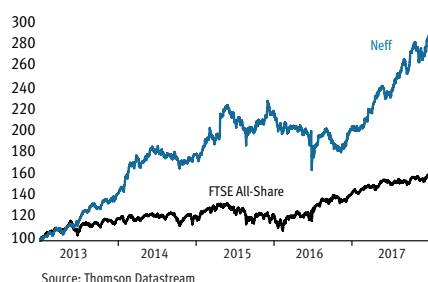




## AlphaScreens: The market according to GARP

*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 5-year cumulative total return



### 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.

- Recruiter Page Group is now the only company to pass all our large-cap GARP criteria. Plastics manufacturer RPC Group no longer passes all 8 tests as its Forward PE is now in the bottom quartile of companies screened. Bovis Homes drops out of the screen as its PEG ratio is now above the median, indicating it is expensive.
- Haynes Publishing Group still passes all 7 small-cap GARP criteria. Specialist buildings material manufacturer Alumasc falls out of the list of companies which fail only one test, as it reels from a profit warning.
- In our Aim screen, Secure Income REIT and Caledonia Mining Corporation no longer pass every test – both failing the Forward EPS criteria. SciSys and Atalaya Mining join the group of companies with a maximum 7/7 score.

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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.

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

Name (Tidm)	Market cap	Price (p)	Fwd NTM PE	PEG	Dividend yield	Fwd EPS growth FY+1	Fwd EPS Growth FY+2	3-month mom'n	Net cash/debt (-1)	Currency	Tests passed (out of 8)	Test(s) failed
PageGroup (LSE:PAGE)	£1,661m	537	17	1.0	4.7%	16.5%	6.6%	19.0%	96m	GBP	8	na
S&U (LSE:SUS)	£288m	2,400	10	0.6	4.4%	19.9%	10.5%	1.2%	-105m	GBP	7	/FCF/
Hays (LSE:HAS)	£2,732m	188	16	1.2	1.7%	17.4%	8.2%	4.2%	35m	GBP	7	/HY EPS grth/
Communis (LSE:CMS)	£132m	63	9	0.7	4.2%	7.2%	6.6%	-2.6%	-24m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Vp (LSE:VP)	£335m	850	11	0.7	2.6%	16.4%	16.3%	-3.1%	-115m	GBP	7	/FCF/
MedicX Fund (LSE:MXF)	£337m	79	20	0.2	7.7%	6.5%	8.2%	-5.0%	-342m	GBP	7	/5yr EPS grth/
Ashtead (LSE:AHX)	£9,530m	1,940	13	0.5	1.4%	25.9%	16.6%	-4.9%	-2,629m	GBP	7	/5yr EPS grth/
Grafton (LSE:GFTU)	£1,828m	770	13	0.7	2.0%	7.2%	7.5%	-5.4%	-63m	GBP	7	/5yr EPS grth/
Paragon Banking (LSE:PAG)	£1,211m	470	10	0.8	3.3%	8.7%	8.4%	-5.2%	-6,531m	GBP	7	/FCF/
Shaftesbury (LSE:SHB)	£3,012m	982	54	0.5	1.6%	12.8%	9.6%	-7.6%	-903m	GBP	7	/5yr EPS grth/
MJ Gleeson (LSE:GLE)	£396m	728	14	0.5	3.3%	10.5%	9.1%	-8.1%	27m	GBP	7	/5yr EPS grth/
Morgan Adv Mat (LSE:MGAM)	£907m	318	13	0.5	3.5%	11.1%	6.0%	-8.1%	-181m	GBP	7	/5yr Rev grth/
SThree (LSE:STHR)	£415m	323	12	1.0	4.3%	10.5%	14.3%	-11.9%	6m	GBP	7	/HY EPS grth/
RPC Group (LSE:RPC)	£3,137m	773	10	1.3	3.2%	14.9%	7.0%	-12.2%	-1,097m	GBP	7	/mid PE/
Morgan Sindall (LSE:MGNS)	£517m	1,170	9	0.8	3.8%	14.0%	3.8%	-18.2%	193m	GBP	7	/FCF/
Robert Walters (LSE:RWA)	£492m	680	15	0.6	1.8%	15.8%	4.7%	14.5%	31m	GBP	6	/5yr EPS grth/FCF/
TBC Bank (LSE:TBCG)	£985m	1,840	8	0.5	2.6%	14.7%	12.5%	4.0%	-1,492m	GEL	6	/5yr EPS grth/FCF/
Spectris (LSE:SXS)	£3,208m	2,694	17	1.1	2.1%	8.7%	8.9%	4.3%	-51m	GBP	6	/HY EPS grth/5yr Rev grth/
BGEO Group (LSE:BGEO)	£1,347m	3,556	9	0.6	2.1%	40.0%	7.0%	-0.7%	-2,543m	GEL	6	/HY EPS grth/FCF/
National Express (LSE:NEX)	£1,975m	387	12	1.1	3.5%	11.4%	2.7%	0.2%	-919m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
Howden Joinery (LSE:HWDN)	£2,853m	461	14	1.1	2.4%	7.3%	6.9%	-0.7%	241m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
JD Sports Fashion (LSE:JD.)	£3,263m	335	13	0.6	0.5%	25.1%	6.4%	-5.3%	223m	GBP	6	/5yr EPS grth/FCF/
Carnival (LSE:CCL)	£32,733m	4,580	14	1.0	2.8%	15.9%	13.7%	-6.6%	-9,130m	USD	6	/HY EPS grth/5yr Rev grth/
Henry Boot (LSE:BOOT)	£391m	295	11	0.5	2.7%	-12.4%	1.5%	-8.2%	-29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Persimmon (LSE:PSN)	£7,856m	2,530	9	0.4	9.3%	8.1%	2.5%	-8.8%	1,303m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Redrow (LSE:RDW)	£2,148m	596	7	0.2	3.7%	14.0%	8.2%	-11.9%	-35m	GBP	6	/5yr EPS grth/FCF/
The Berkeley Group (LSE:BKG)	£5,074m	3,789	9	0.6	2.9%	15.1%	-29.9%	-11.0%	633m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
esure (LSE:ESUR)	£907m	216	10	0.2	5.7%	11.3%	10.5%	-13.4%	-77m	GBP	6	/5yr EPS grth/HY EPS grth/
Taylor Wimpey (LSE:TW)	£6,024m	185	9	0.5	8.2%	6.6%	3.5%	-12.2%	512m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Games Workshop (LSE:GAW)	£746m	2,305	15	0.9	4.3%	83.5%	-23.7%	-11.2%	29m	GBP	6	/mid PE/5yr EPS grth/
Ted Baker (LSE:TED)	£1,112m	2,500	18	1.2	2.4%	12.0%	9.9%	-10.4%	-112m	GBP	6	/mid PE/FCF/
WPP (LSE:WPP)	£14,120m	1,133	10	0.5	5.3%	-2.0%	4.6%	-14.7%	-4,483m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%Fwd EPS/
Playtech (LSE:PTC)	£2,307m	733	11	0.5	4.3%	10.1%	11.9%	-16.0%	107m	EUR	6	/5yr EPS grth/Fwd EPS/
Bellway (LSE:BWY)	£3,740m	3,049	7	0.3	4.0%	13.3%	5.1%	-17.5%	-131m	GBP	6	/5yr EPS grth/FCF/
Crest Nicholson (LSE:CRST)	£1,162m	454	7	0.3	7.3%	6.3%	14.5%	-17.6%	33m	GBP	6	/FCF/Fwd EPS/
Barratt Devpts (LSE:BDEV)	£5,364m	530	8	0.3	8.1%	6.1%	5.4%	-19.5%	166m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Photo-Me Int'l (LSE:PHTM)	£621m	165	17	1.1	4.3%	5.4%	7.0%	-13.4%	45m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
Assoc. Brit Foods (LSE:ABF)	£19,634m	2,491	18	1.2	1.6%	5.9%	8.9%	-13.6%	673m	GBP	6	/5yr Rev grth/Fwd EPS/
Inchcape (LSE:INCH)	£2,864m	691	11	1.1	3.9%	-2.8%	4.8%	-14.2%	-344m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%Fwd EPS/
4imprint (LSE:FOUR)	£441m	1,575	19	0.8	2.6%	8.7%	12.0%	-17.2%	31m	USD	6	/5yr EPS grth/Fwd EPS/
Imperial Brands (LSE:IMB)	£23,053m	2,426	9	1.0	7.0%	-0.8%	3.7%	-22.8%	-11,911m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
Superdry (LSE:SDRY)	£1,274m	1,561	15	1.1	1.8%	14.6%	14.7%	-25.0%	34m	GBP	6	/HY EPS grth/FCF/

Source: S&P Capital IQ and Investors Chronicle

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

Name (Tidm)	Market cap	Price (p)	Fwd NTM PE	PEG	Dividend yield	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/ Debt (-)	Currency	Tests passed (out of 7)	Test(s) failed
Haynes Publishing (LSE:HYNS)	£36m	235	20	0.98	3.2%	25.5%	21.6%	17.9%	0m	GBP	7	na
Bonmarché (LSE:BON)	£41m	84	6	0.40	8.5%	24.7%	17.2%	-34.1%	15m	GBP	6	/Mom or Upgrade/
Speedy Hire (LSE:SDY)	£270m	52	14	0.62	1.9%	51.3%	16.6%	-16.2%	-63m	GBP	6	/Hi RoE or Marg/
Vp (LSE:VP)	£335m	850	11	0.82	2.6%	16.4%	16.3%	-3.1%	-115m	GBP	6	/Debt/
Gocompare.com (LSE:GOCO)	£469m	112	14	1.01	1.3%	27.7%	8.8%	-2.1%	-39m	GBP	6	/Hi RoE or Marg/
MacFarlane (LSE:MACF)	£126m	80	12	0.85	2.6%	33.0%	2.3%	0.3%	-15m	GBP	6	/Cash Conv/
Carr's Group (LSE:CARR)	£119m	130	11	0.86	3.1%	34.8%	3.7%	1.5%	-14m	GBP	6	/Hi RoE or Marg/
TClarke (LSE:CTO)	£34m	82	6	0.79	4.3%	8.7%	6.7%	3.0%	12m	GBP	6	/Fwd EPS grth/
Motorpoint (LSE:MOTR)	£222m	222	13	0.95	1.9%	38.8%	10.7%	4.6%	-49m	GBP	6	/Debt/
Gem Diamonds (LSE:GEMD)	£125m	90	5	0.81	-	263.6%	-51.2%	19.1%	1m	USD	6	/Fwd EPS grth/
Pendragon (LSE:PDG)	£328m	23	7	0.84	6.9%	7.3%	7.1%	-16.6%	-124m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Hansteen (LSE:HSTN)	£527m	128	26	0.76	4.8%	17.0%	15.1%	-9.8%	-225m	GBP	5	/Mom or Upgrade/Debt/
Target Healthcare REIT (LSE:THRL)	£349m	103	18	0.96	6.3%	19.0%	7.7%	-6.8%	-65m	GBP	5	/Mom or Upgrade/Cash Conv/
Trinity Mirror (LSE:TNI)	£235m	80	2	0.55	7.3%	1.1%	11.4%	-4.1%	-9m	GBP	5	/Fwd EPS grth/Cash Conv/
S&U (LSE:SUS)	£288m	2,400	10	0.73	4.4%	19.9%	10.5%	-0.4%	-105m	GBP	5	/Hi RoE or Marg/Cash Conv/

Source: S&P Capital IQ and Investors Chronicle

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

Name (Tidm)	Market cap	Price (p)	Fwd NTM PE	PEG	Dividend yield	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/ Debt (-)	Currency	Tests passed (out of 7)	Test(s) failed
Highland Gold Mining (Aim:HGM)	£498m	153	9	0.43	7.0%	58.6%	1.3%	-9.3%	-204m	USD	7	na
Belvoir Lettings (Aim:BLV)	£36m	104	10	0.69	6.6%	41.9%	9.0%	2.5%	-5m	GBP	7	na
SciSys (Aim:SSY)	£38m	130	11	0.66	1.7%	19.4%	12.9%	3.9%	-6m	GBP	7	na
Parity Group (Aim:PTY)	£12m	12	9	0.85	-	21.9%	9.5%	7.4%	-2m	GBP	7	na
Atalaya Mining (Aim:ATYM)	£288m	213	8	0.33	-	90.9%	2.0%	29.6%	43m	EUR	7	na
Servoca Plc (Aim:SVCA)	£23m	19	7	0.37	2.1%	54.4%	4.0%	-15.9%	-2m	GBP	6	/Cash Conv/
Swallowfield (Aim:SWL)	£51m	305	13	0.64	1.7%	47.2%	12.2%	-14.3%	-1m	GBP	6	/Mom or Upgrade/
Summit Germany (Aim:SMTG)	£540m	116	15	0.38	3.5%	53.9%	2.5%	-6.6%	-393m	EUR	6	/Debt/
Base Resources (Aim:BSE)	£299m	15	-	0.00	-	128.1%	-23.0%	-6.2%	-117m	AUD	6	/Fwd EPS grth/
Pacific Ind & Logistics REIT (Aim:PILR)	£81m	120	20	0.56	3.5%	-22.0%	43.8%	-4.0%	-12m	GBP	6	/Fwd EPS grth/
Impellam (Aim:IPEL)	£279m	555	7	0.59	3.7%	23.2%	6.3%	-3.2%	-76m	GBP	6	/Hi RoE or Marg/
Vianet (Aim:VNET)	£36m	132	15	0.61	4.3%	110.1%	2.1%	-2.9%	3m	GBP	6	/Fwd EPS grth/
Secure Income REIT (Aim:SIR)	£1,193m	371	24	0.71	3.4%	13.6%	3.7%	3.2%	-878m	GBP	6	/Fwd EPS grth/
Caledonia Mining Corp (Aim:CMCL)	£96m	523	-	0.00	-	-2.0%	24.3%	0.7%	11m	USD	6	/Fwd EPS grth/
Central Asia Metals (Aim:CAML)	£547m	319	12	0.33	4.9%	6.9%	90.1%	3.2%	42m	USD	6	/Fwd EPS grth/
Griffin Mining (Aim:GFM)	£210m	124	8	0.28	-	568.7%	-38.6%	4.6%	-24m	USD	6	/Fwd EPS grth/
Petards (Aim:PEG)	£14m	25	12	0.48	-	42.9%	1.5%	12.3%	1m	GBP	6	/Cash Conv/
Sylvania Platinum (Aim:SLP)	£52m	18	9	0.58	-	-0.1%	27.1%	36.4%	12m	USD	6	/Fwd EPS grth/
K3 Capital (Aim:K3C)	£144m	341	25	0.65	1.7%	62.2%	-14.2%	113.3%	5m	GBP	6	/Fwd EPS grth/
Pan African Resources (Aim:PAF)	£129m	7	5	0.23	6.2%	24.5%	14.5%	-46.4%	-37m	GBP	5	/Hi RoE or Marg/Debt/
Christie (Aim:CTG)	£24m	94	9	0.12	2.7%	358.6%	-15.2%	-32.1%	-3m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Sprue Aegis (Aim:SPRP)	£64m	140	13	0.54	5.7%	106.8%	11.3%	-27.8%	10m	GBP	5	/Fwd EPS grth/Cash Conv/
Trakm8 Hldgs (Aim:TRAK)	£34m	94	13	0.69	-	23.9%	31.0%	-17.8%	-2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
SDX Energy (Aim:SDX)	£186m	49	-	0.00	-	117.9%	-33.1%	-10.5%	26m	USD	5	/Fwd EPS grth/Mom or Upgrade/
ProPhotonix (Aim:PPIX)	£13m	9	-	0.00	-	-29.3%	70.0%	-10.0%	1m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Goals Soccer Centres (Aim:GOAL)	£55m	73	10	0.23	-	46.1%	14.6%	-8.5%	-30m	GBP	5	/Mom or Upgrade/Debt/
Inland Homes (Aim:INL)	£124m	61	8	0.77	3.0%	4.6%	16.1%	-5.5%	-70m	GBP	5	/Cash Conv/Debt/
Rotala (Aim:ROL)	£25m	52	8	0.64	4.6%	13.6%	14.2%	-5.7%	-26m	GBP	5	/Hi RoE or Marg/Debt/
RedstoneConnect (Aim:REDS)	£21m	100	10	0.57	-	8.2%	24.8%	-5.8%	1m	GBP	5	/Hi RoE or Marg/Cash Conv/
1pm (Aim:OPM)	£40m	47	7	0.69	1.1%	16.7%	6.1%	-1.3%	-2m	GBP	5	/Hi RoE or Marg/Cash Conv/
Real Estate Investors (Aim:RLE)	£103m	56	15	0.77	6.3%	15.2%	8.2%	0.9%	-84m	GBP	5	/Cash Conv/Debt/
EKF Diagnostics (Aim:EKF)	£124m	27	23	0.53	-	229.4%	-16.4%	3.9%	7m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Plus500 (Aim:PLUS)	£1,299m	1,140	8	0.67	10.5%	20.9%	4.5%	5.7%	242m	USD	5	/Hi RoE or Marg/Cash Conv/
Harvey Nash (Aim:HVN)	£65m	90	8	0.46	4.6%	21.9%	18.6%	5.7%	-10m	GBP	5	/Hi RoE or Marg/Cash Conv/

Source: S&P Capital IQ and Investors Chronicle

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