

AlphaScreens: the market according to GARP

27 August 2024

Waiting on Nvidia and room for further Aim gains

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.

With **Nvidia (US:NVDA)** due to report its results on 28 August, the US market is on tenterhooks as demand for chips is seen as a bellwether for the whole AI revolution - the pace of adoption is what many investors have been pinning their hopes on for growth in several industries. With this in mind, it's important to read our growth at a reasonable price (GARP) screen results cautiously. Should Nvidia beat expectations and send a positive signal about medium-term growth, that should be bullish for it and the wider US market. Should it disappoint, or sow any seeds of doubt, then the tech companies that score well on our screen may face some revisionary pressures.

On the UK screen, insurer **Aviva (AV.)** leads the way, having had a [good past 12 months](#) implementing its slimmed-down strategy and focus. Management has affirmed its guidance out to 2026 but it still seems something of a stretch to classify this as a growth stock.

Also ranking well on the UK large-cap screen is miner **Antofagasta (ANTO)**, although the near-term growth outlook for profits could be tempered somewhat by [capex commitments](#). Longer-term, the focus on gold and copper is a structurally good place to be, although investors could leave it a while longer to see what the support level is for a share price that has been trending down in recent months.

On our Aim screen is topped by **Gaming Realms (Aim:GMR)**, which creates and licenses mobile phone games. In its trading update at the end of July the company announced revenue and adjusted Ebitda growth of 18 and 21 per cent, respectively, for H1 2024. Although it's important to note that the adjusted Ebitda figures are calculated before share-based payments. Growth has been largely fuelled by the popular Slingo (combination of slots and bingo) gambling games.

Also riding high are two Simon Thompson Alpha picks: banknote and authentication technology specialist [Spectra Systems \(Aim:SPSY\)](#) and pharmaceutical contract research organisation [hVIVO \(Aim:HVO\)](#). Both stocks have enjoyed earnings upgrade momentum in recent months and the undemanding valuations for the growth on offer chime with Simon's assessments of room for further gains.

August 2024 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
Aviva	AV	496	13278	9.7	0.6	0.9	6.9%	17%	12%	3%	-	7	/5-yr EPS grwth/Y-o-Y EPS grwth/
JD Sports Fashion	JD	149	7736	10.7	0.9	0.8	0.6%	7%	15%	23%	-843.8	7	/Y-o-Y EPS grwth/EPG grwth next 2 yrs/
Antofagasta	ANTO	1878	18514	24.7	0.9	1.8	1.4%	5%	46%	-17%	1193.7	7	/Y-o-Y EPS grwth/EPG grwth next 2 yrs/

Source: Investors' Chronicle and FactSet

UK mid-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
Alpha Group Int'l.	ALPH	2580	1096	16.5	0.3	0.2	0.6%	97%	8%	8%	-	8	/5-yr EPS grwth/
Spire Healthcare	SPI	254	1029	18.3	0.4	0.3	0.8%	34%	46%	0%	-268.0	8	/5-yr EPS grwth/
Sabre Insurance	SBRE	154	385	9.0	0.1	0.6	1.1%	111%	19%	-11%	-	7	/5-yr EPS grwth/5-yr sales grwth/
Atalaya Mining	ATYM	387	545	7.2	0.1	0.5	2.6%	37%	130%	-7%	-14.4	7	/5-yr EPS grwth/Y-o-Y EPS grwth/

Source: Investors' Chronicle and FactSet

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

Name	Ticker	Share Price (last close)	Mkt cap (£mn)	NTM PE	2-yr 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
Secure Trust Bank	STB	886	169	3.6	0.1	0.1	3.1%	46.6%	36.1%	9.9%	-	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 (last close)	Mkt cap (£mn)	NTM PE	2-yr 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
Gaming Realms	GMR	40	118	13.2	0.6	0.6	0.0%	17.3%	30.4%	4.8%	4.0	9	n/a
Spectra Systems	SPSY	253	114	10.5	0.1	0.9	3.6%	27.7%	110.2%	3.3%	0.0	8	/EPS grwth/
hVIVO	HVO	29	200	17.4	1.0	0.5	0.7%	200%	13.3%	10.8%	1.8	8	/2-yr fwd PEG/
Filtronix	FTC	74	162	28.1	0.7	0.6	0.0%	82.6%	10.3%	32.1%	-1.0	8	/No cut to EPS fc/
System1	SYS1	780	99	28.6	0.5	1.0	0.6%	46.7%	40.6%	75.3%	1.2	8	/NI or Asset TO/
Serabi Gold	SRB	69	52	2.8	0.0	0.1	0.0%	147.7%	67.7%	13.1%	-2.3	8	/EPS grwth/

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
Meta Platforms Class A	META	521	1138506	22.5	0.8	1.2	0.2%	43%	14%	9%	31176.0	9	/
Hartford Financial Services	HIG	113	33116	10.2	0.7	0.7	1.6%	14%	13%	12%	-	9	/
Corpay	CPAY	301	20892	14.3	0.9	1.7	0.0%	12%	17%	12%	-4295.3	9	/
First Solar	FSLR	233	24962	12.6	0.2	0.4	0.0%	75%	57%	-16%	-24.0	8	/5-yr EPS grwth/
Progressive	PGR	242	141995	19.0	0.4	0.7	0.5%	100%	3%	19%	-	8	/EPS grwth next 2 yrs/
Nvidia	NVDA	126	3110916	37.9	0.5	0.9	0.0%	108%	36%	19%	16215.0	8	/5-yr EPS grwth/
HCA Healthcare	HCA	389	100262	16.3	1.1	1.1	0.6%	18%	11%	22%	-13366.0	8	/2-yr fwd PEG/
W.R. Berkley	WRB	58	22186	13.7	0.9	0.8	0.5%	23%	6%	10%	-	8	/EPS grwth next 2 yrs/
Universal Health Services Class B	UHS	233	13857	13.9	0.4	0.8	0.3%	51%	11%	32%	-2020.4	8	/5-yr EPS grwth/
Netflix	NFLX	688	295454	31.9	0.8	1.2	0.0%	59%	20%	6%	-3482.1	8	/5-yr EPS grwth/
Morgan Stanley	MS	102	165556	13.8	0.6	1.1	3.3%	35%	10%	3%	-	8	/5-yr EPS grwth/
Alphabet Class C	GOOG	168	1911420	20.2	0.9	1.2	0.1%	32%	13%	-5%	22812.0	8	/5-yr EPS grwth/
Alphabet Class A	GOOGL	166	1911420	20.0	0.9	1.2	0.1%	32%	13%	-5%	22812.0	8	/5-yr EPS grwth/
Goldman Sachs	GS	508	160385	12.7	0.3	0.8	2.2%	62%	14%	10%	-	8	/5-yr EPS grwth/
Garmin	GRMN	180	34508	27.8	2.7	1.7	1.6%	8%	12%	10%	601.8	8	/2-yr fwd PEG/
Lam Research	LRXC	819	107065	21.9	0.8	1.8	10%	18%	29%	-16%	1509.4	8	/Y-o-Y EPS grwth/
Amazon.com	AMZN	176	1841972	32.1	0.7	1.4	0.0%	62%	25%	-3%	-68585.0	8	/5-yr EPS grwth/
Mastercard Class A	MA	469	429607	29.6	1.7	2.0	0.5%	17%	16%	4%	-8202.0	8	/2-yr fwd PEG/
Globe Life	GL	102	9177	8.0	0.7	0.6	0.9%	12%	10%	25%	-	8	/5-yr sales grwth/
SLB	SLB	46	64745	11.7	0.6	0.9	2.3%	17%	18%	-1%	-8406.0	8	/5-yr sales grwth/
Westinghouse Air Brake Tech	WAB	165	28946	20.4	1.0	2.0	0.4%	26%	12%	-3%	-3052.0	8	/2-yr fwd PEG/
ResMed	RMD	226	33186	24.4	1.7	1.6	0.9%	17%	10%	6%	-672.3	8	/2-yr fwd PEG/
Global Payments	GPN	110	28090	8.8	0.7	1.8	0.9%	12%	13%	7%	-7042.2	8	/5-yr EPS grwth/
Cigna	CI	354	98944	11.5	0.9	2.0	1.5%	14%	12%	6%	-	8	/Y-o-Y EPS grwth/
Fiserv	FI	170	97787	17.6	1.0	1.8	0.0%	16%	16%	13%	-35006.0	8	/2-yr fwd PEG/
Visa Class A	V	268	448030	24.5	1.9	2.1	0.7%	13%	12%	-2%	-3111.0	8	/2-yr fwd PEG/
Marsh & McLennan	MMC	224	110330	24.2	2.6	1.7	1.3%	10%	9%	8%	-	8	/2-yr fwd PEG/
Automatic Data Processing	ADP	271	110655	26.7	2.7	2.1	2.0%	9%	9%	9%	-41782.6	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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