

AlphaScreens: finding dividend diamonds

22 July 2021

Investment trusts are still income champions

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

Comment by Alpha editor:

- One of the striking features about our Alpha dividend yield screen is the prominence of investment companies among the top-ranking quality income shares flagged.
- One of the top companies this month is **Apax Global Alpha (APAX)** which is a private equity focussed trust. Shares trade at a premium to net asset value (NAV) but this is not unusual for a company that invests in a sector with huge expectations for growth. Certainly there is appetite for the asset class right now in anticipation of economies opening up again.
- Real estate investment trusts (REITS) also feature, with German residential property specialist **Sirius Real Estate (SRE)** and **Impact Healthcare REIT (IHR)** also ranking well.
- In terms of other companies, spread bet and trading firm **CMC Markets (CMCX)** has an attractive yield, but future earnings growth expectations need to be watched carefully.
- Another company that has done well is precious metals miner **Polymetal International (POLY)** which still passes all our tests. Gold didn't take off as you might have expected with inflationary fears, but an income paying stock like this seems a sensible way to have some exposure.

Dividends are crucial for UK investors

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.

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 (i.e. dividend cover is not expected to dramatically fall).
- Operating cash conversion of 100 per cent or more (i.e. earnings are being turned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (i.e. 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. It 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 (i.e. rising earnings to support dividend growth and maintain or improve dividend cover).
- Positive free cash flow (i.e. a weak test that earnings are turned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (i.e. 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 (i.e. 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 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.

Stock screen and methodology by Algy Hall

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

Name	TIDM	Mkt cap	FwdNTM Price	PE	DY	EPSgrth FY+1	EPSgrth FY+2	3-mth momentum	Net cash/debt(-)	Cur	Test failed	Special div	Tests passed (out of 8)
Polymetal Int'l	POLY	£7,426m	1,568p	9	6.0%	5.5%	8.6%	-0.6%	1,012m	USD	na	NO	8
Apax Global Alpha.	APAX	£967m	197p	-	5.2%	-	-	-0.1%	-112m	EUR	/FwdEPSGrth/	NO	7
CMC Markets	CMCX	£1,257m	432p	12	7.1%	-40.6%	2.3%	-15.4%	-131m	GBP	/FwdEPSGrth/	NO	7
Blackrock World Mining Trust	BRWM	£1,068m	581p	-	3.5%	-	-	-5.4%	115m	GBP	/FwdEPSGrth/	NO	7
Impact Healthcare REIT	IHR	£406m	116p	15	5.4%	20.7%	13.0%	1.4%	66m	GBP	/DivCov/	NO	7
Sirius Real Estate Ltd	SRE	£1,226m	116p	17	2.9%	45.4%	-4.1%	18.1%	356m	EUR	/FwdEPSGrth/	NO	7
Devro	DVO	£354m	212p	12	7.2%	3.7%	6.5%	8.6%	110m	GBP	/DivCov/	NO	7
Wincanton	WIN	£496m	398p	11	2.6%	5.9%	12.2%	-7.9%	134m	GBP	/DivGrth/	NO	7
Intermediate Capital	ICP	£5,889m	2,027p	18	2.8%	-32.3%	12.2%	2.9%	4,617m	GBP	/FwdEPSGrth/	NO	7
B&M Euro. Value Retail SA	BME	£5,595m	559p	16	3.1%	-23.4%	9.4%	-1.7%	1,814m	GBP	/FwdEPSGrth/	NO	7
Carr's Group	CARR	£142m	152p	12	3.9%	-3.4%	13.0%	12.6%	26m	GBP	/FwdEPSGrth/	NO	7
Smurfit Kappa	SKG	£10,068m	3,887p	16	4.5%	5.8%	15.9%	10.4%	2,126m	EUR	/DivCov/	NO	7
Stock Spirits	STCK	£504m	252p	13	3.4%	-5.0%	8.2%	-11.0%	28m	EUR	/FwdEPSGrth/	NO	7
DCC	DCC	£5,765m	5,846p	14	2.7%	7.0%	4.2%	-8.3%	302m	GBP	/EPSGrth/	NO	7
Morgan Sindall	MGNS	£927m	2,000p	11	3.1%	76.6%	0.5%	5.4%	-282m	GBP	/EPSGrth/	NO	7
Plus500 Ltd.	PLUS	£1,333m	1,316p		710.0%	-40.6%	-15.7%	-12.1%	-429m	USD	/FwdEPSGrth/DivGrth/	NO	6
Majedie Investments	MAJE	£122m	230p	-	5.0%	-	-	-5.7%	16m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Lowland Investment Co	LWI	£349m	1,290p	-	4.7%	-	-	1.0%	26m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
TwentyFour Inc. Fund GBP	TFIF	£617m	109p	-	5.9%	-	-	-0.2%	-571m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Bankers Invest. Trust GBP	BNKR	£1,534m	117p	-	6.0%	-	-	4.2%	39m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Invesco Asia Trust	IAT	£251m	376p	-	4.0%	-	-	-3.2%	-2m	GBP	/FwdEPSGrth/FCF/	NO	6
Schroder European REIT	SERE	£136m	102p	-	5.5%	-	-	2.8%	9m	EUR	/FwdEPSGrth/DivGrth/	NO	6
SSE S	SE	£15,386m	1,475p	16	5.5%	7.1%	4.8%	-0.4%	9,280m	GBP	/DivGrth/IntCov/	NO	6
AEW UK REIT	AEWU	£158m	100p	13	8.0%	18.0%	12.4%	7.8%	22m	GBP	/DivGrth/FCF/	NO	6
JPMorgan China Growth & Inc.	JCGI	£530m	637p	-	3.3%	-	-	-0.9%	-2m	GBP	/FwdEPSGrth/FCF/	NO	6
Utilico Emerging Mkts Trust GBP	UEM	£482m	219p	-	3.6%	-	-	8.4%	49m	GBP	/FwdEPSGrth/DivGrth/	NO	6
JPMorgan Euro. IT -Income- Class	JETI	£130m	151p	-	2.9%	-	-	0.7%	11m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Sequoia Eco. Infrastruc. Inc. Fund Ptg.Shs GBP	SEQI	£1,760m	112p	-	5.6%	-	-	3.7%	64m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Montanaro UK Smaller Cos IT	MTU	£276m	165p	-	3.3%	-	-	7.5%	10m	GBP	/FwdEPSGrth/FCF/	NO	6
Ferrexpo	FXPO	£2,516m	427p		314.8%	102.6%	-21.7%	4.9%	-3m	USD	/FwdEPSGrth/DivCov/	NO	6
3i Group plc	III	£11,274m	1,159p	6	3.3%	1.7%	5.8%	-4.6%	776m	GBP	/FwdEPSGrth/FCF/	NO	6
NB Pvt Equity Partners Ltd Class A	NBPE	£661m	1,515p	-	2.9%	-	-	20.7%	138m	USD	/FwdEPSGrth/DivGrth/	NO	6
TR Property IT PLC Ord. Shares Class GBP	TRY	£1,463m	461p	-	3.1%	-	-	9.4%	123m	GBP	/FwdEPSGrth/FCF/	NO	6
Rio Tinto	RIO	£72,821m	5,836p	6	5.9%	99.7%	-26.9%	-2.0%	565m	USD	/FwdEPSGrth/DivCov/	NO	6
Evrax	EVR	£8,580m	588p	7	6.2%	102.3%	0.1%	-3.3%	2,348m	USD	/DivGrth/DivCov/	NO	6
BB Healthcare Trust	BBH	£1,057m	196p	-	2.8%	-	-	-0.3%	-1m	GBP	/FwdEPSGrth/FCF/	NO	6
BAE Systems	BA	£17,245m	534p	11	4.4%	-0.1%	8.0%	3.1%	3,723m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Centamin	CEY	£1,214m	105p		1210.9%	-10.5%	-3.2%	-8.3%	-213m	USD	/FwdEPSGrth/DivCov/	NO	6
Henderson Int'l IT GBP	HINT	£326m	167p	-	3.6%	-	-	1.8%	44m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Severfield SFR		£241m	78p	10	3.7%	15.0%	11.9%	1.6%	7m	GBP	/DivGrth/EPSGrth/	NO	6
City of London Investment Group	CLIG	£269m	530p	10	5.8%	63.6%	4.2%	0.2%	-16m	GBP	/EPSGrth/DivCov/	NO	6
Mondi	MNDI	£9,405m	1,937p	15	4.2%	4.7%	22.5%	-0.5%	1,598m	EUR	/EPSGrth/DivCov/	NO	6
Bloomsbury Publishing	BMV	£286m	350p	19	5.3%	-3.6%	10.6%	15.5%	-42m	GBP	/FwdEPSGrth/DivCov/	NO	6
Norcross	NXR	£233m	288p	9	2.8%	1.9%	6.3%	-5.6%	14m	GBP	/FwdEPSGrth/DivGrth/	NO	6
XPS Pensions Group	XPS	£271m	132p	13	5.1%	3.5%	7.7%	11.9%	62m	GBP	/DivGrth/DivCov/	NO	6
Schroders	SDR	£9,354m	3,506p	15	3.3%	10.8%	8.4%	-1.7%	-3,000m	GBP	/DivGrth/EPSGrth/	NO	6
FDM Group	FDM	£1,122m	1,028p	30	4.5%	9.6%	13.7%	-2.7%	-45m	GBP	/EPSGrth/DivCov/	NO	6
Bellway	BWY	£3,958m	3,208p	9	2.6%	64.6%	9.4%	-11.6%	-346m	GBP	/DivGrth/EPSGrth/	NO	6
Rathbone Brothers	RAT	£1,121m	1,826p	12	3.9%	17.5%	8.7%	0.8%	-1,726m	GBP	/EPSGrth/DivCov/	NO	6
Rotork	ROR	£3,056m	350p	26	2.9%	1.7%	7.8%	-1.0%	-178m	GBP	/FwdEPSGrth/DivCov/	NO	6
Hochschild Mining	HOC	£752m	146p	8	3.2%	330.5%	3.0%	-25.2%	-16m	USD	/EPSGrth/DivCov/	NO	6
RHI Magnesita NV	RHIM	£1,895m	4,016p	10	3.3%	37.3%	15.3%	-9.5%	519m	EUR	/EPSGrth/DivCov/	NO	6
HomeServe	HSV	£3,152m	938p	19	2.8%	14.1%	13.0%	-18.0%	514m	GBP	/EPSGrth/DivCov/	NO	6
Clarkson	CKN	£911m	2,995p	23	4.4%	15.9%	7.6%	5.1%	-148m	GBP	/EPSGrth/DivCov/	NO	6

Source: FactSet, 22 July 2021

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

Name	TIDM	Mkt cap	Price	Fwd NTM PE	DY	EPS grth FY+1	EPS grth FY+2	3-mth momentum	Net cash/debt(-)	Cur	Test failed	Special div	Tests passed (out of 8)
Chelverton UK Div. Trust GBP	SDV	£48m	231p	-	4.3%	-	-	10.5%	16m	GBP	/FwdEPSGrth/	NO	7
Devro	DVO	£354m	212p	12	7.2%	3.7%	6.5%	8.6%	110m	GBP	/DivCov/	NO	7
Impact Healthcare REIT	IHR	£406m	116p	15	5.4%	20.7%	13.0%	1.4%	66m	GBP	/DivCov/	NO	7
Premier Miton Global Ren. Trust GBP	PMGR	£29m	157p	3	6.5%	657.2%	53.4%	-13.3%	14m	GBP	/DivGrth/EPGrth/	NO	6
Majedie Investments	MAJE	£122m	230p	-	5.0%	-	-	-5.7%	16m	GBP	/FwdEPSGrth/EPGrth/	NO	6
Lowland Investment Co	LWI	£349m	1,290p	-	4.7%	-	-	1.0%	26m	GBP	/FwdEPSGrth/EPGrth/	NO	6
TwentyFour Inc. Fund Ltd GBP	TFIF	£617m	109p	-	5.9%	-	-	-0.2%	-571m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Invesco Asia Trust	IAT	£251m	376p	-	4.0%	-	-	-3.2%	-2m	GBP	/FwdEPSGrth/FCF/	NO	6
Shires Income GBP	SHRS	£84m	273p	-	4.8%	-	-	8.3%	13m	GBP	/FwdEPSGrth/DivGrth/	NO	6
AEW UK REIT	AEVU	£158m	100p	13	8.0%	18.0%	12.4%	7.8%	22m	GBP	/DivGrth/FCF/	NO	6
Schroder Euro. REIT	SERE	£136m	102p	-	5.5%	-	-	2.8%	9m	EUR	/FwdEPSGrth/DivGrth/	NO	6
City of London Invest. Group	CLIG	£269m	530p	10	5.8%	63.6%	4.2%	0.2%	-16m	GBP	/EPGrth/DivCov/	NO	6
Bloomsbury Publishing	BMV	£286m	350p	19	5.3%	-3.6%	10.6%	15.5%	-42m	GBP	/FwdEPSGrth/DivCov/	NO	6
XPS Pensions Group	XPS	£271m	132p	13	5.1%	3.5%	7.7%	11.9%	62m	GBP	/DivGrth/DivCov/	NO	6

Source: FactSet, 22 July 2021

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

Name	TIDM	Mkt cap	Price	Fwd NTM PE	DY	EPS grth FY+1	EPS grth FY+2	3-mth momentum	Net cash/debt(-)	Cur	Test failed	Special div	Tests passed (out of 8)
Wynnstey	WYN	£108m	535p	14	2.8%	37.5%	3.3%	16.3%	5m	GBP	na	NO	8
Warehouse REIT	WHR	£634m	149p	23	4.2%	20.2%	9.2%	9.1%	207m	GBP	/IntCov/	NO	7
Smart Metering Systems	SMS	£948m	836p	61	3.0%	35.0%	13.2%	3.0%	-37m	GBP	/IntCov/	NO	7
Caledonia Mining Corp.	CMCL	£104m	930p	4	3.0%	33.3%	35.9%	-14.3%	-9m	USD	/FCF/	NO	7
Polar Capital Hldgs	POLR	£848m	847p	12	4.7%	3.8%	17.2%	11.9%	-	GBP	/IntCov/	NO	7
Robinson	RBN	£20m	121p	8	7.0%	69.0%	7.0%	-20.7%	7m	GBP	/DivCov/	NO	7
Jarvis Securities	JIM	£135m	302p	19	4.3%	22.7%	4.5%	0.2%	-7m	GBP	/DivCov/	NO	7
Property Franchise	TPFG	£98m	306p	13	2.8%	35.8%	2.2%	43.0%	-9m	GBP	/EPGrth/	NO	7
Redcentric	RCN	£201m	129p	17	2.8%	1.8%	8.4%	-10.1%	16m	GBP	/DivGrth/	NO	7
EMIS Group	EMIS	£753m	1,190p	22	2.7%	5.8%	6.9%	-2.8%	-46m	GBP	/DivCov/	NO	7
Anglo Asian Mining	AAZ	£146m	128p	-	4.7%	-	-	2.0%	-27m	USD	/FwdEPSGrth/DivGrth/	NO	6
H&T Group	HAT	£98m	245p	9	3.5%	-43.1%	81.4%	-16.7%	-14m	GBP	/FwdEPSGrth/DivGrth/	NO	6
STM Group	STM	£20m	33p	8	4.2%	29.6%	34.3%	11.9%	-13m	GBP	/DivGrth/EPGrth/	NO	6
Steppe Cement	STCM	£103m	47p	8	7.4%	59.5%	-3.8%	28.8%	2m	USD	/FwdEPSGrth/DivCov/	NO	6
Belvoir	BLV	£92m	253p	13	4.2%	41.1%	-3.9%	20.2%	4m	GBP	/FwdEPSGrth/DivCov/	NO	6
M.P. Evans	MPE	£371m	680p	15	3.2%	57.6%	11.5%	-7.5%	57m	USD	/EPGrth/DivCov/	NO	6
Driver	DRV	£27m	52p	12	2.9%	17.4%	59.1%	-7.5%	-5m	GBP	/DivGrth/DivCov/	NO	6

Source: FactSet, 22 July 2021

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