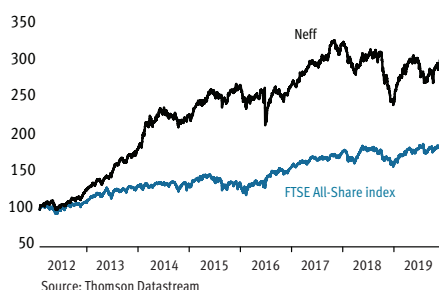




AlphaScreens: The market according to GARP

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.

- There is cross-over between the FTSE All-Share index and the FTSE Small Companies index. We run different growth at a reasonable price (Garp) criteria against the two indices, with the tests run on the FTSE All-Share designed for large companies. Some smaller companies in the FTSE All-Share may score well on the large-cap tests, but do worse on the small-cap tests.
- This month's top-ranking FTSE All-Share company (against large-cap tests) is **Clipper Logistics (CLG)**. The value-added logistics solutions and e-fulfilment business gets 8/8 against the large-cap tests, but fails our small-cap screen's basic value criteria. Our large-cap screen requires the company to be cheaper than the median company against our version of the price-to-earnings growth (PEG) ratio, but the small-cap screen requires companies to be in the bottom quartile.
- The other FTSE All-Share company that scores 8/8 on the large cap screen is IT infrastructure services business **Computacenter (CCC)**.

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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)	Price	Fwd NTM PE	PEG	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 8)	Test failed
Clipper Logistics	CLG	£545	536	22	0.9	1.9%	42.8%	17.2%	33.8%	189m	GBP	8	na
Computacenter	CCC	£2,554	2,238	19	1.1	0.5%	22.4%	2.2%	6.9%	-24m	GBP	8	na
Taylor Wimpey	TW	£5,872	161	12	0.5	0.0%	-70.0%	137.7%	40.3%	-473m	GBP	7	/HY EPS grth/
PageGroup	PAGE	£1,480	450	27	0.2	0.0%	-92.6%	657.5%	19.3%	-41m	GBP	7	/HY EPS grth/
Motorpoint	MOTR	£274	304	12	0.7	0.0%	42.7%	15.0%	14.1%	113m	GBP	7	/HY EPS grth/
Admiral Group	ADM	£8,411	2,835	20	1.8	5.2%	2.8%	-7.8%	10.9%	381m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Macfarlane	MACF	£144	91	11	0.9	0.8%	23.8%	3.9%	3.9%	24m	GBP	7	/HY EPS grth/
Hikma Pharmaceuticals	HIK	£5,871	2,547	18	1.0	1.5%	7.2%	13.8%	3.7%	395m	USD	7	/Fwd EPS/
Cranswick	CWK	£1,856	3,532	19	1.7	1.8%	14.4%	2.0%	-1.9%	122m	GBP	7	/FCF/
Vistry Group	VITY	£2,032	915	9	0.7	0.0%	-55.8%	121.6%	48.0%	397m	GBP	6	/5yr EPS grth/HY EPS grth/
888 Holdings	888	£1,017	276	18	0.8	2.6%	64.1%	-13.0%	45.0%	-87m	USD	6	/5yr EPS grth/HY EPS grth/
4imprint	FOUR	£789	2,810	55	0.5	0.0%	-88.2%	283.6%	32.5%	-29m	USD	6	/5yr EPS grth/HY EPS grth/
Luceco	LUCE	£378	235	15	0.3	1.4%	88.4%	5.3%	30.6%	22m	GBP	6	/mid PE/5yr EPS grth/
Card Factory	CARD	£155	45	6	0.1	0.0%	-91.1%	517.1%	27.8%	289m	GBP	6	/mid PE/HY EPS grth/
Sirius Real Estate	SRE	£983	94	15	0.5	3.4%	23.9%	9.6%	23.8%	349m	EUR	6	/mid PE/HY EPS grth/
City of London Investment	CLIG	£221	437	9	0.5	6.9%	49.0%	11.0%	15.0%	-13m	GBP	6	/5yr EPS grth/HY EPS grth/
Robert Walters	RWA	£367	483	24	0.2	0.9%	-87.2%	255.1%	12.3%	-47m	GBP	6	/5yr EPS grth/HY EPS grth/
JD Sports Fashion	JD	£7,947	817	23	1.3	0.0%	-32.3%	59.5%	14.2%	1,026m	GBP	6	/5yr EPS grth/HY EPS grth/
Plus500	PLUS	£1,625	1,566	9	0.1	6.5%	233.4%	-51.7%	7.0%	-472m	USD	6	/mid PE/HY EPS grth/
British American Tobacco	BATS	£62,426	2,721	8	0.8	7.7%	1.9%	5.6%	6.5%	45,494m	GBP	6	/mid PE/Av FY2 Fwd EPS growth > 7.5%
IG Group	IGG	£3,099	837	15	1.5	5.2%	-8.8%	-6.3%	8.8%	-498m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
B&M European Value	BME	£4,738	474	14	0.5	2.0%	99.0%	-15.0%	3.0%	1,626m	GBP	6	/5yr EPS grth/HY EPS grth/
Target Healthcare REIT	THRL	£520	114	16	1.0	5.9%	32.7%	6.6%	5.0%	114m	GBP	6	/5yr EPS grth/Fwd EPS/
Fresnillo	FRES	£8,367	1,136	16	0.7	1.0%	63.9%	105.3%	-10.4%	243m	USD	6	/mid PE/FCF/

Source: FactSet, as at 6 December 2020

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

Name	TIDM	Market cap (£m)	Price	Fwd NTM PE	PEG	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
City of London Investment	CLIG	£221	437	9	0.276	9.9%	49.0%	11.0%	15.0%	-13m	GBP	7	na
Luceco	LUCE	£378	235	15	0.261	4.4%	88.4%	5.3%	30.6%	22m	GBP	7	na
Air Partner	AIR	£46	73	8	0.001	1.1%	1917.0%	-27.3%	-10.8%	-29m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Halfords	HFD	£544	273	11	0.360	0.0%	21.9%	-21.7%	56.7%	272m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/

Source: FactSet, as at 6 December 2020

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

Name	TIDM	Market cap (£m)	Price	Fwd NTM PE	PEG	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
Hummingbird Resources	HUM	£105	29	3	0.01	0.0%	395.5%	79.2%	-20.1%	32m	USD	6	/Fwd EPS grth/
Trans-Siberian Gold	TSG	£105	96	5	0.24	8.3%	101.4%	33.2%	-5.9%	7m	USD	6	/Fwd EPS grth/
Sureserve	SUR	£86	54	10	0.20	0.9%	78.5%	12.8%	0.0%	10m	GBP	6	/Hi RoE or Marg/
Wentworth Resources	WEN	£33	18	12	0.13	7.7%	85.4%	1.5%	2.9%	-11m	USD	6	/Mom or Upgrade/
Sylvania Platinum	SLP	£212	78	4	0.09	2.1%	66.0%	-10.9%	18.6%	-45m	USD	6	/Fwd EPS grth/
EKF Diagnostics	EKF	£284	63	31	0.24	0.0%	194.4%	-46.7%	21.4%	-15m	GBP	6	/Fwd EPS grth/
Jubilee Metals	JLP	£222	11	5	0.07	0.0%	134.6%	-	94.4%	-1m	GBP	6	/Fwd EPS grth/
Litigation Capital Mgmt	LIT	£64	56	4	0.07	0.0%	259.8%	69.5%	-19.3%	-18m	AUD	5	/Fwd EPS grth/Cash Conv/
Serabi Gold	SRB	£51	87	4	0.05	0.0%	147.6%	59.5%	-15.6%	-7m	USD	5	/Fwd EPS grth/Mom or Upgrade/
FRP Advisory	FRP	£246	103	16	0.11	0.6%	566.7%	15.5%	-11.3%	-17m	GBP	5	/Fwd EPS grth/Cash Conv/
Pan African Resources	PAF	£401	21	4	0.05	3.3%	198.6%	-4.2%	-8.4%	53m	USD	5	/Fwd EPS grth/Cash Conv/
Draper Esprit	GROW	£879	632	7	0.13	0.0%	159.1%	14.0%	15.8%	-61m	GBP	5	/Fwd EPS grth/Cash Conv/
OPG Power Ventures	OPG	£52	13	6	0.08	0.0%	61.9%	-47.1%	15.6%	30m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Numis Corporation	NUM	£374	358	-	0.20	3.4%	204.9%	-	20.7%	-100m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Jarvis Securities	JIM	£87	199	4	0.04	4.0%	463.9%	2.8%	22.2%	-3m	GBP	5	/Fwd EPS grth/Cash Conv/
Robinson	RBN	£27	165	13	0.20	3.3%	74.0%	-	24.5%	6m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Gear4music	G4M	£147	700	27	0.12	0.0%	164.6%	-28.4%	27.3%	16m	GBP	5	/Fwd EPS grth/Cash Conv/
BOKU	BOKU	£358	125	46	0.06	0.0%	2386.0%	33.3%	32.4%	-47m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
Alumasc	ALU	£41	113	7	0.20	4.4%	73.8%	14.5%	40.6%	10m	GBP	5	/Hi RoE or Marg/Debt/

Source: FactSet, as at 6 December 2020

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ISSN 0261-3115.