



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)



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Algy Hall's view:

nvestors 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:

Sirius Real Estate (SRE), which focuses on German property still tops our FTSE All-Share dividend screen. Share price momentum has continued, and earnings growth forecasts are roughly where they were a month ago.
Entertainment group Hollywood Bowl (BOWL) also

Entertainment group **Hollywood Bowl (BOWL)** also gets top marks against our criteria.

■ The type of business should be a consideration when assessing tests failed. Comparison site **Moneysupermarket.com (MONY)** fails our strict dividend cover test, but as it has no long-term debt and requires little longterm capital expenditure, it can afford to pay out a higher proportion of its earnings.

■ The biggest companies don't tend to score well against our screen, and those that do could be flashing warning signals. For example, the market is clearly signalling scepticism about the sustainability of tobacco giant **Imperial Brands' (IMB)** dividend policy.

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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 largecap 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 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. investors alphα

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 dividendpaying 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)

	Market		Fwd NTM	Dividend	EPS grth	EPS grth	3-month	Net cash/		Test	Special	Tests passed
TIDM	сар	Price	PE	yield	FY+1	FY+2	momentum	debt (-)	Currency	Failed	dividend	(out of 8)
LSE:SRE	£947m	91p	21	3.3%	8.4%	10.9%	22.0%	-278m	EUR	na	NO	8
LSE:BOWL	£426m	284p	19	4.2%	4.5%	4.7%	12.8%	-2m	GBP	na	YES	8
LSE:APAX	£884m	180p	-	4.7%	-	-	7.5%	116m	EUR	/EPSGrth/	NO	7
LSE:MONY	£1,778m	331p	18	3.3%	5.0%	6.2%	-4.9%	-13m	GBP	/DivCov/	NO	7
LSE:TEP	£1,179m	1,506p	23	3.5%	9.0%	7.0%	21.8%	-41m	GBP	/DivCov/	NO	7
LSE:TBCG	£689m	1,250p	5	4.3%	9.6%	7.6%	-7.7%	-3,016m	GEL	/IntCov/CashConv/	NO	6
LSE:BDEV	£8,112m	799p	11	5.8%	2.6%	3.1%	29.7%	375m	GBP	/CashConv/Beta	YES	6
LSE:PAGE	£1,526m	481p	14	5.4%	-0.3%	3.8%	3.6%	-57m	GBP	/EPSGrth/Beta	YES	6
LSE:BOY	£1,643m	867p	16	4.5%	-7.3%	4.7%	7.5%	-112m	GBP	/EPSGrth/Beta	YES	6
LSE:SSE	£16,467m	1,602p	17	6.1%	15.4%	13.4%	28.0%	-9,936m	GBP	/DivCov/IntCov/	NO	6
LSE:PAY	£659m	975p	15	8.6%	2.1%	3.3%	6.6%	21m	GBP	/DivCov/DivGrth/	YES	6
LSE:SUS	£267m	2,200p	9	5.4%	4.0%	9.6%	8.5%	-126m	GBP	/IntCov/CashConv/	NO	6
LSE:WIN	£359m	290p	8	3.8%	3.8%	3.3%	14.8%	-139m	GBP	/RoE/CashConv/	NO	6
LSE:MNDI	£7,996m	1,650p	12	4.2%	-9.4%	-10.7%	-3.2%	-2,341m	EUR	/EPSGrth/Beta	NO	6
LSE:RDW	£2,642m	770p	8	4.0%	2.1%	2.4%	26.0%	14m	GBP	/CashConv/Beta	NO	6
LSE:CSP	£2,261m	507p	12	3.2%	9.3%	8.7%	43.0%	78m	GBP	/CashConv/Beta	NO	6
LSE:PHTM	£336m	89p	10	9.5%	7.3%	3.2%	-5.4%	8m	GBP	/DivCov/DivGrth/	NO	6
LSE:VTY	£3,038m	1,398p	13	4.2%	10.0%	19.7%	27.5%	80m	GBP	/DivCov/Beta	NO	6
LSE:PRU	£37,836m	1,461p	10	3.4%	-8.4%	5.6%	6.8%	-10,891m	GBP	/EPSGrth/Beta	NO	6
LSE:HEAD	£453m	539p	14	4.6%	-10.1%	2.4%	12.5%	-14m	GBP	/DivCov/EPSGrth/	NO	6
LSE:IMB	£17,185m	1,832p	7	11.3%	-3.6%	2.8%	2.7%	-11,350m	GBP	/DivCov/EPSGrth/	NO	6
LSE:BA.	£20,985m	655p	14	3.5%	7.4%	3.0%	12.2%	-3,369m	GBP	/DivCov/CashConv/	NO	6
LSE:GLE	£516m	932p	14	3.7%	9.3%	9.3%	14.0%	30m	GBP	/DivCov/CashConv/	NO	6
LSE:SFR	£268m	88p	11	3.3%	13.2%	7.0%	13.8%	10m	GBP	/DivCov/RoE/	NO	6
LSE:VTC	£471m	1 , 035p	13	3.6%	-12.6%	11.9%	-17.7%	-108m	GBP	/DivCov/EPSGrth/	NO	6
LSE:TATE	£3,680m	790p	15	3.7%	3.1%	2.4%	9.4%	-433m	GBP	/DivCov/DivGrth/	NO	6
LSE:CLG	£272m	268p	15	3.6%	26.9%	6.7%	14.2%	-250m	GBP	/DivCov/IntCov/	NO	6
LSE:TEG	£204m	314p	16	3.6%	16.1%	13.8%	9.8%	-10m	GBP	/DivCov/DivGrth/	NO	6
	ISE:BOWL ISE:APAX ISE:TPO ISE:TBCG ISE:BDEV ISE:BDEV ISE:SE ISE:SE ISE:WIN ISE:RNNOI ISE:RNOI ISE:RNOI	LSE:SRE f947m LSE:BOWL f426m LSE:APAX f884m LSE:APAX f884m LSE:TP f1,778m LSE:TP f1,179m LSE:TP f1,179m LSE:TPC f889m LSE:TPC f889m LSE:BOEV f88112m LSE:BOEV f8,112m LSE:PAGE f16,437m LSE:SE f16,467m LSE:SES f16,467m LSE:SUS f267m LSE:SUS f267m LSE:SUS f267m LSE:MNI f379m LSE:RDW f2,642m LSE:PATM f303m LSE:PATM f3,03m LSE:PATM f3,03m LSE:PATM f3,03m LSE:PATM f3,03m LSE:PATM f3,03m LSE:HEAD f453m LSE:HEAD f268m LSE:HEAD f268m LSE:HEAD f268m LSE:HEAD f268m <	LSE:SRE f947m 91p LSE:BOWL f426m 284p LSE:APAX f884m 180p LSE:APAX f884m 130p LSE:APAX f884m 1,50p LSE:HOWL f1,778m 3,31p LSE:HOW f1,179m 1,50cp LSE:TEC f1,179m 1,50cp LSE:BEQV f8,112m 79pp LSE:BEV f16,467m 1,602p LSE:BEV f16,467m 1,602p LSE:SES f16,467m 2,200p LSE:SUS f267m 2,200p LSE:WIN f359m 290p LSE:MNDI f7,996m 1,650p LSE:RDW f2,642m 770p LSE:RDW f3,038m 1,398p LSE:PHTM f336m 83pp LSE:PHTM f336m 53pp LSE:HEAD f453m 53pp LSE:HEAD f4516m 932p LSE:HEAD f516m 932p LSE:GLE	LSE:SRE £947m 91p 21 LSE:BOWL £426m 284p 19 LSE:MONY £1778m 331p 18 LSE:MONY £1,778m 331p 18 LSE:TEP £1,179m 1,506p 23 LSE:TEGG £689m 1,250p 5 LSE:BEV £8,112m 799p 11 LSE:PAGE £1,526m 481p 14 LSE:BEV £8,112m 799p 11 LSE:PAGE £1,526m 481p 14 LSE:BEV £1,643m 867p 16 LSE:SES £16,467m 1,602p 17 LSE:SES £16,467m 1,602p 17 LSE:SUS £267m 2,200p 9 LSE:WIN £359m 290p 8 LSE:MNDI £7,996m 1,650p 12 LSE:RDW £2,642m 770p 8 LSE:CSP £2,261m 507p 12 LSE:PHTM	LSE:SRE f947m 91p 21 3.3% LSE:BOWL f426m 284p 19 4.2% LSE:APAX f884m 180p - 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FTSE All-Small dividend diamonds selection (passing at least 6 out of 8 tests)

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TIDM	сар	Price	PE	yield	FY+1	FY+2	momentum	Debt (-)	Currency	failed	dividend	(out of 8)
LSE:UPGS	£52m	66p	8	6.2%	3.0%	5.2%	-25.9%	-14m	GBP	/FwdEPSGrth/	NO	7
LSE:BRLA	£192m	490p	-	5.5%	-	-	7.7%	-25m	USD	/FwdEPSGrth/EPSGrth/	NO	6
LSE:REC	£76m	38p	13	7.8%	-9.8%	-2.2%	-1.1%	22m	GBP	/FwdEPSGrth/DivCov/	YES	6
LSE:SUS	£267m	2,200p	9	5.4%	4.0%	9.6%	8.5%	-126m	GBP	/IntCov/FCF/	NO	6
LSE:PHTM	£336m	89p	10	9.5%	7.3%	3.2%	-5.4%	8m	GBP	/EPSGrth/DivCov/	NO	6
LSE:THRL	£565m	124p	20	5.4%	25.3%	6.0%	7.3%	-80m	GBP	/DivGrth/DivCov/	NO	6
LSE:DVO	£281m	168p	11	5.3%	5.3%	4.9%	6.4%	-149m	GBP	/DivGrth/DivCov/	NO	6
	LSE:UPGS LSE:BRLA LSE:REC LSE:SUS LSE:PHTM LSE:THRL	TIDM Cape LSE:UPGS 5.52m LSE:BCA 5.12m LSE:RCA 5.26m LSE:SUS 5.26m LSE:PHTM 5.36m LSE:THE 5.56m	TIDM case offcee LSE:UPGS 5.52m 6.66p LSE:BREA 5.12m 6.490 LSE:REC 5.76m 3.800 LSE:SUS 5.26m 3.200 LSE:PHTN 5.36m 5.26m LSE:THE 5.65m 1.240	TIDM cap Price PE LSE:UPGS £52m 66p 8 LSE:BRLA £192m 490p - LSE:REC £76m 38p 133 LSE:SUS £267m 2,200p 9 LSE:PHTM £336m 89p 100 LSE:THRL £565m 124p 20	TIDM cap Price PE yield LSE:UPGS 552m 666p 8 6.2% LSE:BRLA F192m 490p 5.5% LSE:REC 767m 38p 13 7.8% LSE:SUS 5267m 2,200p 9 5.4% LSE:PHTM 5336m 89p 100 9.5% LSE:THRL 565m 124p 20 5.4%	TIDM cap Price PE yield PF+1 LSE:UPGS 552m 666p 8 6.2% 3.0% LSE:BRLA f192m 490p - 5.5% - LSE:REC f76m 38p 13 7.8% -9.8% LSE:SUS f267m 2,200p 9 5.4% 4.0% LSE:PHTM f336m 89p 10 9.5% 7.3% LSE:THRL f565m 124p 20 5.4% 25.3%	TIDM cap Price PE yield PF+1 PY+2 LSE:UPGS 552m 66p 8 6.2% 3.0% 5.2% LSE:BRLA f192m 490p - 5.5% LSE:REC f76m 38p 13 7.8% -9.8% -2.2% LSE:SUS f267m 2,200p 9 5.4% 4.0% 9.6% LSE:PHTM f336m 89p 10 9.5% 7.3% 3.2% LSE:THRL f565m 124p 20 5.4% 25.3% 6.0%	TIDM cap Price PE yield PF+1 PF+2 momentum LSE:UPGS 552m 66p 8 6.2% 3.0% 5.2% -25.9% LSE:BRLA f192m 490p - 5.5% - 7.7% LSE:BRLA f192m 38p 13 7.8% -9.8% -2.2% -1.1% LSE:SREC f267m 3.200p 9 5.4% 4.0% 9.6% 8.5% LSE:PHTM f336m 89p 10 9.5% 7.3% 3.2% -5.4% LSE:THRL f565m 124p 20 5.4% 25.3% 6.0% 7.3%	TIDM cap Price PE yield PY+1 PY+2 momentum Debt (.) LSE:UPGS £52m 66p 8 6.2% 3.0% 5.2% -25.9% -14m LSE:BRLA £192m 490p - 5.5% 7.7% -25m LSE:BRLA £192m 38p 13 7.8% -9.8% -2.2% -1.1% 22m LSE:SUS £267m 2,200p 9 5.4% 4.0% 9.6% 8.5% -126m LSE:PHTM £336m 89p 10 9.5% 7.3% 3.2% -5.4% 8m LSE:THRL £565m 124p 20 5.4% 25.3% 6.0% 7.3% -80m	TIDM cap Price PE yield FY+1 FY+2 momentum Debt (.) Currency LSE:UPGS 552m 66p 8 6.2% 3.0% 5.2% -25.9% -14m GBP LSE:BRLA f192m 490p - 5.5% 7.7% -25m USD LSE:REC f76m 38p 13 7.8% -9.8% -2.2% -1.1% 22m GBP LSE:SUS f267m 2,200p 9 5.4% 4.0% 9.6% 8.5% -126m GBP LSE:PHTM f336m 89p 10 9.5% 7.3% 3.2% -5.4% 8m GBP LSE:THRL f565m 124p 20 5.4% 25.3% 6.0% 7.3% -5.4% 8m GBP	TIDM cap Price PE yield PY+1 PY+2 momentum Debt (.) Currency failed LSE:UPGS 552m 66p 8 6.2% 3.0% 5.2% -25.9% -14m GBP /FwdEPSGrth/ LSE:UPGS f192m 490p - 5.5% - - 7.7% -25m USD /FwdEPSGrth/EPSGrth/ LSE:BRLA f192m 38p 13 7.8% -9.8% -2.2% -1.1% 22m GBP /FwdEPSGrth/DivCov/ LSE:SUS f267m 2,200p 9 5.4% 4.0% 9.6% 8.5% -126m GBP /IntCov/FCF/ LSE:PHTM f336m 89p 10 9.5% 7.3% 3.2% -5.4% 8m GBP /EPSGrth/DivCov/ LSE:PHTM f356m 124p 20 5.4% 25.3% 6.0% 7.3% -80m GBP /DivGrth/DivCov/	TIDM cap Price PE yield PY+1 PY+2 momentum Debt (·) Currency failed dividend LSE:UPGS 552m 66p 8 6.2% 3.0% 5.2% -25.9% -14m GBP /FwdEPSGrth/ NO LSE:BRLA f192m 490p - 5.5% - - 7.7% -25m USD /FwdEPSGrth/EPSGrth/ NO LSE:BRLA f192m 38p 13 7.8% -9.8% -2.2% -1.1% 22m GBP /FwdEPSGrth/DivCov/ YES LSE:SUS f267m 2,200p 9 5.4% 4.0% 9.6% 8.5% -126m GBP /IntCov/FCF/ NO LSE:PHTM f336m 89p 10 9.5% 7.3% 3.2% -5.4% 8m GBP /EPSGrth/DivCov/ NO LSE:PHTM f356m 124p 20 5.4% 25.3% 6.0% 7.3% -80m GBP /DivGrth/DivCov/ <td< td=""></td<>

Source: S&P Capital IQ, 10 February 2020

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)
STM	AIM:STM	£16m	28p	5	7.2%	6.1%	6.5%	-33.6%	15m	GBP	na	NO	8
M&C Saatchi	AIM:SAA	£87m	93p	8	11.8%	-48.2%	-15.2%	-47.1%	-31m	GBP	/FwdEPSGrth/	NO	7
Somero Enterprises.	AIM:SOM	£152m	270p	9	5.5%	-2.4%	-3.7%	42.3%	13m	USD	/FwdEPSGrth/	NO	7
Polar Capital	AIM:POLR	£522m	560p	14	5.9%	-23.8%	4.9%	6.6%	120m	GBP	/FwdEPSGrth/	NO	7
Rotala	AIM:ROL	£27m	54p	7	5.0%	26.7%	9.1%	3.8%	-35m	GBP	/IntCov/	NO	7
Trans-Siberian Gold	AIM:TSG	£48m	55p	-	11.8%	-	-	-34.4%	-10m	USD	/FwdEPSGrth/DivGrth/	YES	6
Northern Bear	AIM:NTBR	£14m	73p	-	5.5%	-	-	2.1%	-2m	GBP	/FwdEPSGrth/FCF/	YES	6
Vertu Motors	AIM:VTU	£132m	36p	7	4.5%	0.3%	9.8%	-6.6%	-82m	GBP	/EPSGrth/IntCov/	NO	6
Wynnstay Group	AIM:WYN	£56m	283p	9	5.0%	0.3%	5.9%	1.4%	4m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
ULS Technology	AIM:ULS	£41m	63p	10	4.0%	-13.0%	-23.2%	21.9%	-5m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Vianet Group	AIM:VNET	£43m	154p	16	3.7%	17.5%	-1.1%	14.6%	-1m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Redde	AIM:REDD	£310m	101p	8	11.5%	6.2%	-0.5%	-6.5%	-35m	GBP	/FwdEPSGrth/DivCov/	NO	6
Highland Gold Mining	AIM:HGM	£766m	210p	9	5.9%	98.1%	-4.7%	7.0%	-217m	USD	/FwdEPSGrth/DivCov/	NO	6
Belvoir Group	AIM:BLV	£66m	178p	14	4.0%	8.5%	16.2%	48.1%	-10m	GBP	/DivGrth/FCF/	NO	6
Real Estate Investors	AIM:RLE	£105m	57p	13	6.6%	9.2%	3.3%	4.3%	-90m	GBP	/DivCov/IntCov/	NO	6
Source: S&P Capital IQ, 10 Februa	ary 2020												



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