

AlphaScreens: the might of momentum

15 February 2021

Rio Tinto has the confidence of analysts

Momentum strategies show persistent outperformance. We run our Alpha momentum screen across three indices: FTSE All-Share, All Small, and Aim

Comment by Alpha editor:

- Buoyed by its iron ore operations, mining giant **Rio Tinto (RIO)** is expected to deliver year-on-year profit growth for 2020, although not by enough to pass our 'over 10 per cent forecast current year earnings growth' test. Analysts don't appear bothered by any perceived over-reliance on iron, as the consensus forecast (going by our FactSet data) is for over a 30 per cent profit increase in the 2020-21 financial year. Perhaps they are being too optimistic, as margins would be vulnerable to any fall in the iron ore price. Furthermore, new assets that will help the company get on the right side of the ESG boom will probably take longer than one year to come on stream, but investors will hope analysts' confidence bodes well for the shares and maintenance of the juicy dividend.
- Chile-focussed miner **Antofagasta (ANTO)**, fails the same two tests as Rio Tinto - the other one they both come up short against is one month share price momentum. Its FY forecast earnings growth for the current year is just 1.1 per cent (FactSet) but that's followed the next year by a bumper 70 per cent growth forecast. Antofagasta did reasonably well in a period when copper prices were low, and clearly analysts are confident the company will cash in if the renewable energy focus drives copper prices higher.
- The same confidence is shown towards Kazakhstan-focussed **Kaz Minerals (KAZ)**, which is another miner with a significant copper operation. It passes seven out of eight momentum tests, with the only one failed being the same 10 per cent current year upgrade. In the following financial year, however, the consensus is for nearly 48 per cent higher profits compared to the current period.

Great expectations

The Alpha momentum screens apply the idea of momentum not only to share price performance, but also to expected profit growth. The screen looks for strong forecast earnings per share (EPS) growth, but more importantly it looks for an improving trend in broker expectations. Indeed, EPS forecast upgrades can be considered the screen's primary focus.

The Alpha momentum screen is conducted separately on constituents of the FTSE All-Share, FTSE All Small and FTSE Aim All-Share indices, with the results from each screen reported in separate tables. The screen looks for stocks displaying three characteristics, each of which are tested using a few different criteria.

- **Earnings upgrade momentum:** earnings per share (EPS) upgrades over the past 12 months of at least 10 per cent for both the current financial year and next financial year.
- **Earnings momentum:** Forecast EPS growth of at least 10 per cent in the current financial year and next financial year.
- **Price momentum:** Studies have found that the longer price momentum has persisted the more likely it is to be 'stale' and set to reverse. The Alpha momentum screen tests for strong share price performance over four different periods, which helps check price momentum remains fresh.

Stock screen and methodology by Algy Hall

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

Name	TIDM	Market cap	Price	Fwd NTMPE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Trealt	TET	£593m	994p	39	24%	0.6%	35.1%	11.0%	57.8%	0m	GBP	8	na
Gamesys	GYS	£1,482m	1,356p	9	14%	0.0%	33.8%	15.2%	25.8%	393m	GBP	8	na
Royal Mail	RMG	£4,564m	456p	13	190%	1.6%	73.2%	6.1%	68.5%	1,025m	GBP	7	/>10% EPSgrth FY+2/
Ferrexpo	FXPO	£1,885m	320p	4	211%	7.9%	11.9%	19.1%	59.9%	141m	USD	7	/1mthMom/
CMC Markets	CMCX	£1,227m	422p	15	251%	5.1%	86.5%	-56.8%	24.9%	-156m	GBP	7	/>10% EPSgrth FY+2/
KAZ Minerals	KAZ	£3,801m	804p	6	42%	1.2%	-5.2%	47.9%	25.3%	2,264m	USD	7	/>10% EPSgrth FY+1/
888 Holdings	888	£1,149m	312p	20	56%	2.3%	76.4%	-17.9%	23.4%	-87m	USD	7	/>10% EPSgrth FY+2/
Clipper Logistics	CLG	£596m	586p	23	30%	1.7%	42.8%	17.2%	23.2%	189m	GBP	7	/1mthMom/
Genus	GNS	£3,546m	5,430p	51	14%	0.5%	20.3%	7.8%	22.0%	103m	GBP	7	/>10% EPSgrth FY+2/
Kainos	KNOS	£1,670m	1,362p	37	76%	0.5%	122.8%	-2.0%	14.5%	-59m	GBP	7	/>10% EPSgrth FY+2/
Antofagasta	ANTO	£15,113m	1,533p	21	40%	0.7%	1.1%	70.3%	38.0%	259m	USD	6	/>10% EPSgrth FY+1/1mthMom/
Rio Tinto	RIO	£73,996m	5,934p	9	54%	5.0%	6.8%	31.3%	24.5%	6,352m	USD	6	/>10% EPSgrth FY+1/1mthMom/
McBride	MCB	£143m	80p	7	37%	1.4%	17.4%	5.1%	24.1%	102m	GBP	6	/>10% EPSgrth FY+2/1mthMom/
B&M Euro Value	BME	£5,584m	558p	17	45%	1.7%	98.6%	-12.2%	12.5%	1,626m	GBP	6	/>10% EPSgrth FY+2/6mthMom/
Future	FUTR	£1,817m	1,854p	20	20%	0.1%	94.9%	9.2%	-9.6%	87m	GBP	6	/>10% EPSgrth FY+2/3mthMom/

Source: FactSet, 15 February 2021

Small-cap momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTMPE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Trealt	TET	£593m	994p	39	24%	0.6%	35.1%	11.0%	57.8%	0m	GBP	8	na
Clipper Log	CLG	£596m	586p	23	30%	1.7%	42.8%	17.2%	23.2%	189m	GBP	7	/1mthMom/
Lamprell	LAM	£259m	76p	-	86%	0.0%	-	-	136.9%	-12m	USD	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
McBride	MCB	£143m	80p	7	37%	1.4%	17.4%	5.1%	24.1%	102m	GBP	6	/>10% EPSgrth FY+2/1mthMom/

Source: FactSet, 15 February 2021

Aim momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTMPE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Griffin Mining	GFM	£243m	140p	12	31%	0.0%	31.6%	215.9%	87.2%	-7m	USD	8	na
Ergomed	ERGO	£572m	1,175p	39	40%	0.0%	117.7%	20.1%	45.1%	-8m	GBP	8	na
Xpediator	XPD	£62m	44p	10	40%	1.0%	36.0%	26.1%	76.0%	22m	GBP	7	/1yrMom/
Sylvania Platinum	SLP	£313m	115p	4	218%	1.4%	160.4%	0.0%	62.0%	-45m	USD	7	/>10% EPSgrth FY+2/
Impax Asset Mgmt	IPX	£1,056m	810p	33	64%	1.1%	55.2%	21.8%	43.1%	-32m	GBP	7	/1mthMom/
ITM Power	ITM	£3,524m	640p	-	44%	0.0%	-	-	120.3%	-19m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Jersey Oil & Gas	JOG	£43m	199p	-	29%	0.0%	-	-	108.4%	-9m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
EKF Diagnostics	EKF	£350m	77p	39	82%	0.0%	201.2%	-43.6%	11.6%	-15m	GBP	6	/>10% EPSgrth FY+2/3mthMom/

Source: FactSet, 15 February 2021

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