

AlphaScreens: the market according to GARP

27 March 2025

Market moves making valuations more tempting

Growth at a reasonable price, or GARP, has proved a reliable strategy that has previously generated market-beating returns. Our GARP screen looks at both past rates of growth and analysts' forecasts, which can smooth out expectations. We're also checking revenue growth expectations as the system is likely to work better when companies are expanding sales.

The same health warning applies to our UK large-cap GARP screen as when we last ran it: ignore water utility **Severn Trent (SVT)**: it gets in on the strength of forecast earnings recovery based largely on analysts' belief that the worst of a hike in the cost of inflation indexed-linked debt is behind it. This is a business that needs to make vast capital investments to stand still, so isn't a profit growth play.

By contrast, **NatWest (NWG)** does fit the bill as a company delivering earnings growth at a reasonable price. When Robin Hardy [analysed the bank](#) in depth for us, he concluded that there was plenty to like: pointing out the higher net interest margins (NIM) and [stronger structural hedges](#) mean NatWest's profits are looking more sustainable. Robin argued that high returns well above the weighted average cost of capital (WACC) should keep the share price rising, too. Although there remains the usual caveat around UK banks that they are risky and highly cyclical (exposure to the stuttering UK economy is a factor to temper optimism), on a three-year view making a double-digit percentage total return isn't out of the question.

When it comes to growth at a reasonable price, however, the most interesting stories could be in the United States. Thanks to the market volatility sparked by President Trump's tariff policies, and worries about the moats of US tech companies given Chinese technological wins, US valuations have been getting less expensive. Whether themes like the AI growth boom are now fair value is still [up for discussion](#), but companies like **Nvidia (NVDA)** are priced now on less stratospheric multiples of their next 12 months' forward earnings (now c.26x in its case).

There are also a few companies with mid-teens fwd PEs and double-digit earnings growth forecasts, which could make them an attractive option. One has to factor in that any US recession would be bad for the impressive earnings forecast for cruise operator Royal Caribbean (**US:RCL**), but if those fears turn out to be overblown (or the grey dollar proves resilient anyway) then this is a company well priced relative to its profit outlook.

Earnings growth forecasts are more conservative for companies with exposure to insurance, probably with good reason given the frictional risks that affect the sector. Some of the US banks may also see trading revenue affected by trade frictions and any related disconnect in financial markets.

March 2025 GARP results

UK large-cap GARP screen (passing at least 7 out of 9 tests)

Name	Ticker	Share price (p)	Mkt cap (£mn)	Fwd 12-mth PE	2-yr fwd PEG	PEG (Neff)	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (£mn)	Tests passed	Tests failed
Severn Trent	SVT	2430	7295	14.9	0.4	2.0	4.9%	27%	58%	-4%	238.1	8	/5-yr EPS grwth/
NatWest	NWG	463	37329	7.9	0.8	0.5	4.6%	5%	13%	16%	-	7	/Y-o-Y EPS grwth/EPS grwth next 2 yrs/

Source: Investors' Chronicle and FactSet

UK small-cap GARP screen (passing at least 7 out of 9 tests)

Name	Ticker	Share price (p)	Mkt cap (£mn)	NTM PE	2-yr fwd PEG	PEG (Neff)	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (£mn)	Tests passed	Tests failed
Eurocell	ECEL	157	159	7.4	0.2	0.4	3.9%	41.6%	20.4%	-8.7%	-60.7	8	/NI or Asset TO/

Source: Investors' Chronicle and FactSet

UK Aim GARP screen (passing at least 7 out of 9 tests tests)

Name	Ticker	Share price (p)	Mkt cap (£mn)	NTM PE	2-yr fwd PEG	PEG (Neff)	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (£mn)	Tests passed	Tests failed
System1	SYS1	590	75	17.7	0.4	0.3	0.8%	68.3%	24.5%	-4.8%	2.2	8	/NI or Asset TO/
Sylvania Platinum	SLP	53	138	10.4	0.2	0.3	3.3%	64.3%	52.9%	29.3%	49.7	7	/EPS grwth/NI or Asset TO/
Knights Group	KGH	139	119	5.3	0.4	0.6	3.3%	12.1%	12.8%	25.9%	-25.1	7	/Net debt to Ebitda/NI or Asset TO/
Restore	RST	235	322	10.3	0.6	1.2	2.5%	17.5%	14.3%	-2.1%	-58.9	7	/Net debt to Ebitda/NI or Asset TO/
Filtronic	FTC	113	247	33.6	0.8	0.1	0.0%	252.5%	-39.5%	46.8%	-3.7	7	/EPS grwth/No cut to EPS fc/

Source: Investors' Chronicle and FactSet

US GARP screen (passing at least 8 out of 9 tests)

Name	Ticker	Share price (\$)	Mkt cap (\$mn)	Fwd 12-mth PE	2-yr fwd PEG	PEG (Neff)	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (\$mn)	Tests passed	Tests failed
Eli Lilly	LLY	852	808019	34.6	0.6	1.9	0.6%	77%	27%	7%	-24953.4	9	/
NVIDIA	NVDA	121	2944836	25.6	0.6	0.7	0.0%	50%	27%	-14%	25163.0	8	/5-yr EPS grwth/
Morgan Stanley	MS	125	201930	14.1	1.4	1.3	2.8%	9%	10%	-1%	-	8	/2-yr fwd PEG/
Molina Healthcare	MOH	311	16986	12.3	1.0	1.2	0.0%	8%	14%	5%	-	8	/No fc EPS downgrade/
Goldman Sachs	GS	586	182105	12.4	1.0	1.0	2.0%	14%	10%	1%	-	8	/Y-o-Y EPS grwth/
Charles Schwab	SCHW	81	146446	18.2	0.6	1.6	1.2%	30%	21%	8%	-	8	/5-yr EPS grwth/
Amphenol Class A	APH	69	84158	29.2	1.5	2.1	0.8%	21%	14%	-3%	-748.4	8	/2-yr fwd PEG/
Royal Caribbean	RCL	225	60559	14.5	0.6	1.6	0.4%	26%	18%	-6%	-9429.0	8	/5-yr EPS grwth/
BlackRock	BLK	973	151136	19.9	1.6	2.1	2.1%	9%	14%	-8%	-	8	/2-yr fwd PEG/
HCA Healthcare	HCA	336	82838	13.2	0.9	0.9	0.8%	14%	12%	10%	-13156.0	8	/Y-o-Y EPS grwth/
American Express	AXP	279	196203	17.7	1.4	1.7	1.0%	9%	15%	-8%	-	8	/2-yr fwd PEG/
ResMed	RMD	221	32500	21.7	1.3	1.4	0.9%	23%	10%	-5%	-330.0	8	/2-yr fwd PEG/
Hartford Insurance	HIG	121	34663	10.5	0.9	0.8	1.6%	9%	13%	10%	-	8	/No fc EPS downgrade/
O'Reilly Automotive	ORLY	1375	78733	30.2	2.7	2.1	0.0%	9%	12%	13%	-8153.3	8	/2-yr fwd PEG/
Microsoft	MSFT	395	2937612	27.3	2.1	2.1	0.8%	11%	14%	-10%	-37327.0	8	/2-yr fwd PEG/
Globe Life	GL	130	10813	9.3	0.8	0.8	0.7%	11%	11%	17%	-	8	/5-yr sales grwth/
Marsh & McLennan	MMC	237	116211	24.1	2.3	1.6	1.3%	10%	10%	11%	-	8	/2-yr fwd PEG/

Source: Investors' Chronicle and FactSet

GARP criteria for US mega/large-caps, UK large-caps, UK mid-caps

Blended PEG ratio: historic price/earnings (PE) ratio divided by a combination of the blended past/expected earnings growth rate and dividend yield. The

earnings growth rate is calculated based on the average of the five-year historic growth rate and the average forecast growth over the next two years.

Fwd PEG: The PE in the numerator is the ratio of current share price to expected earnings per share one year ahead of the current unreported year. The growth rate in the denominator is the compound annual growth rate between last reported earnings and the expected earnings at the end of the period. A figure below one suggests that a company is cheaply valued relative to its expected earnings growth.

Screening criteria (US, UK large and mid-cap):

- **Compulsory test:** PEG ratio below the median average of the respective universe (see below).
- **Compulsory test:** past five-year compound annual growth rate (CAGR) for sales averaged with two-year forecast sales CAGR to be above five per cent and the forward sales CAGR to be above five per cent on its own.
- A two-year forward PEG below one.
- A five-year historic EPS compound annual growth rate above 7.5 per cent, but below 20 per cent (i.e. high, but sustainably so).
- A five-year historic revenue compound annual growth rate above 5 per cent (i.e. sales growth underpinning earnings growth).
- Year-on-year EPS growth in each of the past two half-year periods. (**Quarterly periods for the US stocks.**)
- Average forecast EPS growth of more than 7.5 per cent for the next two financial years.
- No downgrade to forecast sales growth over the past three months.
- No downgrade to forecast EPS over the past three months.

All stocks must pass the historic PEG test to feature in the table. While the primary ranking of the stocks is based on the number of tests they pass, inside each of these groupings, stocks are ordered according to their attractiveness based on a combination of PEG and three-month price momentum.

GARP criteria for UK small-cap and Aim-listed stocks

The small-cap screen uses a PEG based on the historic PE ratio and average forecast growth for the next two financial years. The screening criteria are:

- A PEG ratio in the bottom half of all stocks screened. **Compulsory test.**
- **Compulsory test:** past five year compound annual growth rate (CAGR) for sales averaged with two-year forecast sales CAGR to be above 7.5 per cent and the forward sales CAGR to be above 7.6 per cent on its own.
- **Compulsory test:** No downgrade to forecast sales growth over the past three months.
- A two-year forward PEG below one.
- EPS growth forecast above at least 7.5 per cent for each of the next two financial years and an average growth rate over the period of more than 10 per cent and less than 50 per cent (i.e. high, but sustainably so).
- Either a net income margin above 10 per cent or a net income margin above 7.5 per cent and asset turnover of at least two. (i.e. we're looking for indicators of a quality business that may have a sustainable advantage).
- Either three-month share price momentum better than the median average or earnings upgrades of 10 per cent or more over the past three months (i.e. recent reasons to feel positive).
- Net debt of less than 1.5 times cash profits.
- No downgrade to forecast EPS over the past three months.

While the primary ranking of the stocks is based on the number of tests they pass, inside each of these groupings, stocks are ordered according to their attractiveness based on a combination of PEG and three-month sales growth forecasts.

Universe:

For the **US** we screen from the S&P 500 index

For the **UK main market** we start with all companies with a market cap of over £35mn and then split them as follows:

UK large-cap: The top 85 per cent of our list of main market companies by market cap.

UK mid-cap: Companies not in the top 85 per cent by size but above £250mn in market cap

UK small-cap: Companies between £35mn and £250mn market cap.

For **Aim-listed** shares we screen from companies bigger than £35mn market cap.

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ISSN 0261-3115.