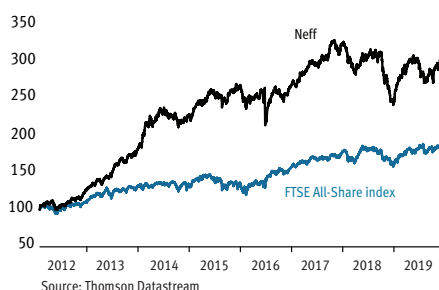




AlphaScreens: The market according to GARP

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 versus All-Share



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.

- The purpose of our growth at a reasonable price (Garp) screen is to identify good value shares in companies that bear the hallmarks that suggest they will achieve profit growth. Basically, it's about avoiding value traps but thanks to Covid-19 investors also need to throw in a huge dollop of common sense when interpreting the results.
- Once again **Hikma Pharmaceuticals (HIK)** and **Computacenter (CCC)** top the pile and both companies have business models that are not only resilient to the effect of Covid-19 but can grow in the pandemic.
- The same can't be said of some other companies that score well on the screen. For example, buying recruiter **Page Group (PAGE)** would be incredibly contrarian right now, especially as there is no need to rush when picking potential rebound stocks.

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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.

Stock screen methodology formulated and explained by Algy Hall

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

Name	TIDM	Market cap (£m)		Fwd NTM			Fwd EPS grth	Fwd EPS grth	3-month	Net cash/	Tests passed	Test
		Price	PE	PEG	DY	FY+1	FY+2	momentum	debt(-)	Cur		
Hikma Pharmaceuticals	HIK	£5,785	2,510	17	0.9	1.5%	13.0%	14.5%	16.7%	395m	USD	8 na
Computacenter	CCC	£2,596	2,274	20	1.2	0.5%	22.1%	0.7%	16.0%	-24m	GBP	8 na
Clipper Logistics	CLG	£442	435	20	0.6	2.2%	30.5%	15.3%	31.8%	219m	GBP	7 /FCF/
Motorpoint	MOTR	£253	280	11	0.5	0.9%	42.7%	15.0%	13.4%	131m	GBP	7 /HY EPS grth/
PageGroup	PAGE	£1,175	358	23	0.2	0.0%	-92.5%	651.8%	1.0%	-41m	GBP	7 /HY EPS grth/
Macfarlane	MACF	£129	82	11	1.0	0.9%	-1.1%	23.0%	-5.9%	24m	GBP	7 /HY EPS grth/
British American Tobacco	BATS	£56,163	2,448	7	0.8	8.6%	1.9%	6.1%	-7.8%	45,494m	GBP	7 /Av FY2 Fwd EPS growth > 7.5%
Taylor Wimpey	TW	£3,856	106	10	0.7	0.0%	-72.1%	111.8%	-13.1%	-473m	GBP	7 /HY EPS grth/
Luceco	LUCE	£367	228	15	0.3	1.4%	88.4%	5.3%	65.2%	22m	GBP	6 /mid PE/5yr EPS grth/
Plus500	PLUS	£1,542	1,476	8	0.1	6.9%	236.9%	-53.1%	22.2%	-472m	USD	6 /mid PE/HY EPS grth/
888 Holdings	888	£988	268	17	0.8	2.6%	54.4%	-2.6%	46.1%	-87m	USD	6 /5yr EPS grth/HY EPS grth/
Spirent Communications	SPT	£1,771	290	25	0.8	1.5%	8.4%	5.2%	12.2%	-156m	USD	6 /5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Speedy Hire	SDY	£279	53	13	0.1	1.3%	-66.7%	202.2%	7.3%	152m	GBP	6 /5yr EPS grth/5yr Rev grth/
Biffa	BIFF	£661	217	21	0.2	1.1%	-81.3%	228.1%	4.3%	460m	GBP	6 /mid PE/5yr EPS grth/
B&M European Value Retail SA	BME	£4,852	485	16	0.8	1.7%	74.8%	-9.1%	4.5%	1,640m	GBP	6 /5yr EPS grth/HY EPS grth/
Robert Walters	RWA	£304	400	21	0.2	1.1%	-87.2%	255.1%	-1.2%	-47m	GBP	6 /5yr EPS grth/HY EPS grth/
Sirius Real Estate	SRE	£768	74	13	0.4	4.2%	7.8%	18.6%	-1.6%	335m	EUR	6 /mid PE/HY EPS grth/
City of London Investment Grp	CLIG	£204	402	9	0.5	7.5%	49.0%	11.0%	-2.4%	-13m	GBP	6 /5yr EPS grth/HY EPS grth/
Target Healthcare REIT	THRL	£490	107	15	0.9	6.2%	30.0%	18.2%	-2.0%	114m	GBP	6 /5yr EPS grth/Fwd EPS/
Fresnillo	FRES	£8,566	1,163	16	0.7	1.0%	79.0%	109.0%	-3.8%	243m	USD	6 /mid PE/FCF/
4imprint	FOUR	£581	2,070	32	0.8	0.0%	-79.1%	190.1%	-10.6%	-29m	USD	6 /5yr EPS grth/HY EPS grth/
Vistry Group	VY	£1,211	545	6	0.7	0.0%	-57.0%	124.0%	-14.3%	397m	GBP	6 /5yr EPS grth/HY EPS grth/
Card Factory	CARD	£110	32	5	0.1	0.0%	-91.1%	517.1%	-24.9%	289m	GBP	6 /mid PE/HY EPS grth/

Source: FactSet, as at 2 November 2020

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

Name	TIDM	Market cap (£m)		Fwd NTM			Fwd EPS grth	Fwd EPS grth	3-month	Net cash/	Tests passed	Test
		Price	PE	PEG	DY	FY+1	FY+2	momentum	debt(-)	Cur		
Capital Limited	CAPD	£86	63	7	0.162	0.0%	54.3%	-18.7%	-18.7%	-18m	USD	6 /Fwd EPS grth/
Stock Spirits	STCK	£424	212	12	0.233	7.7%	44.7%	2.7%	-6.2%	38m	EUR	6 /Mom or Upgrade/
LSL Property Services	LSL	£216	205	10	0.170	0.0%	59.2%	1.3%	6.5%	48m	GBP	6 /Hi RoE or Marg/
Air Partner	AIR	£41	65	7	0.001	2.2%	1917.0%	-27.3%	-20.5%	-29m	GBP	5 /Fwd EPS grth/Mom or Upgrade/

Source: FactSet, as at 2 November 2020

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

Name	TIDM	Market cap (£m)		Fwd NTM			Fwd EPS grth	Fwd EPS grth	3-month	Net cash/	Tests passed	Test
		Price	PE	PEG	DY	FY+1	FY+2	momentum	debt(-)	Cur		
Caledonia Mining Corp	CMCL	£153	1,285	4	0.17	0.9%	47.5%	61.5%	-23.5%	-9m	USD	6 /Fwd EPS grth/
Hummingbird Resources	HUM	£120	34	3	0.01	0.0%	575.5%	45.7%	-7.0%	32m	USD	6 /Fwd EPS grth/
Wentworth Resources	WEN	£32	17	11	0.11	8.0%	93.2%	1.5%	-4.2%	-11m	USD	6 /Mom or Upgrade/
Serabi Gold	SRB	£48	82	3	0.05	0.0%	191.7%	131.6%	-1.2%	-7m	USD	6 /Fwd EPS grth/
Trans-Siberian Gold	TSG	£108	99	5	0.22	8.1%	109.9%	33.2%	0.5%	7m	USD	6 /Fwd EPS grth/
Sureserve	SUR	£76	48	9	0.18	1.0%	78.5%	12.8%	14.0%	10m	GBP	6 /Hi RoE or Marg/
Sylvania Platinum	SLP	£175	64	4	0.12	2.5%	39.4%	0.0%	34.3%	-45m	USD	6 /Fwd EPS grth/
Pan African Resources	PAF	£377	20	4	0.05	3.4%	199.9%	-3.9%	-19.5%	53m	USD	5 /Fwd EPS grth/Cash Conv/
FRP Advisory Group	FRP	£248	104	16	0.12	0.6%	566.7%	17.2%	-11.5%	-17m	GBP	5 /Fwd EPS grth/Cash Conv/
Numis Corporation	NUM	£313	298	-	0.17	4.0%	204.9%	-	6.4%	-100m	GBP	5 /Fwd EPS grth/Hi RoE or Marg/
LoopUp Group	LOOP	£119	215	21	0.03	0.0%	647.0%	-43.8%	9.4%	8m	GBP	5 /Fwd EPS grth/Hi RoE or Marg/
Robinson	RBN	£23	139	11	0.17	4.0%	74.0%	-	15.8%	6m	GBP	5 /Fwd EPS grth/Hi RoE or Marg/
Draper Esprit	GROW	£843	606	6	0.10	0.0%	178.4%	15.3%	15.2%	12m	GBP	5 /Fwd EPS grth/Cash Conv/
Alumasc Group	ALU	£35	97	6	0.17	5.1%	73.8%	14.5%	38.8%	10m	GBP	5 /Hi RoE or Marg/Debt/
Boku	BOKU	£348	122	45	0.06	0.0%	2246.5%	47.2%	46.4%	-47m	USD	5 /Fwd EPS grth/Hi RoE or Marg/

Source: FactSet, as at 2 November 2020

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