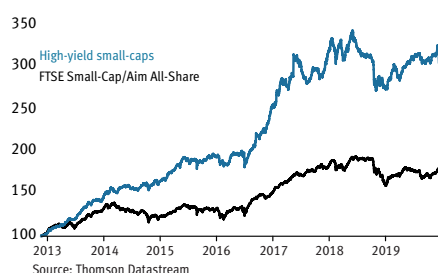




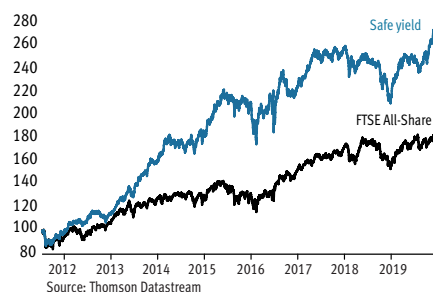
AlphaScreens: Finding dividend diamonds

Dividends are an important source of returns and also a useful valuation measure that can be used to identify shares with the potential for capital growth. But it's important to screen out potential value traps when using yield as a guide

High-yield small-caps



Safe yields (large-caps)



Algy Hall's view:

Investors neglect dividends at their peril. Over the 25 years to the end of 2019, the average annual return from the FTSE All-Share based on share price alone stood at 4.15 per cent, compared with a 7.4 per cent total return once dividends are factored in. And the benefit of reinvesting dividends over the long term makes the difference even more pronounced, with the 25-year cumulative total return from the FTSE All-Share standing at 497 per cent, compared with 176 per cent ignoring dividends. As well as providing income, a good yield can suggest a company has attractive qualities that could support share price performance, and a robust dividend record can indicate a company in good financial health with a strong and stable business.

Foreword by Alpha Editor:

- Oil giant **BP (BP.)** cutting its dividend is the latest blow to UK income investors and the dividend crisis is further reflected in some basket case results for our dividend yield screen this month.
- Motor and bridge finance firm **S&U (SUS)** tops our FTSE All-Share screen as the only company to score full marks. The company has shown firm commitment to rewarding its shareholders in the past and talks up recovery in the auto finance market and how its prudent treasury management is helping it weather the current crisis. Its half-year trading update next week will be one to watch for investors eyeing the 7.5 per cent dividend yield.
- Many investment trusts score comparatively well on the screen, but investors need to examine the extent to which they may be paying dividends out of capital, which isn't sustainable long term. Some have managed reserves well.
- Our Aim screen, which only requires a dividend yield in the top third of the index, isn't topped by an income stock at all. **Gamma Communications (GAMA)**, on 0.7 per cent yield, passes other tests too, but the fact it ranks so highly, says a great deal about the state of play for income hunters.

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Large-cap dividend diamonds criteria

Our large-cap screen is tilted towards companies that show signs of having stable prospects associated with dividend staying power. To help assess this, we use a measure of historic share price volatility against the wider market called beta. Betas of below one indicate that a stock has been less sensitive to market movements and suggest it could boast some defensive qualities. The large-cap Alpha dividend yield screen is conducted on all FTSE All-Share stocks using the following criteria:

- A dividend yield higher than the median (mid-rank) average of all dividend-paying shares screened.
- Dividend covered at least twice by earnings.
- Earnings growth forecast in each of the next two financial years (ie dividend cover is not expected to dramatically fall).
- Operating cash conversion of 100 per cent or more (ie earnings are being tuned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (ie interest payments on borrowings are not likely to be a significant threat to maintaining dividend cover).
- Return on equity of 12.5 per cent or more (i.e. an indicator that the business may be of decent quality [if the interest cover test is also met, it suggests high returns on equity are not overly dependent on high debt levels]).
- A beta of 0.75 or lower.
- No dividend cut in the past three years.

Not many stocks pass such a stringent list of criteria. The ones that pass all the tests are listed at the top of the table, followed by those failing one test, then those failing two tests as detailed in the 'Tests passed' column. All stocks must pass the dividend yield test to feature in the table that follows. Special dividends are included in the yield calculation used by the screen, and where a special dividend has been paid, it is highlighted in the table's 'Special dividend' column. 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 dividend yield and dividend cover.

Small-cap dividend diamonds criteria

The small-cap Alpha dividend yield screen is more growth-focused than our large-cap screen, and is conducted separately on the FTSE All-Small and FTSE Aim All-Share indices, with the results presented in two separate tables. While the screen's dividend yield test is more aggressive than the one used by our large-cap screen, the lower average yields from small-caps mean little difference in the absolute level of yield both screens require. The screen uses the following criteria:

- A dividend yield among the top third of all dividend-paying shares screened.
- Dividend covered at least one-and-a-half times by earnings.
- Earnings growth forecast in each of the next two financial years and average growth of 5 per cent or more (ie rising earnings to support dividend growth and maintain or improve dividend cover).
- Positive free cash flow (ie a weak test that earnings are turned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (ie interest payments on borrowings are not likely to be a significant threat to maintaining dividend cover).
- A three-year compound annual dividend growth rate of 5 per cent or more.
- A three-year compound annual earnings growth rate of 5 per cent or more.
- A market capitalisation of more than £10m (ie not severely illiquid).

Not many stocks pass such a stringent list of criteria. The ones that pass all the tests are listed at the top of the table that follows, followed by those failing one test, then those failing two tests as detailed in the 'Tests passed' column. All stocks must pass the dividend yield test to feature in the table. Special dividends are included in the yield calculation used by the screen, and where a special dividend has been paid this highlighted in the table's 'Special dividend' column. 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 their attractiveness based on a combination of dividend yield and dividend cover.

Stock screen methodology formulated and explained by Algy Hall

Large-cap dividend diamonds selection (passing at least 6 out of 8 tests)

Name	TIDM	Mkt Cap	Price	Fwd NTM PE	Dividend yield	EPS grth FY+1	EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
S&U	SUS	£194m	1,595p	6	7.5%	5.2%	8.7%	-2.7%	119m	GBP	na	No	8
Reach	RCH	£182m	61p	2	10.8%	-29.3%	7.4%	-22.6%	-20m	GBP	/FwdEPSGrth/	No	7
Temple Bar IT	TMPL	£469m	702p	-	7.3%	-	-	-5.5%	103m	GBP	/FwdEPSGrth/	No	7
Ferrexpo	FXPO	£1,045m	178p	6	8.8%	-43.1%	-22.2%	31.0%	212m	USD	/FwdEPSGrth/	No	7
Apax Global Alpha.	APAX	£781m	159p	-	6.0%	-	-	24.0%	-3m	EUR	/FwdEPSGrth/	No	7
Vistry Group	VTY	£1,365m	615p	7	9.4%	-40.4%	50.0%	-23.9%	-339m	GBP	/FwdEPSGrth/	No	7
Forterra	FORT	£355m	155p	16	7.4%	-80.3%	176.7%	-35.6%	57m	GBP	/FwdEPSGrth/	No	7
Morgan Sindall	MGNS	£480m	1,044p	9	5.7%	-41.3%	53.5%	-18.7%	-133m	GBP	/FwdEPSGrth/	No	7
CMC Markets	CMCX	£928m	321p	12	4.7%	2.1%	-44.0%	60.1%	-89m	GBP	/FwdEPSGrth/	No	7
Investec	INVP	£1,048m	151p	4	7.3%	99.4%	23.0%	-8.2%	5,102m	GBP	/DivGrth/IntCov/	No	6
Merchants Trust	MRCH	£399m	336p	-	8.1%	-	-	-13.3%	82m	GBP	/FwdEPSGrth/DivGrth/	No	6
Blackrock Latin AmericanIT	BRLA	£128m	326p	-	7.5%	-	-	15.2%	14m	USD	/FwdEPSGrth/EPsGrth/	No	6
Henderson High Inc. Trust	HHI	£174m	135p	-	7.3%	-	-	-3.6%	55m	GBP	/FwdEPSGrth/DivGrth/	No	6
Aviva	AV	£10,357m	264p	5	11.7%	-22.7%	16.3%	9.1%	-9,043m	GBP	/FwdEPSGrth/IntCov/	No	6
JPMorgan Claverhouse IT	JCH	£325m	554p	-	5.2%	-	-	-1.8%	-19m	GBP	/FwdEPSGrth/FCF/	No	6
Invesco Perpetual UK Sm. Cos IT	IPU	£132m	390p	-	4.8%	-	-	-8.9%	-5m	GBP	/FwdEPSGrth/DivGrth/	No	6
Dunedin Income Growth IT	DIG	£375m	253p	-	5.0%	-	-	0.4%	27m	GBP	/FwdEPSGrth/DivGrth/	No	6
Hostelworld	HSW	£69m	60p	-	6.3%	-	-	-21.6%	-13m	EUR	/FwdEPSGrth/DivGrth/	No	6
Blackrock World Mining Trust	BRWM	£701m	404p	-	5.4%	-	-	27.8%	89m	GBP	/FwdEPSGrth/EPsGrth/	No	6
NB Private Equity Partners Ltd Class A	NBPE	£389m	892p	-	4.9%	-	-	0.2%	108m	USD	/FwdEPSGrth/EPsGrth/	No	6
Impact Healthcare REIT	IHR	£322m	101p	15	6.1%	22.9%	17.8%	8.8%	-24m	GBP	/DivGrth/EPsGrth/	No	6
Paragon Banking	PAG	£806m	314p	9	4.5%	-35.0%	7.0%	-5.8%	5,212m	GBP	/FwdEPSGrth/IntCov/	No	6
Severfield	SFR	£183m	59p	10	4.9%	-25.5%	22.4%	-13.9%	-5m	GBP	/FwdEPSGrth/DivGrth/	No	6
PageGroup	PAGE	£1,150m	350p	25	4.9%	-85.9%	350.5%	-6.9%	31m	GBP	/FwdEPSGrth/DivGrth/	No	6
GlaxoSmithKline	GSK	£76,754m	1,530p	13	5.2%	-6.0%	2.5%	-7.9%	23,437m	GBP	/FwdEPSGrth/DivGrth/	No	6
Brewin Dolphin	BRW	£796m	263p	13	6.2%	-8.0%	5.4%	-4.2%	-88m	GBP	/FwdEPSGrth/DivCov/	No	6
Vitec Group	VTC	£298m	654p	18	6.0%	-84.7%	327.3%	-2.4%	96m	GBP	/FwdEPSGrth/DivCov/	No	6
Wm Morrison Supermarkets	MRW	£4,494m	187p	13	4.7%	6.0%	5.3%	2.1%	2,416m	GBP	/EPsGrth/IntCov/	No	6
North American Inc.Trust GBP Ord.Shs	NAIT	£320m	223p	-	4.3%	-	-	-11.9%	-3m	GBP	/FwdEPSGrth/EPsGrth/	No	6
XPS Pensions	XPS	£241m	118p	12	5.6%	3.9%	6.7%	7.3%	69m	GBP	/EPsGrth/DivCov/	No	6
Hollywood Bowl	BOWL	£213m	135p	14	5.5%	-76.7%	211.9%	-17.4%	191m	GBP	/FwdEPSGrth/DivCov/	No	6
RSA Insurance	RSA	£4,439m	429p	10	5.4%	2.7%	15.0%	18.8%	-63m	GBP	/DivCov/IntCov/	No	6
Rio Tinto	RIO	£57,535m	4,615p	12	6.5%	-14.4%	-12.6%	25.3%	6,352m	USD	/FwdEPSGrth/DivCov/	No	6

Source: FactSet

FTSE All-Small dividend diamonds selection (passing at least 6 out of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Dividend yield	EPS grth FY+1	EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
S&U	SUS	£194m	1,595p	6	7.5%	5.2%	8.7%	-2.7%	119m	GBP	na	No	8
Reach	RCH	£182m	61p	2	10.8%	-29.3%	7.4%	-22.6%	-20m	GBP	/FwdEPSGrth/	No	7
Forterra	FORT	£355m	155p	16	7.4%	-80.3%	176.7%	-35.6%	57m	GBP	/FwdEPSGrth/	No	7
Merchants Trust	MRCH	£399m	336p	-	8.1%	-	-	-13.3%	82m	GBP	/FwdEPSGrth/DivGrth/	No	6
Blackrock Latin American IT	BRLA	£128m	326p	-	7.5%	-	-	15.2%	14m	USD	/FwdEPSGrth/EPsGrth/	No	6
Henderson High Income Trust	HHI	£174m	135p	-	7.3%	-	-	-3.6%	55m	GBP	/FwdEPSGrth/DivGrth/	No	6
JPMorgan Claverhouse IT	JCH	£325m	554p	-	5.2%	-	-	-1.8%	-19m	GBP	/FwdEPSGrth/FCF/	No	6
Invesco Perpetual UK Sm.Coss IT	IPU	£132m	390p	-	4.8%	-	-	-8.9%	-5m	GBP	/FwdEPSGrth/DivGrth/	No	6
Hostelworld Group	HSW	£69m	60p	-	6.3%	-	-	-21.6%	-13m	EUR	/FwdEPSGrth/DivGrth/	No	6
Dunedin Income Growth IT	DIG	£375m	253p	-	5.0%	-	-	0.4%	27m	GBP	/FwdEPSGrth/DivGrth/	No	6
Impact Healthcare REIT	IHR	£322m	101p	15	6.1%	22.9%	17.8%	8.8%	-24m	GBP	/DivGrth/EPsGrth/	No	6
NB Private Eq. Partners Ltd Class A	NBPE	£389m	892p	-	4.9%	-	-	0.2%	108m	USD	/FwdEPSGrth/EPsGrth/	No	6
Severfield	SFR	£183m	59p	10	4.9%	-25.5%	22.4%	-13.9%	-5m	GBP	/FwdEPSGrth/DivGrth/	No	6
Vitec	VTC	£298m	654p	18	6.0%	-84.7%	327.3%	-2.4%	96m	GBP	/FwdEPSGrth/DivCov/	No	6
XPS Pensions	XPS	£241m	118p	12	5.6%	3.9%	6.7%	7.3%	69m	GBP	/EPsGrth/DivCov/	No	6
Hollywood Bowl	BOWL	£213m	135p	14	5.5%	-76.7%	211.9%	-17.4%	191m	GBP	/FwdEPSGrth/DivCov/	No	6
TClarke	CTO	£39m	90p	-	4.9%	-	-	-5.5%	-3m	GBP	/FwdEPSGrth/DivCov/	No	6

Source: FactSet

Aim dividend diamonds selection (passing at least 6 out of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Dividend yield	EPS grth FY+1	EPS grth FY+2	3-month Momentum	Net cash/debt (-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
Gamma Communications	GAMA	£1,500m	1,580p	31	0.7%	18.2%	11.5%	18.4%	-41m	GBP	na	No	8
Highland Gold Mining	HGM	£1,077m	296p	12	4.6%	-35.5%	-9.1%	24.2%	189m	USD	/FwdEPSGrth/	No	7
Polar Capital Holdings	POLR	£470m	477p	11	6.9%	0.2%	16.1%	19.3%	-141m	GBP	/DivCov/	No	7
Jarvis Securities	JIM	£71m	650p	13	4.8%	41.0%	2.8%	28.1%	-3m	GBP	/DivCov/	No	7
Belvoir Group	BLV	£49m	140p	9	2.4%	14.0%	6.1%	27.3%	7m	GBP	/DivGrth/	No	7
H&T Group	HAT	£126m	315p	6	1.5%	10.5%	4.5%	1.6%	38m	GBP	/DivGrth/	No	7
Trans-Siberian Gold	TSG	£91m	104p	6	3.5%	93.1%	44.3%	19.5%	12m	USD	/DivGrth/	No	7
Tandem Group	TND	£17m	340p	-	1.4%	-	-	119.4%	-2m	GBP	/FwdEPSGrth/	No	7
Anpario	ANP	£86m	370p	20	2.2%	-3.3%	6.4%	0.0%	-14m	GBP	/FwdEPSGrth/	No	7
Frenkel Topping	FEN	£32m	42p	20	3.2%	44.0%	27.8%	15.1%	-2m	GBP	/DivCov/	No	7
Advanced Medical Solutions	AMS	£413m	192p	27	0.8%	-52.6%	94.3%	-21.3%	-54m	GBP	/FwdEPSGrth/	No	7
Judges Scientific	JDG	£320m	5,100p	29	1.0%	-29.8%	22.3%	3.2%	5m	GBP	/FwdEPSGrth/	No	7
RWS Holdings	RWS	£1,659m	603p	27	1.5%	-6.0%	12.8%	12.1%	57m	GBP	/FwdEPSGrth/	No	7
Fevertree Drinks	FEVR	£2,546m	2,190p	48	0.7%	-27.0%	40.5%	25.9%	-127m	GBP	/FwdEPSGrth/	No	7
Impax Asset Management	IPX	£516m	396p	25	1.4%	13.9%	27.5%	8.9%	-14m	GBP	/DivCov/	No	7
Oxford Metrics	OMG	£94m	75p	13	2.4%	33.3%	35.8%	-24.6%	-9m	GBP	/DivCov/	No	7
STM Group	STM	£16m	26p	5	5.7%	-34.4%	67.6%	0.0%	-15m	GBP	/FwdEPSGrth/DivGrth/	No	6
Somero Enterprises	SOM	£132m	235p	-	8.7%	-	-	25.3%	-17m	USD	/FwdEPSGrth/DivCov/	No	6
Serica Energy	SQZ	£314m	117p	10	2.6%	-64.5%	83.5%	23.2%	-101m	GBP	/FwdEPSGrth/DivGrth/	No	6
Anglo Asian Mining	AAZ	£180m	157p	8	4.1%	39.9%	-2.9%	23.1%	-9m	USD	/FwdEPSGrth/DivGrth/	No	6
Sigma Capital	SGM	£81m	91p	9	2.2%	-22.1%	33.2%	4.0%	3m	GBP	/FwdEPSGrth/DivGrth/	No	6
Curtis Banks	CBP	£145m	220p	13	4.1%	-10.5%	-4.6%	-19.7%	-15m	GBP	/FwdEPSGrth/FCF/	No	6
SimplyBiz	SBIZ	£133m	138p	11	3.1%	-11.3%	11.0%	-16.7%	30m	GBP	/FwdEPSGrth/DivGrth/	No	6
Dewhurst Class A	DWHA	£56m	550p	-	2.4%	-	-	-2.2%	-13m	GBP	/FwdEPSGrth/EPSSGrth/	No	6
Amino Technologies	AMO	£106m	140p	12	5.2%	24.3%	14.0%	4.9%	-1m	USD	/EPSSGrth/DivCov/	No	6
Midwich	MIDW	£348m	393p	14	4.0%	-9.5%	19.3%	-15.5%	70m	GBP	/FwdEPSGrth/DivCov/	No	6
Solid State	SOLI	£51m	600p	-	2.1%	-	-	30.4%	-2m	GBP	/FwdEPSGrth/DivGrth/	No	6
Johnson Service	JSG	£413m	93p	29	1.2%	-	-	-25.0%	128m	GBP	/FwdEPSGrth/DivGrth/	No	6
HML Holdings	HMLH	£17m	37p	17	1.4%	-50.0%	-	52.1%	7m	GBP	/FwdEPSGrth/EPSSGrth/	No	6
CareTech Holdings	CTH	£480m	424p	9	2.8%	8.7%	15.3%	1.0%	373m	GBP	/EPSSGrth/IntCov/	No	6
Mind Gym	MIND	£90m	90p	18	1.0%	-5.9%	5.6%	-7.7%	-12m	GBP	/FwdEPSSGrth/DivGrth/	No	6
EMIS Group	EMIS	£633m	1,000p	20	3.1%	-7.6%	8.7%	-4.6%	-27m	GBP	/FwdEPSGrth/DivCov/	No	6
Concurrent Tech.	CNC	£87m	117p	20	2.1%	32.4%	-	15.8%	-10m	GBP	/FwdEPSGrth/IntCov/	No	6
Alliance Pharma	APH	£385m	73p	14	0.7%	-2.7%	11.1%	-4.0%	62m	GBP	/FwdEPSGrth/DivGrth/	No	6
Mpac Group	MPAC	£50m	250p	9	0.6%	-73.9%	302.8%	6.4%	-13m	GBP	/FwdEPSGrth/EPSSGrth/	No	6
Manolete Partners	MANO	£181m	415p	15	0.8%	45.2%	36.6%	-6.7%	-26m	GBP	/DivGrth/FCF/	No	6
Alpha Financial Mkts Consulting	AFM	£199m	189p	13	1.1%	0.7%	10.0%	3.6%	-18m	GBP	/DivGrth/EPSSGrth/	No	6
Uniphar	UPR	£517m	185p	-	0.3%	-	-	42.5%	66m	EUR	/FwdEPSGrth/DivGrth/	No	6
Keywords Studios	KWS	£1,395m	1,902p	41	0.0%	-9.0%	35.2%	19.4%	34m	EUR	/FwdEPSGrth/DivGrth/	No	6
Alpha FX Group	AFX	£325m	810p	27	0.9%	-9.7%	23.5%	10.2%	-70m	GBP	/FwdEPSGrth/DivGrth/	No	6
Best of the Best	BOTB	£148m	1,575p	23	0.2%	86.4%	-	258.0%	-5m	GBP	/FwdEPSGrth/IntCov/	No	6
Tristel	TSTL	£190m	413p	32	1.4%	11.0%	3.3%	-19.1%	0m	GBP	/DivGrth/EPSSGrth/	No	6
Clinigen Group	CLIN	£938m	706p	11	1.0%	17.0%	1.6%	-2.3%	322m	GBP	/DivGrth/EPSSGrth/	No	6
Renew Holdings	RNWH	£343m	436p	11	2.6%	-9.2%	11.9%	-3.5%	32m	GBP	/FwdEPSGrth/DivCov/	No	6
MTI Wireless Edge Ltd	MWE	£29m	33p	-	4.2%	-	-	-10.8%	-7m	USD	/FwdEPSGrth/DivCov/	No	6
AFH Financial Group	AFHP	£137m	318p	9	2.5%	-5.2%	15.3%	8.2%	16m	GBP	/FwdEPSGrth/DivCov/	No	6
Focusrite	TUNE	£418m	720p	28	0.5%	29.7%	-8.3%	34.6%	20m	GBP	/FwdEPSGrth/DivCov/	No	6
Cerillion	CER	£77m	260p	22	1.9%	-8.0%	13.5%	-6.1%	1m	GBP	/FwdEPSGrth/DivCov/	No	6
Franchise Brands	FRAN	£89m	93p	21	1.0%	-7.7%	22.8%	-10.6%	-3m	GBP	/FwdEPSGrth/DivCov/	No	6
Tatton Asset Mgm	TAM	£157m	280p	20	3.4%	11.8%	17.1%	6.1%	-12m	GBP	/DivGrth/DivCov/	No	6

Source: FactSet

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