

AlphaScreens: the might of momentum

25 March 2021

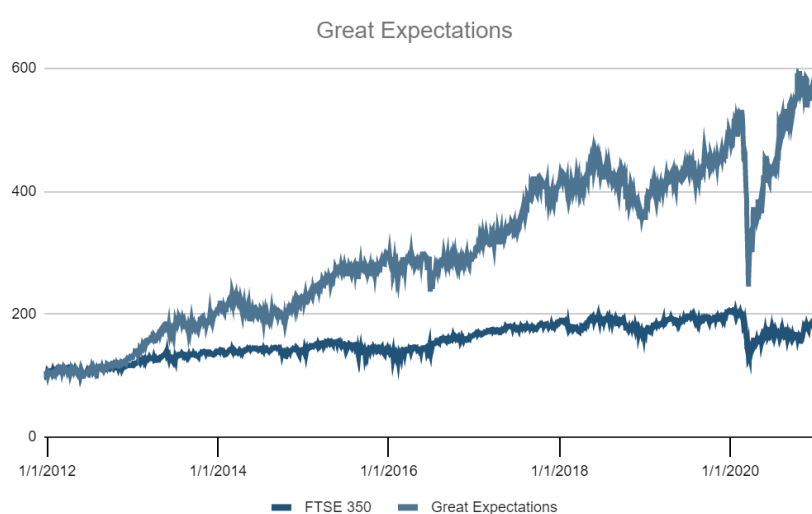
Can Royal Mail keep delivering?

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

- **Royal Mail Group (RMG)** has enjoyed a surprising turnaround since the depths of lockdown mk.1 last Spring. At first it struggled as mail volumes shrank and unions continued to agitate amongst its workforce – who are classed as frontline workers after all. But a rebound in postal volumes as coronavirus reshaped our way of life, potentially permanently, a compromise with the Communication Workers' Union and the first fruits of its 2024 modernisation plan have combined to produce an upturn in fortunes. And the share price has responded in kind – more than tripling over the past year. It is perhaps little surprise investors have cottoned on to the chunky upgrades analysts have predicted for earnings in the coming year, although the following year looks set to be more prosaic, hence why Royal Mail failed one of our momentum tests.
- Hats off to ingredients specialist Treatt, which is the only stock to pass all eight tests for the momentum screen in both the All Share and Small Cap indices. This well-managed business, operating debt free, has had a good pandemic if ever there could be such a thing as demand for its products has remained robust and innovations have helped it continue to grow its presence in key low sugar and sugar free products. Analysts are booking in solid and consistent upgrades to EPS forecasts over the coming years which should help it maintain momentum. The only possible fly in the ointment, pointed out in Phil Oakley's recent in depth analysis of the company, is a lengthening of debtor days which investors should keep an eye on.
- On Aim two very different companies passed all our tests with digital technology services business Panopoly and old economy miner Sylvania Platinum both scoring top marks. The former is benefiting from strong and consistent growth leading to upgrades in expectations while the rebound in metals markets has played into the hands of Sylvania.

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.



Source: Refinitiv, Investors Chronicle

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-mth momentum	Net cash/debt (-)	Cur	Tests passed (out of 8)	Test failed
Trealt	TET	£611m	1,025p	40	24%	0.6%	35.1%	11.0%	33.5%	0m	GBP	8	na
Royal Mail	RMG	£5,094m	509p	11	311%	1.5%	133.4%	4.7%	54.0%	1,025m	GBP	7	/>10%EPSgrth FY+2/
Ferrexpo	FXPO	£2,225m	378p	4	266%	11.9%	20.8%	-35.6%	28.0%	-3m	USD	7	/>10%EPSgrth FY+2/
Halfords Group	HFD	£683m	343p	14	56%	0.0%	54.2%	-32.4%	30.7%	272m	GBP	7	/>10%EPSgrth FY+2/
IP Group	IPO	£1,273m	120p	6	99%	0.8%	40.6%	-53.9%	27.4%	-170m	GBP	7	/>10%EPSgrth FY+2/
Gamesys Group	GYS	£1,795m	1,642p	10	21%	0.0%	8.9%	12.7%	43.0%	289m	GBP	7	/>10%EPSgrth FY+1/
Topps Tiles	TPT	£131m	67p	16	21%	0.0%	143.5%	21.7%	21.5%	98m	GBP	7	/1yrMom/
CMC Markets	CMCX	£1,331m	458p	18	192%	4.7%	90.3%	-56.8%	12.9%	-156m	GBP	7	/>10%EPSgrth FY+2/
Kainos Group	KNOS	£1,703m	1,388p	38	81%	0.5%	122.7%	-2.0%	11.0%	-59m	GBP	7	/>10%EPSgrth FY+2/
Clipper Logistics	CLG	£603m	593p	21	36%	1.7%	47.2%	24.0%	3.9%	189m	GBP	7	/3mthMom/
888 Holdings	888	£1,395m	378p	20	41%	3.5%	-2.4%	5.8%	32.2%	-114m	USD	6	/>10%EPSgrth FY+1/>10%EPSgrth FY+2/
KAZ Minerals	KAZ	£3,903m	826p	6	61%	0.0%	47.1%	7.7%	27.2%	1,903m	USD	6	/>10%EPSgrth FY+2/1mthMom/
Antofagasta	ANTO	£16,365m	1,660p	20	71%	2.4%	112.4%	-1.3%	16.2%	60m	USD	6	/>10%EPSgrth FY+2/1mthMom/
Glencore	GLEN	£36,242m	272p	10	37%	1.6%	113.0%	-6.6%	15.0%	26,322m	USD	6	/>10%EPSgrth FY+2/1mthMom/
Anglo American	AAL	£37,090m	2,721p	7	75%	2.7%	128.3%	-20.2%	10.5%	4,382m	USD	6	/>10%EPSgrth FY+2/1mthMom/
Liontrust Asset Mgt	LIO	£841m	1,380p	15	41%	2.5%	19.7%	35.0%	10.8%	-94m	GBP	6	/1yrMom/6mthMom/
McBride	MCB	£153m	87p	7	44%	1.3%	18.3%	8.4%	5.9%	118m	GBP	6	/>10%EPSgrth FY+2/1yrMom/
Future	FUTR	£2,203m	1,826p	17	37%	0.1%	118.5%	14.6%	5.7%	87m	GBP	6	/6mthMom/1mthMom/
Alfa Fin. Software	ALFA	£399m	133p	43	47%	0.8%	-55.3%	13.2%	2.3%	-20m	GBP	6	/>10%EPSgrth FY+1/3mthMom/

Source: FactSet, 24 March 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-mth momentum	Net cash/debt (-)	Cur	Tests passed (out of 8)	Test failed
Trealt	TET	£611m	1,025p	40	24%	0.6%	35.1%	11.0%	33.5%	0m	GBP	8	na
Halfords	HFD	£683m	343p	14	56%	0.0%	54.2%	-32.4%	30.7%	272m	GBP	7	/>10%EPSgrth FY+2/
Topps Tiles	TPT	£131m	67p	16	21%	0.0%	143.5%	21.7%	21.5%	98m	GBP	7	/1yrMom/
Clipper Logistics	CLG	£603m	593p	21	36%	1.7%	47.2%	24.0%	3.9%	189m	GBP	7	/3mthMom/
Alfa Fin. Software	ALFA	£399m	133p	43	47%	0.8%	-55.3%	13.2%	2.3%	-20m	GBP	6	/>10%EPSgrth FY+1/3mthMom/

Source: FactSet, 24 March 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-mth momentum	Net cash/debt (-)	Cur	Tests passed (out of 8)	Test failed
Panopoly Holdings	TPX	£209m	260p	33	36%	0.1%	70.8%	27.6%	55.2%	2m	GBP	8	na
Sylvania Platinum	SLP	£328m	120p	4	29%	1.3%	135.6%	13.1%	56.5%	-49m	USD	8	na
Kape Technologies	KAPE	£595m	280p	15	48%	0.0%	61.5%	22.7%	57.7%	-6m	USD	7	/1yrMom/
ASOS	ASC	£5,908m	5,918p	39	51%	0.0%	12.6%	14.0%	24.4%	-94m	GBP	7	/6mthMom/
Xpeditior	XPD	£67m	47p	10	40%	0.9%	36.0%	26.1%	63.8%	22m	GBP	6	/1yrMom/1mthMom/
Tribal Group	TRB	£214m	104p	22	21%	2.2%	19.7%	2.1%	30.0%	-6m	GBP	6	/>10%EPSgrth FY+2/1yrMom/
Focusrite	TUNE	£686m	1,170p	33	46%	0.4%	18.4%	-17.3%	12.5%	-1m	GBP	6	/>10%EPSgrth FY+2/3mthMom/
Impax Asset Mgmt	IPX	£973m	734p	30	59%	1.2%	55.2%	21.8%	6.4%	-32m	GBP	6	/3mthMom/1mthMom/

Source: FactSet, 24 March 2021

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ISSN 0261-3115.