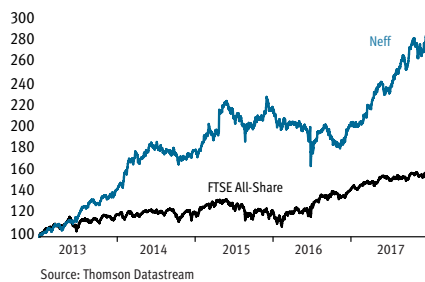




AlphaScreens: The market according to GARP

Growth at a reasonable price, or GARP, has proved a reliable strategy that has previously generated market-beating returns. We run our GARP screens across three indices: FTSE All-Share, All Small, and Aim

Neff 5-year cumulative total return



Algy Hall's view:

Buying shares that offer growth at a reasonable price (GARP) can generate strong returns. Prominent exponents of this style of investing include the likes of Jim Slater, Peter Lynch and, arguably, also John Neff. A key metric to assess whether companies offer the magic combination of value and growth is the price-to-earnings-growth (PEG) ratio. In its most basic form the ratio simply compares a share's valuation against its earnings with its earnings growth rate (historic or forecast). This approach is not overly exacting, but over many years it has proved a very effective way of identifying great investment opportunities when combined with other factors that suggest there are solid foundations to the value and growth measures used by the ratio.

■ **Page Group (PAGE)** is still the only company to pass all eight tests in the FTSE All-Share screen. **Howden Joinery (HWDN)** moves up to a 7/8 score, thanks to improved two-year earnings forecasts. **Crest Nicholson (CRST)** also now passes 7/8 tests, although it still fails the screen's free cash flow test.

■ In the main-market small-cap screen, we see **Bonmarche Holdings (BON)** and **Air Partner (AIR)** join **Haynes Publishing (HYNS)** on a perfect 7/7 score.

■ Our Aim screen, which uses the same seven tests as the small-cap main-market screen, sees most changes at the top. **SciSys (SSY)** and **Atalaya Mining (ATYM)** still pass all the tests. They are joined this month by cosmetics company **Warpaint (W7L)**. **Belvoir Lettings (BLV)**, **Parity Group (PTY)** and **Highland Gold Mining (HGM)** slip from the top of the rankings.

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Large-cap GARP criteria

Our large-cap GARP screen is run on all FTSE All-Share stocks and uses a PEG ratio based on the historic price/earnings (PE) ratio divided by a combination of the 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. The screening criteria are:

- A PEG ratio below the median average.
- A PE ratio that is higher than that of the lowest quarter of stocks screened (ie not suspiciously cheap) and below the top quarter (ie not dangerously expensive).
- A five-year historic EPS compound annual growth rate above 7.5 per cent but below 20 per cent (ie high, but sustainably so).
- A five-year historic revenue compound annual growth rate above 5 per cent (ie sales growth underpinning earnings growth).
- Year-on-year EPS growth in each of the past two half-year periods.
- Average forecast EPS growth of more than 7.5 per cent for the next two financial years.
- Positive free cash flow in each of the past three years.
- No downgrade to forecast EPS over the last three months.

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 at the top of page 4, followed by those failing one test, then those failing two tests and so on as detailed in the 'Tests passed' column. All stocks must pass the 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.

Small-cap GARP criteria

Our small-cap GARP screen is run on all stocks in the FTSE All-Small and Alternative Investment Market (Aim) indices, with the results from the individual indices listed in separate tables. The 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 quarter of all stocks screened.
- EPS growth forecast 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 (ie high, but sustainably so).
- Either a return on equity of over 12.5 per cent or an operating margin of over 15 per cent (ie an indicator 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 (ie recent reasons to feel positive).
- Operating cash conversion of 90 per cent or more.
- Net debt of less than 1.5 times cash profits.
- 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 tables on page 5, followed by those failing one test, then those failing two tests and so on as detailed in the 'Tests passed' column. All stocks must pass the low 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.

Large-cap GARP selection (passing at least 6 of 8 tests)

Name	Tidm	Market cap	Price	Fwd NTM PE	PEG	Dividend yield	FY EPS grth FY+1	FY EPS grth FY+2	3-month Momentum	Net cash/Debt(-)	Currency	Tests passed (out of 8)	Tests failed
PageGroup	LSE:PAGE	£1,665m	538p	17	1.0	4.7%	17.3%	6.7%	-1.6%	96m	GBP	8	na
S&U	LSE:SUS	£302m	2,520p	10	0.6	4.2%	19.9%	11.6%	8.4%	-105m	GBP	7	/FCF/
MJ Gleeson	LSE:GLE	£396m	728p	14	0.5	3.3%	10.9%	9.1%	3.4%	27m	GBP	7	/5yr EPS grth/
Paragon Banking	LSE:PAG	£1,329m	516p	11	0.9	3.0%	9.4%	7.7%	4.1%	-6,531m	GBP	7	/FCF/
Howden Joinery	LSE:HWDN	£2,896m	477p	15	1.1	2.3%	7.3%	8.0%	5.2%	241m	GBP	7	/HY EPS grth/
Vp	LSE:VP	£347m	880p	11	0.8	2.5%	16.4%	16.3%	3.5%	-115m	GBP	7	/FCF/
Shaftesbury	LSE:SHB	£3,088m	1,007p	55	0.5	1.6%	12.8%	9.6%	1.2%	-903m	GBP	7	/5yr EPS grth/
Morgan Adv. Materials	LSE:MGAM	£968m	339p	14	0.6	3.2%	11.2%	6.9%	-1.6%	-181m	GBP	7	/5yr Rev grth/
Ashtead	LSE:AHT	£10,063m	2,055p	14	0.5	1.3%	26.0%	16.6%	-2.4%	-2,629m	GBP	7	/5yr EPS grth/
MedicX Fund	LSE:MXF	£341m	79p	20	0.2	7.6%	9.4%	6.1%	-3.0%	-342m	GBP	7	/5yr EPS grth/
Morgan Sindall	LSE:MGNS	£559m	1,266p	10	0.9	3.6%	14.0%	3.8%	-1.8%	193m	GBP	7	/FCF/
Crest Nicholson	LSE:CRST	£1,259m	491p	7	0.4	6.7%	6.3%	14.5%	-5.1%	33m	GBP	7	/FCF/
RPC Group	LSE:RPC	£3,253m	803p	11	1.3	3.0%	15.1%	7.0%	-3.4%	-1,097m	GBP	7	/mid PE/
Grafton	LSE:GFTU	£1,785m	752p	13	0.6	2.1%	8.2%	7.3%	-4.6%	-63m	GBP	7	/5yr EPS grth/
Savills	LSE:SVS	£1,334m	979p	13	1.4	3.1%	-0.5%	4.5%	-4.2%	99m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Communis	LSE:CMS	£130m	62p	9	0.7	4.3%	7.2%	6.6%	-9.4%	-24m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
SThree	LSE:STHR	£412m	321p	12	1.0	4.4%	10.5%	14.3%	-11.5%	6m	GBP	7	/HY EPS grth/
Hays	LSE:HAS	£2,617m	180p	15	1.2	1.8%	17.2%	8.7%	-11.3%	35m	GBP	7	/HY EPS grth/
TBC Bank	LSE:TBCG	£972m	1,816p	8	0.5	2.7%	14.2%	13.8%	13.1%	-1,492m	GEL	6	/5yr EPS grth/FCF/
Robert Walters	LSE:RWA	£506m	730p	16	0.6	1.7%	15.2%	7.2%	13.4%	31m	GBP	6	/5yr EPS grth/FCF/
Persimmon	LSE:PSN	£8,497m	2,730p	10	0.4	8.6%	8.4%	3.2%	6.4%	1,303m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
JD Sports Fashion	LSE:JD	£3,820m	393p	15	0.7	0.4%	4.8%	8.5%	6.2%	310m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
National Express	LSE:NEX	£2,025m	396p	12	1.1	3.4%	10.9%	2.8%	7.7%	-919m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%/5yr Rev grth/
Playtech	LSE:PTEC	£2,562m	814p	13	0.6	3.9%	10.7%	17.5%	3.1%	107m	EUR	6	/5yr EPS grth/Fwd EPS/
Redrow	LSE:RDW	£2,259m	627p	8	0.3	3.5%	13.9%	8.2%	2.4%	-35m	GBP	6	/5yr EPS grth/FCF/
Informa	LSE:INF	£6,068m	737p	15	1.4	2.8%	3.2%	4.2%	6.5%	-1,373m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%/Fwd EPS/
Spectris	LSE:SXS	£3,188m	2,682p	17	1.2	2.1%	8.6%	7.9%	3.0%	-51m	GBP	6	/HY EPS grth/5yr Rev grth/
Games Workshop	LSE:GAW	£799m	2,470p	16	1.0	4.0%	83.5%	-23.7%	2.5%	29m	GBP	6	/mid PE/5yr EPS grth/
The Berkeley Group	LSE:BKG	£5,436m	4,065p	9	0.7	2.7%	15.0%	-31.5%	0.8%	633m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Coca-Cola HBC AG	LSE:CCH	£9,120m	2,479p	21	1.5	1.9%	10.2%	10.1%	2.6%	-752m	EUR	6	/mid PE/5yr Rev grth/
Taylor Wimpey	LSE:TW	£6,331m	194p	9	0.6	7.8%	6.1%	3.6%	-0.8%	512m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Inchcape	LSE:INCH	£2,985m	720p	11	1.2	3.7%	-2.8%	5.1%	-0.5%	-344m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%/Fwd EPS/
Bellway	LSE:BWY	£4,070m	3,313p	8	0.3	3.7%	13.9%	4.6%	-2.4%	-131m	GBP	6	/5yr EPS grth/FCF/
easyjet	LSE:EJ	£6,358m	1,607p	14	1.2	2.5%	31.0%	13.4%	-2.7%	357m	GBP	6	/5yr EPS grth/FCF/
WPP	LSE:WPP	£14,541m	1,149p	10	0.6	5.2%	-2.8%	4.7%	-4.9%	-4,483m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%/Fwd EPS/
esure Group	LSE:ESUR	£943m	225p	11	0.2	5.5%	11.5%	10.7%	-6.1%	-77m	GBP	6	/5yr EPS grth/HY EPS grth/
Barratt Developments	LSE:BDEV	£5,684m	562p	8	0.3	7.7%	6.0%	5.1%	-6.6%	166m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
BGEO Group	LSE:BGEO	£1,318m	3,482p	9	0.6	2.2%	40.0%	7.0%	-5.6%	-2,543m	GEL	6	/HY EPS grth/FCF/
Carnival	LSE:CCL	£33,797m	4,732p	14	1.0	3.1%	16.7%	12.9%	-5.2%	-9,130m	USD	6	/HY EPS grth/5yr Rev grth/
Imperial Brands	LSE:IMB	£24,829m	2,615p	10	1.2	6.5%	-1.7%	2.8%	-9.7%	-11,911m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%/5yr Rev grth/
Henry Boot	LSE:BOOT	£379m	286p	10	0.5	2.8%	-11.7%	1.6%	-16.8%	-29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Ted Baker	LSE:TED	£1,187m	2,670p	19	1.3	2.3%	11.8%	10.2%	-10.3%	-112m	GBP	6	/mid PE/FCF/
Photo-Me International	LSE:PHTM	£600m	159p	16	1.1	4.4%	5.4%	7.0%	-12.2%	45m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%/5yr Rev grth/

Source: S&P CapitalIQ, 30 April 2018

Small-cap GARP selection (passing at least 5 of 7 tests)

Name	Tidm	Market cap	Price	Fwd NTM PE	PEG	Dividend Yield	FY EPS grth FY+1	FY EPS grth FY+2	3-month momentum	Net cash/debt(-)	Currency	Tests Passed (out of 7)	Test failed
Air Partner	LSE:AIR	£53m	102p	-	0.97	5.1%	37.6%	1.3%	-31.3%	15m	GBP	7	na
Haynes Publishing	LSE:HYNS	£36m	238p	20	0.99	3.2%	25.5%	21.6%	4.8%	0m	GBP	7	na
Bonmarché Holdings	LSE:BON	£48m	99p	7	0.47	7.2%	24.7%	17.2%	7.0%	15m	GBP	7	na
Speedy Hire	LSE:SDY	£281m	54p	14	0.64	1.9%	53.4%	15.0%	-1.1%	-63m	GBP	6	/Hi RoE or Marg/
Gocompare.com	LSE:GOCO	£475m	114p	14	1.02	1.2%	27.7%	8.8%	-0.5%	-39m	GBP	6	/Hi RoE or Marg/
TClarke	LSE:CTO	£34m	82p	6	0.79	4.3%	8.7%	6.7%	1.0%	12m	GBP	6	/Fwd EPS grth/
Macfarlane	LSE:MACF	£135m	86p	12	0.91	2.5%	33.0%	2.3%	2.5%	-15m	GBP	6	/Cash Conv/
Vp	LSE:VP.	£347m	880p	11	0.85	2.5%	16.4%	16.3%	3.5%	-115m	GBP	6	/Debt/
Gem Diamonds	LSE:GEMD	£138m	100p	6	0.96	-	272.4%	-53.7%	10.0%	1m	USD	6	/Fwd EPS grth/
Hansteen	LSE:HSTN	£545m	132p	26	0.75	4.6%	22.1%	11.8%	-5.5%	-225m	GBP	5	/Mom or Upgrade/Debt/
Target Healthcare REIT	LSE:THRL	£373m	110p	19	1.03	5.9%	19.0%	7.7%	-2.3%	-65m	GBP	5	/Mom or Upgrade/Cash Conv/
Empiric Student Property	LSE:ESP	£512m	85p	24	0.35	6.5%	91.7%	18.6%	-0.4%	-246m	GBP	5	/Fwd EPS grth/Debt/
Sirius Real Estate	LSE:SRE	£615m	62p	14	0.95	4.4%	24.9%	-4.5%	5.1%	-259m	EUR	5	/Fwd EPS grth/Debt/
Carr's Group	LSE:CARR	£131m	143p	11	0.92	2.8%	41.6%	-0.6%	5.7%	-16m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
S&U	LSE:SUS	£302m	2,520p	10	0.74	4.2%	19.9%	11.6%	8.4%	-105m	GBP	5	/Hi RoE or Marg/Cash Conv/
Trinity Mirror	LSE:TNI	£251m	85p	2	0.59	6.8%	1.0%	11.4%	14.1%	-9m	GBP	5	/Fwd EPS grth/Cash Conv/

Source: S&P CapitalIQ, 30 April 2018

Aim GARP selection (passing at least 5 of 7 tests)

Name	Tidm	Market cap	Price	Fwd NTM PE	PEG	Dividend yield	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month Momentum	Net cash/Debt(-)	Currency	Tests passed (out of 7)	Tests failed
Warpaint London	AIM:W7L	£148m	193p	14	0.69	1.5%	45.3%	14.9%	-20.8%	2m	GBP	7	na
SciSys	AIM:SSY	£48m	163p	14	0.87	1.3%	20.9%	10.0%	19.9%	-6m	GBP	7	na
Atalaya Mining	AIM:ATYM	£343m	250p	10	0.39	-	86.4%	4.7%	35.7%	43m	EUR	7	na
James Cropper	AIM:CRPR	£135m	1,425p	29	0.81	0.8%	53.6%	11.1%	-17.0%	-5m	GBP	6	/Mom or Upgrade/
Servoca	AIM:SVCA	£22m	18p	7	0.35	2.2%	54.4%	4.0%	-14.7%	-2m	GBP	6	/Cash Conv/
Swallowfield	AIM:SWL	£53m	310p	13	0.69	1.7%	44.7%	11.4%	-5.4%	-1m	GBP	6	/Mom or Upgrade/
Serica Energy	AIM:SOZ	£217m	82p	25	0.21	-	-45.1%	398.4%	-1.4%	30m	USD	6	/Fwd EPS grth/
Goals Soccer Centres	AIM:GOAL	£55m	73p	10	0.23	-	46.1%	14.6%	0.7%	-30m	GBP	6	/Debt/
Secure Income REIT	AIM:SIR	£1,248m	388p	25	0.75	3.2%	13.6%	3.7%	5.7%	-878m	GBP	6	/Fwd EPS grth/
Sylvania Platinum	AIM:SLP	£46m	16p	8	0.51	-	-0.1%	27.1%	12.2%	12m	USD	6	/Fwd EPS grth/
Petards	AIM:PEG	£14m	26p	13	0.49	-	42.9%	1.5%	27.5%	1m	GBP	6	/Cash Conv/
K3 Capital	AIM:K3C	£133m	314p	23	0.59	1.8%	62.2%	-14.2%	31.9%	5m	GBP	6	/Fwd EPS grth/
Caledonia Mining Corp	AIM:CMCL	£131m	688p	-	0.00	-	27.2%	-4.2%	29.0%	11m	USD	6	/Fwd EPS grth/
SDX Energy	AIM:SDX	£247m	66p	-	0.00	-	110.3%	-2.9%	29.5%	26m	USD	6	/Fwd EPS grth/
Trakm8	AIM:TRAK	£33m	92p	13	0.67	-	23.9%	31.0%	-12.6%	-2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Base Resources	AIM:BSE	£276m	13p	-	0.00	-	128.1%	-23.0%	-12.1%	-117m	AUD	5	/Fwd EPS grth/Mom or Upgrade/
Vianet	AIM:VNET	£33m	122p	15	0.62	4.7%	110.1%	-2.8%	-8.3%	3m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Universe	AIM:UNG	£13m	6p	8	0.53	-	75.0%	4.5%	-8.0%	2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Central Asia Metals	AIM:CAML	£484m	283p	7	0.43	5.8%	89.3%	-13.9%	-7.6%	-139m	USD	5	/Fwd EPS grth/Debt/
Amiad Water Systems	AIM:AFS	£35m	154p	15	0.87	1.3%	0.9%	33.0%	-5.6%	-10m	USD	5	/Hi RoE or Marg/Mom or Upgrade/
Impellam	AIM:IPEL	£283m	563p	7	0.60	3.6%	23.2%	6.3%	-4.3%	-76m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
ProPhotonix	AIM:PPIX	£13m	9p	-	0.00	-	-29.3%	70.0%	-5.6%	1m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Ramsdens	AIM:RFX	£60m	193p	12	0.93	1.1%	60.2%	-3.3%	-2.0%	13m	GBP	5	/Fwd EPS grth/Cash Conv/
Real Estate Investors	AIM:RLE	£104m	56p	15	0.77	6.3%	15.2%	8.2%	1.8%	-84m	GBP	5	/Cash Conv/Debt/
1pm	AIM:OPM	£44m	51p	7	0.75	1.0%	16.7%	6.1%	3.6%	-2m	GBP	5	/Hi RoE or Marg/Cash Conv/
Telford Homes	AIM:TEF	£336m	447p	9	0.52	3.5%	30.7%	12.4%	6.9%	-63m	GBP	5	/Cash Conv/Debt/
Defenx	AIM:DFX	£8m	28p	2	0.10	-	1.7%	37.8%	10.7%	-1m	EUR	5	/Hi RoE or Marg/Mkt Cap/
EKF Diagnostics	AIM:EKD	£145m	32p	28	0.62	-	229.4%	-16.4%	20.2%	7m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Plus500	AIM:PLUS	£1,602m	1,406p	9	0.82	8.7%	21.0%	4.5%	23.5%	242m	USD	5	/Hi RoE or Marg/Cash Conv/
FairFX Group	AIM:FFX	£155m	100p	20	0.93	-	753.7%	-18.4%	29.8%	52m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Sigma Capital	AIM:SGM	£117m	132p	10	0.32	-	221.6%	-6.0%	42.4%	6m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/

Source: S&P CapitalIQ, 30 April 2018

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