

AlphaScreens: finding dividend diamonds

1 July 2021

Eight Aim stocks with a slice of income

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:

- Aim stocks are, it's mostly fair to say, thought of mostly in terms of growth opportunities. Value investors, too, have also found rich-pickings over the years on Aim, as companies with a sum of parts valuation that's higher than their market capitalisation can be found. Dividend yield on Aim is seen as a sign of value and not necessarily as indicating a stock should be held long-term for income. Nonetheless, there are several companies ranking well on our Aim dividend yield screen this month. Although they might not all be considered income stocks per se, a decent payout is an important part of getting a good total return.
- **Warehouse Reit (WHR)** yields 4.1 per cent and as a reit has to pay 90 per cent of its earnings in dividends, the income component is always going to be significant. It only has an interest cover of four times, according to our data, which flags leverage and borrowing as an area to investigate further.
- **Smart Metering Systems (SMS)** also fails the five times interest cover test, but otherwise scores full marks.
- For **Keystone Law Group (KEYS)** and **Tatton Asset Management (TAM)**, the issue is earnings per share not giving one-and-a-half times cover to dividends per share.

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).

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Stock screen and methodology by Algy Hall

FTSE All-Share 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)
Polymetal Int'l	POLY	£7,362m	1,555p	9	6.1%	14%	9.6%	11.9%	1,012m	USD	na	NO	8
Apax Global Alpha.	APAX	£955m	194p	-	5.2%	-	-	2.3%	-112m	EUR	/FwdEPSGrth/	NO	7
CMC Markets	CMCX	£1,337m	460p	13	6.7%	-41.3%	3.5%	-5.3%	-131m	GBP	/FwdEPSGrth/	NO	7
Blackrock World Mining Trust C	BRWM	£1,117m	608p	-	3.3%	-	-	6.5%	115m	GBP	/FwdEPSGrth/	NO	7
Impact Healthcare REIT	IHR	£390m	111p	15	5.7%	20.9%	11.4%	-1.2%	66m	GBP	/DivCov/	NO	7
Sirius Real Estate Ltd	SRE	£1,167m	111p	17	3.0%	42.5%	-5.9%	22.8%	356m	EUR	/FwdEPSGrth/	NO	7
Devro	DVO	£322m	193p	11	7.9%	3.6%	6.5%	-1.1%	110m	GBP	/DivCov/	NO	7
Big Yellow	BYG	£2,401m	1,307p	28	2.6%	9.3%	6.4%	16.5%	341m	GBP	/DivGrth/	NO	7
Carr's Group	CARR	£133m	142p	11	4.2%	2.1%	7.0%	6.4%	26m	GBP	/FwdEPSGrth/	NO	7
Intermediate Capital	ICP	£6,171m	2,124p	19	2.6%	-32.7%	12.6%	12.6%	4,617m	GBP	/FwdEPSGrth/	NO	7
B&M European Value Retail SA	BME	£5,737m	573p	17	3.0%	-23.3%	9.1%	7.3%	1,814m	GBP	/FwdEPSGrth/	NO	7
Smurfit Kappa	SKG	£10,175m	3,928p	17	4.4%	5.8%	15.7%	13.9%	2,126m	EUR	/DivCov/	NO	7
Stock Spirits	STCK	£523m	262p	13	3.3%	-4.5%	8.1%	-6.6%	28m	EUR	/FwdEPSGrth/	NO	7
DCC	DCC	£5,836m	5,918p	14	2.7%	6.2%	4.2%	-6.2%	302m	GBP	/EPSGrth/	NO	7
Morgan Sindall	MGNS	£999m	2,155p	11	2.8%	76.6%	0.5%	21.8%	-282m	GBP	/EPSGrth/	NO	7
Plus500.	PLUS	£1,353m	1,335p	8	9.8%	-45.9%	-16.6%	-3.3%	-429m	USD	/FwdEPSGrth/DivGrth/	NO	6
Majedie Investments	MAJE	£121m	229p	-	5.0%	-	-	-3.4%	16m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Bankers Investment Trust GBP	BNKR	£1,498m	114p	-	6.1%	-	-	2.7%	39m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Lowland Investment Co	LWI	£362m	1,340p	-	4.5%	-	-	7.6%	26m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Schroder European REIT	SERE	£131m	98p	-	5.3%	-	-	0.6%	46m	EUR	/FwdEPSGrth/DivGrth/	NO	6
SSE	SSE	£15,652m	1,501p	16	5.4%	8.7%	4.6%	4.6%	9,280m	GBP	/DivGrth/IntCov/	NO	6
AEW UK REIT	AEWU	£152m	96p	13	8.3%	18.0%	12.4%	16.2%	22m	GBP	/DivGrth/FCF/	NO	6
Montanaro UK Smaller Cos IT	MTU	£269m	161p	-	3.4%	-	-	11.6%	10m	GBP	/FwdEPSGrth/FCF/	NO	6
Utilico Emerging Markets Trust GBP	UEM	£496m	225p	-	3.5%	-	-	13.4%	49m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Ferrexpo	FXPO	£2,518m	428p	4	14.7%	79.2%	-26.0%	15.1%	-3m	USD	/FwdEPSGrth/DivCov/	NO	6
JPMorgan China Growth & Inc.	JCGI	£605m	729p	-	2.9%	-	-	16.5%	-2m	GBP	/FwdEPSGrth/FCF/	NO	6
NB Private Eq. Partners Ltd Class A	NBPE	£608m	1,395p	-	3.2%	-	-	19.0%	138m	USD	/FwdEPSGrth/DivGrth/	NO	6
3i Group	III	£11,415m	1,173p	6	3.3%	-0.5%	6.9%	0.5%	776m	GBP	/FwdEPSGrth/FCF/	NO	6
TR Property IT Ord. Shares Class GBP	TRY	£1,409m	444p	-	3.2%	-	-	14.3%	123m	GBP	/FwdEPSGrth/FCF/	NO	6
Rio Tinto	RIO	£74,229m	5,949p	7	5.7%	83.2%	-29.2%	6.7%	565m	USD	/FwdEPSGrth/DivCov/	NO	6
BAE Systems	BA	£16,852m	522p	11	4.5%	0.8%	7.4%	1.8%	3,723m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Ashmore Group	ASHM	£2,744m	385p	16	4.4%	11.0%	-12.9%	-3.2%	-462m	GBP	/FwdEPSGrth/DivGrth/	NO	6
BB Healthcare Trust	BBH	£1,067m	198p	-	2.5%	-	-	6.4%	-93m	GBP	/FwdEPSGrth/FCF/	NO	6
Centamin	CEY	£1,170m	101p	12	11.3%	-11.8%	0.2%	-0.8%	-213m	USD	/FwdEPSGrth/DivCov/	NO	6
Henderson Int'l Inc. Trust GBP	HINT	£326m	167p	-	3.6%	-	-	4.7%	44m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Severfield	SFR	£247m	80p	11	3.6%	15.0%	11.9%	2.6%	7m	GBP	/DivGrth/EPSGrth/	NO	6
Mondi	MNDI	£9,230m	1,901p	15	4.2%	3.9%	20.6%	-0.6%	1,598m	EUR	/EPSGrth/DivCov/	NO	6
BHP Group	BHP	£44,987m	2,130p	8	5.3%	77.6%	8.2%	1.2%	9,815m	USD	/DivGrth/DivCov/	NO	6
Bloomsbury Publishing	BMV	£284m	348p	19	5.4%	-3.7%	10.6%	20.8%	-42m	GBP	/FwdEPSGrth/DivCov/	NO	6
Ultra Electronics Holdings	ULE	£1,631m	2,290p	17	4.2%	-1.1%	7.3%	11.8%	86m	GBP	/FwdEPSGrth/DivCov/	NO	6
Schroders	SDR	£9,404m	3,513p	16	3.2%	9.5%	7.5%	2.0%	-3,000m	GBP	/DivGrth/EPSGrth/	NO	6
XPS Pensions	XPS	£283m	138p	13	4.9%	3.6%	7.7%	15.0%	62m	GBP	/DivGrth/DivCov/	NO	6
FDM Group	FDM	£1,114m	1,020p	30	4.6%	9.6%	13.7%	0.6%	-45m	GBP	/EPSGrth/DivCov/	NO	6
Bellway	BWY	£3,998m	3,240p	9	2.6%	65.0%	9.2%	-6.3%	-346m	GBP	/DivGrth/EPSGrth/	NO	6
Rathbone Brothers	RAT	£1,113m	1,812p	12	4.0%	18.6%	5.2%	3.9%	-1,726m	GBP	/EPSGrth/DivCov/	NO	6
Rotork	ROR	£2,976m	340p	26	3.0%	2.0%	7.5%	-5.4%	-178m	GBP	/FwdEPSGrth/DivCov/	NO	6
RHI Magnesita NV	RHIM	£1,921m	4,050p	10	3.2%	37.7%	15.9%	-2.2%	519m	EUR	/EPSGrth/DivCov/	NO	6
HomeServe	HSV	£3,211m	956p	19	2.7%	14.1%	13.6%	-20.4%	514m	GBP	/EPSGrth/DivCov/	NO	6
Clarkson	CKN	£971m	3,190p	25	4.1%	15.8%	7.7%	16.8%	-148m	GBP	/EPSGrth/DivCov/	NO	6

Source: FactSet, 1 July 2021

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Impact Healthcare REIT	IHR	£390m	111p	15	5.7%	20.9%	11.4%	-1.2%	66m	GBP	/DivCov/	NO		7
Carr's Group	CARR	£133m	142p	11	4.2%	2.1%	7.0%	6.4%	26m	GBP	/FwdEPSGrth/	NO		7
Premier Miton Glo. Ren. Trust	PMGR	£30m	166p	4	6.1%	657.2%	53.4%	5.7%	14m	GBP	/DivGrth/EPSGrth/	NO		6
Majedie Investments	MAJE	£121m	229p	-	5.0%	-	-	-3.4%	16m	GBP	/FwdEPSGrth/EPSGrth/	NO		6
Lowland Investment Co	LWI	£362m	1,340p	-	4.5%	-	-	7.6%	26m	GBP	/FwdEPSGrth/EPSGrth/	NO		6
AEW UK REIT	AEWU	£152m	96p	13	8.3%	18.0%	12.4%	16.2%	22m	GBP	/DivGrth/FCF/	NO		6
Schroder European REIT	SERE	£131m	98p	-	5.3%	-	-	0.6%	46m	EUR	/FwdEPSGrth/DivGrth/	NO		6
Bloomsbury Publishing	BMV	£284m	348p	19	5.4%	-3.7%	10.6%	20.8%	-42m	GBP	/FwdEPSGrth/DivCov/	NO		6
XPS Pensions Group	XPS	£283m	138p	13	4.9%	3.6%	7.7%	15.0%	62m	GBP	/DivGrth/DivCov/	NO		6

Source: FactSet, 1 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)
Warehouse REIT	WHR	£637m	150p	22	4.1%	28.9%	8.0%	21.0%	207m	GBP	/IntCov/	NO		7
Smart Metering Sys.	SMS	£985m	869p	64	2.9%	34.1%	13.0%	6.9%	-37m	GBP	/IntCov/	NO		7
Caledonia Mining Corp.	CMCL	£106m	910p	4	3.1%	31.1%	36.1%	-12.9%	-9m	USD	/FCF/	NO		7
Robinson	RBN	£21m	128p	9	6.7%	69.0%	7.0%	-8.9%	7m	GBP	/DivCov/	NO		7
Property Franchise	TPFG	£96m	299p	13	2.9%	35.8%	2.2%	35.3%	-9m	GBP	/EPSGrth/	NO		7
Tatton Asset Mgmt	TAM	£249m	431p	25	2.6%	13.2%	13.5%	22.6%	-16m	GBP	/DivCov/	NO		7
Keystone Law	KEYS	£213m	680p	37	2.5%	13.7%	12.3%	8.8%	-6m	GBP	/DivCov/	NO		7
Wynnstay	WYN	£99m	490p	12	3.0%	42.2%	4.1%	0.5%	5m	GBP	/DivCov/	NO		7
Anglo Asian Mining	AAZ	£162m	142p	-	4.2%	-	-	1.4%	-27m	USD	/FwdEPSGrth/DivGrth/	NO		6
H&T Group	HAT	£107m	268p	10	3.2%	-43.1%	81.4%	-9.5%	-14m	GBP	/FwdEPSGrth/DivGrth/	NO		6
STM Group PLC	STM	£20m	34p	8	4.2%	29.6%	34.3%	8.1%	-	GBP	/DivGrth/EPSGrth/	NO		6
Belvoir Group PLC	BLV	£87m	240p	12	4.4%	41.1%	-3.9%	20.6%	4m	GBP	/FwdEPSGrth/DivCov/	NO		6
Jarvis Securities plc	JIM	£112m	252p	-	4.4%	-	-	-4.0%	-4m	GBP	/FwdEPSGrth/DivCov/	NO		6
Titon Holdings Plc	TON	£15m	137p	15	2.6%	1323.1%	31.1%	7.5%	-4m	GBP	/DivGrth/EPSGrth/	NO		6
EMIS Group plc	EMIS	£728m	1,150p	21	2.8%	3.1%	6.2%	4.5%	-46m	GBP	/FwdEPSGrth/DivCov/	NO		6
M.P. Evans Group PLC	MPE	£392m	719p	16	3.1%	56.1%	7.8%	2.7%	57m	USD	/EPSGrth/DivCov/	NO		6

Source: FactSet, 1 July 2021

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