July 2024 Update with Featured Stock From our Safest Dividend Yields Model Portfolio

I'm back again to give you another free stock pick. Last week, we shared a free featured stock from our Exec Comp Aligned with ROIC Model Portfolio. In that letter, we came right out and addressed the elephant in the room: why would we give away something so valuable? The answers:

1. We genuinely believe in improving the integrity of the stock market.
2. We hope to get your business one day.

So with that out of the way, let's get to what we're giving you in this report: a stock that has been in the Safest Dividend Yields Model Portfolio for multiple months and is also in our Focus List Stocks: Long Model Portfolio.

The featured stock summary is an example of the research we do. It is not a full report, but we do think it is important that you're able to see stocks like this on a regular basis. We hope you come back, and we want you to see the extreme value we deliver.

Usually, when people give away things for free, it's because it's worthless to them. That's not the case here.

We usually charge $600 to $1,000 per month for access to stocks in these Model Portfolios.

We want to earn your trust. Out of the 18 stocks in the Model Portfolio this month, we chose HF Sinclair because of its connection with our Focus List: Long, the best-of-the-best of our Long Ideas.

Our write-up is below. We hope you enjoy it. We hope you find value. Please share with family and friends if you think it would be of interest.

As David shared in a recent training, dividends provide a safe haven in a volatile market, and the stocks in this Model Portfolio have some of the safest dividends in the market.

We update this Model Portfolio monthly, July's Safest Dividend Yields Model Portfolio, was updated and published for clients on July 19, 2024.

Recap from June's Picks

On a price return basis, our Safest Dividend Yields Model Portfolio (+6.6%) outperformed the S&P 500 (+1.5%) by 5.1% from June 18, 2024 through July 17, 2024. On a total return basis, the Model Portfolio (+7.0%) outperformed the S&P 500 (+1.9%) by 5.1% over the same time. The best performing large-cap stock was up 24%, and the best performing small-cap stock was up 19%. Overall, 8 out of the 18 Safest Dividend Yield stocks outperformed their respective benchmarks (S&P 500 and Russell 2000) from June 18, 2024 through July 17, 2024.

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.

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: HF Sinclair (DINO: $50/share)

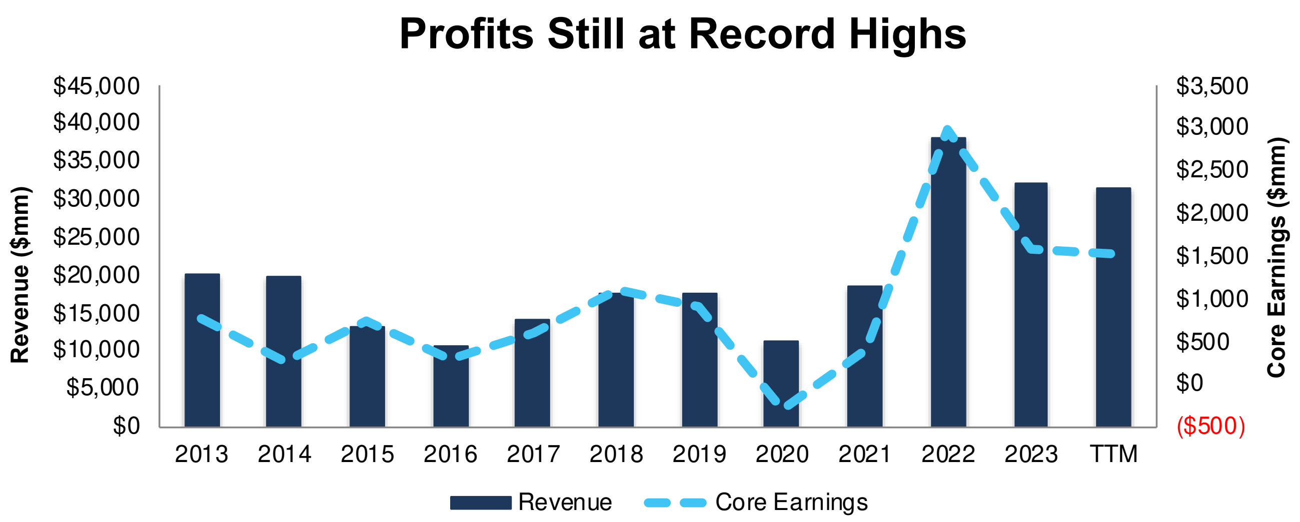
HF Sinclair (DINO) is the featured stock in July's Safest Dividend Yields Model Portfolio.

In the trailing-twelve-months (TTM) ended 1Q24, HF Sinclair's Core Earnings were $1.5 billion, which are higher than any annual period since 2013 excluding the record highs of 2022 and 2023.

[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.

Longer-term, HF Sinclair has grown revenue and Core Earnings by 4% and 7% compounded annually from 2013 through the TTM ended 1Q24. The company's net operating profit after-tax (NOPAT) margin and invested capital turns have fluctuated over the past five years, but HF Sinclair's return on invested capital (ROIC) improved from 9% in 2019 to 10% over the TTM.

Figure 1: HF Sinclair's Revenue & Core Earnings Since Fiscal 2013



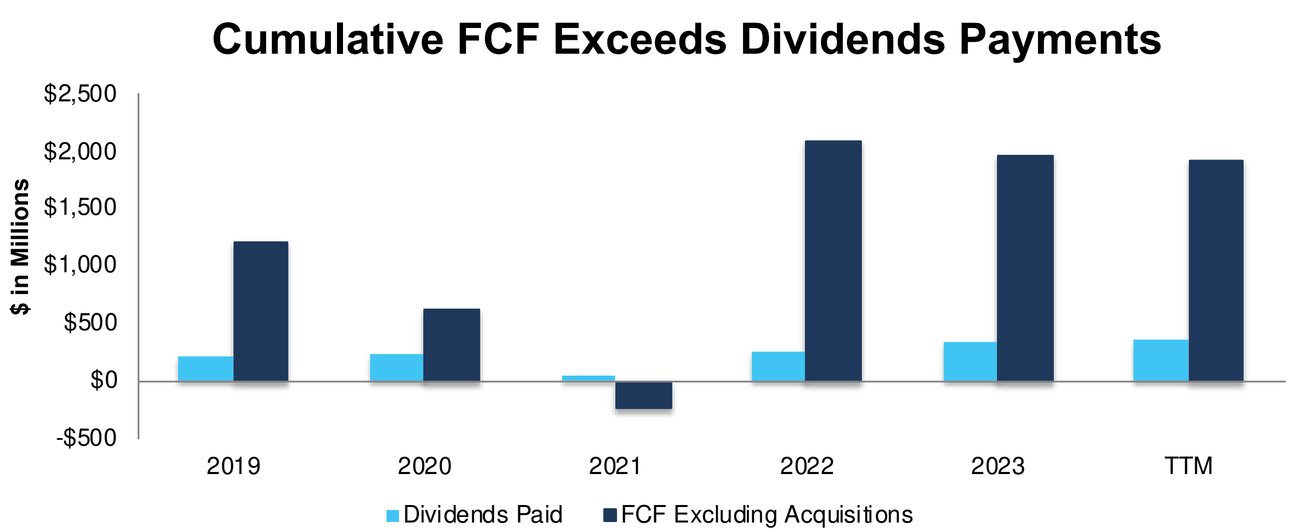
Sources: New Constructs, LLC and company filings

Free Cash Flow Exceeds Regular Dividend Payments

HF Sinclair has increased its regular dividend from $0.33/share in 2Q19 to $0.50/share in 2Q24. The current quarterly dividend, when annualized provides a 4.0% dividend yield.

HF Sinclair's free cash flow (FCF) excluding acquisitions easily exceeds its regular dividend payments. From 2019 through 1Q24, HF Sinclair generated $6.0 billion (43% of current enterprise value) in FCF excluding acquisitions while paying $1.2 billion in dividends. See Figure 2.

Figure 2: HF Sinclair's FCF Vs. Regular Dividends Since 2019



Sources: New Constructs, LLC and company filings

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

DINO Is Undervalued

At its current price of $50/share, HF Sinclair has a price-to-economic book value (PEBV) ratio of 0.5. This ratio means the market expects HF Sinclair's NOPAT to fall 50% from TTM levels. This expectation seems overly pessimistic given that HF Sinclair has grown NOPAT 6% and 7% compounded annually since 2018 and 2013, respectively.

Even if HF Sinclair's NOPAT margin falls to 4.5% (equal to 5-year average and below TTM margin of 5.4%) and the company's revenue falls 1% compounded annually for the next decade, the stock would be worth $72/share today – a 20% upside. See the math behind this reverse DCF scenario. In this scenario, HF Sinclair's NOPAT falls 5% compounded annually through 2033. 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 HF Sinclair's 10-K and 10-Q:

Income Statement: we made nearly $800 million in adjustments with a net effect of removing nearly $500 million in non-operating expenses. Clients can see all adjustments made to HF Sinclair's income statement on the GAAP Reconciliation tab on the Ratings page on our website.

Balance Sheet: we made over $1.5 billion in adjustments to calculate invested capital with a net increase of over $1.4 billion. The most notable adjustment was for asset write-downs. See all adjustments made to HF Sinclair's balance sheet on the GAAP Reconciliation tab on the Ratings page on our website.

Valuation: we made over $4.5 billion in adjustments, all of which decreased shareholder value. Apart from total debt, the most notable adjustment to shareholder value was for deferred tax liabilities. See all adjustments to HF Sinclair's valuation on the GAAP Reconciliation tab on the Ratings page on our website.

This article was originally published on *July 29, 2024*.

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

Questions on this report or others? Join our online community and connect with us directly.

It's Official: We Deliver 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. The stock market is missing footnotes – and only we have that critical data.
2. Legacy fundamental datasets suffer from significant inaccuracies, omissions, and biases.
3. Our proprietary drives novel alpha. Our measures of Core Earnings and Earnings Distortion materially improve stock picking and forecasting of profits.

Best Fundamental Data in the World

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

Ernst & Young 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 Harvard Business School. 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.

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 June 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 June 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 June 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 June 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 June have issued, and June 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 June 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.