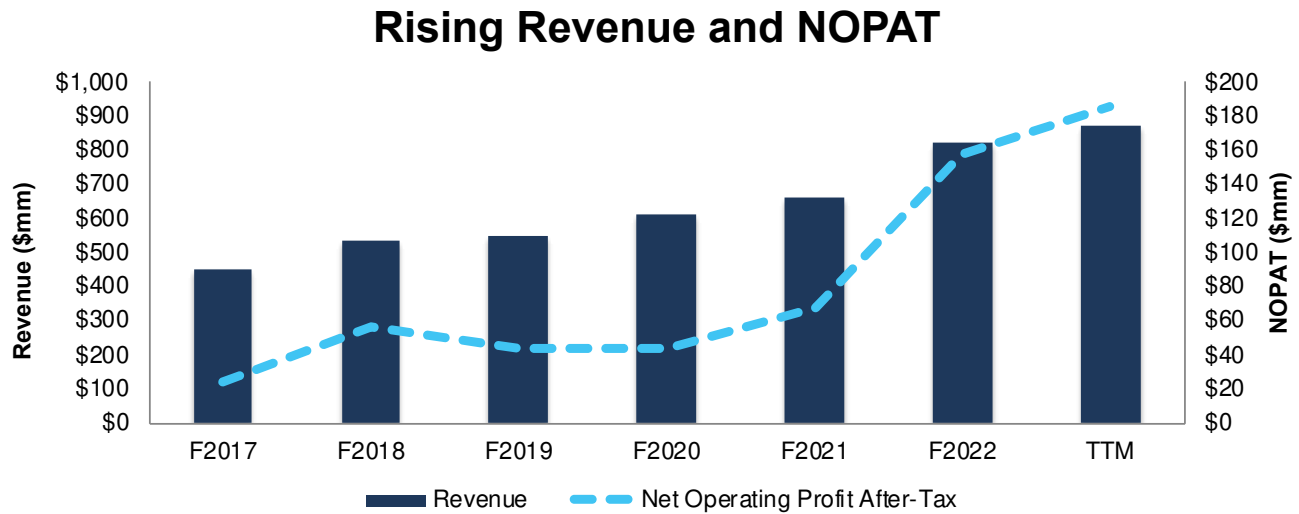
Photronics Inc. (PLAB: \$21/share) is the featured stock from October's [Most Attractive Stocks Model Portfolio](#).

Photronics has grown revenue by 12% compounded annually and net operating profit after tax ([NOPAT](#)) by 42% compounded annually since fiscal 2017. Photronics' NOPAT margin increased from 5% in fiscal 2017 to 21% in the trailing twelve months (TTM), and [invested capital turns](#) rose from 0.5 to 0.7 over the same time. Rising NOPAT margins and invested capital turns drive Photronics' return on invested capital ([ROIC](#)) from 3% in fiscal 2017 to 15% in 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: Photonics' Revenue and NOPAT Since Fiscal 2017**



Sources: New Constructs, LLC and company filings

### Photonics Is Undervalued

At its current price of \$21/share, PLAB has a price-to-economic book value ([PEBV](#)) ratio of 0.7. This ratio means the market expects Photonics' NOPAT to permanently decline by 30%. This expectation seems overly pessimistic for a company that has grown NOPAT by 42% compounded annually since fiscal 2017 and 10% compounded annually since fiscal 2011.

Even if Photonics' NOPAT margin falls to 14% (below the three-year average and 19% over the TTM) and the company's revenue grows just 6% (lower than five-year average of 12% and TTM YoY growth of 10%) compounded annually through fiscal 2032, the stock would be worth [\\$25/share](#) today— a 21% upside. Should Photonics 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 Photonics' 10-Qs and 10-Ks:

**Income Statement:** we made \$97 million in adjustments, with a net effect of removing \$38 million in [non-operating expenses](#) (4% of revenue). Clients can see all adjustments made to Photonics' income statement on the GAAP Reconciliation tab on the Ratings page on our website.

**Balance Sheet:** we made \$808 million in adjustments to calculate invested capital with a net increase of \$93 million. One of the most notable adjustments was \$272 million in adjustments for [asset write-downs](#). This adjustment represents 24% of reported net assets. Clients can see all adjustments made to Photonics' balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

**Valuation:** we made \$758 million in adjustments, with a net increase in shareholder value of \$106 million. The most notable adjustment was \$291 million in [minority interests](#). This adjustment represents 22% of Photonics' market value. Clients can see all adjustments to Photonics' valuation on the GAAP Reconciliation tab on the Ratings page on our website.

### Most Dangerous Stocks Feature: Rogers Corporation (ROG)

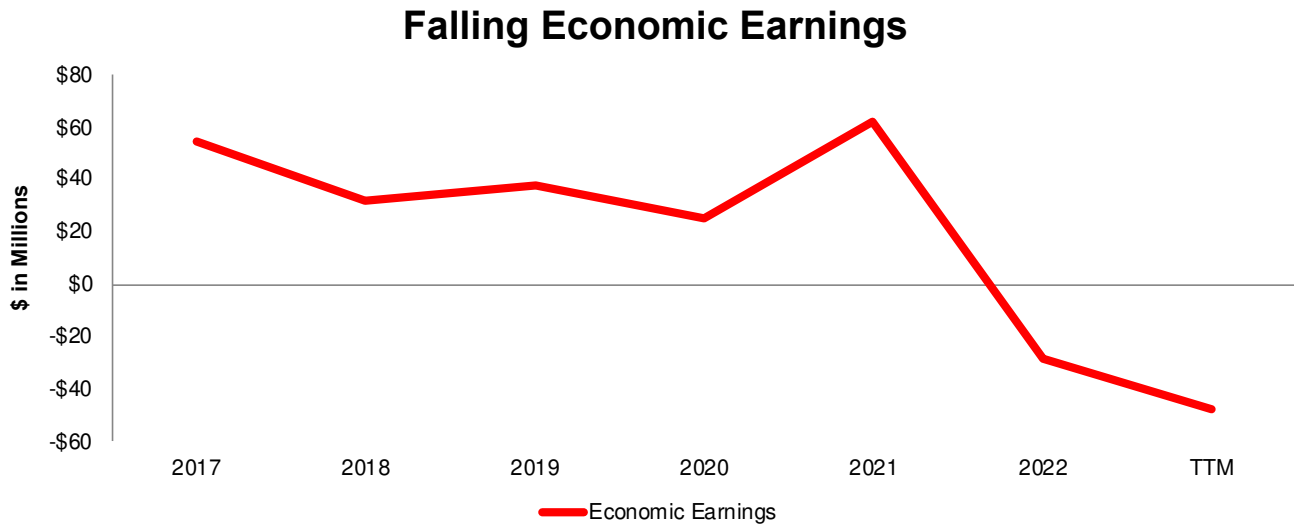
Rogers Corporation (ROG: \$130/share) is the featured stock from October's [Most Dangerous Stocks Model Portfolio](#).

Rogers Corporation's NOPAT has fallen from \$104 million in 2017 to \$52 million over the TTM. NOPAT margin has fallen from 13% in 2017 to 5% in the TTM, while invested capital turns fell from 0.8 to 0.6 over the same time. Falling NOPAT margins and invested capital turns drive Rogers Corporation's ROIC from 11% in 2017 to 4% over the TTM.



Rogers Corporation’s [economic earnings](#), the true cash flows of the business which take into account changes to the balance sheet, have fallen from \$55 million in 2017 to -\$47 million over the TTM.

**Figure 2: Rogers Corporation’s Economic Earnings Since 2017**



Sources: New Constructs, LLC and company filings

**ROG Provides Poor Risk/Reward**

Despite its poor fundamentals, Rogers Corporation’s stock is priced for significant profit growth, and we believe the stock is overvalued.

To justify its current price of \$130/share, Rogers Corporation must improve its NOPAT margin to 10% (up from 5% over the TTM) and grow revenue by 7% (vs. consensus of -0.4% in 2023 and 3% in 2024) compounded annually through 2032. In this [scenario](#), Rogers Corporation’s NOPAT would grow and 13% compounded annually and equal \$193 million in 2032, or nearly double its best ever NOPAT of \$107 million. We think these expectations look overly optimistic.

Even if Rogers Corporation improves its NOPAT margin to 7% and grows revenue 6% (above five-year average of 4%) compounded annually through 2032, the stock would be worth no more than [\\$83/share](#) today – a 36% downside to the current stock price.

Each of these scenarios also assumes Rogers Corporation 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 Rogers Corporation’s 10-Qs and 10-K:

**Income Statement:** we made \$240 million in adjustments, with a net effect of removing \$60 million in [non-operating income](#) (10% of revenue). Clients can see all adjustments made to Rogers Corporation’s income statement on the GAAP Reconciliation tab on the Ratings page on our website.

**Balance Sheet:** we made \$537 million in adjustments to calculate invested capital with a net decrease of \$91 million. One of the most notable adjustments was \$136 million in [asset write-downs](#). This adjustment represented 9% of reported net assets. Clients can see all adjustments made to Rogers Corporation’s balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

**Valuation:** we made \$242 million in adjustments to shareholder value with a net decrease of \$46 million. Apart from [total debt](#), the most notable adjustment to shareholder value was \$4 million in [over funded pensions](#). This adjustment represents <1% of Rogers Corporation’s market value. Clients can see all adjustments to Rogers Corporation’s valuation on the GAAP Reconciliation tab on the Ratings page on our website.



*This article was originally published on [October 13, 2023](#).*

*Disclosure: David Trainer, Kyle Guske II, Hakan Salt, 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, 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.