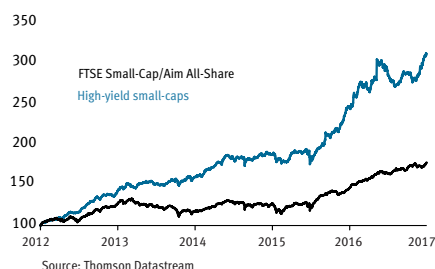




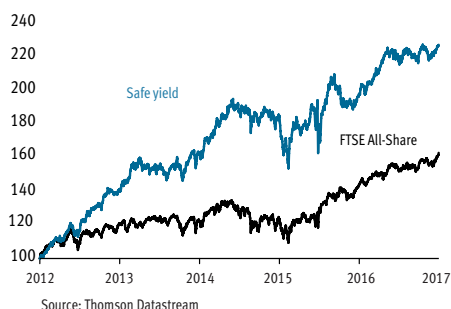
AlphaScreens: Finding dividend diamonds

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

High-yield small-caps



Safe yields (large-caps)



Algy Hall's view:

Investors neglect dividends at their peril. Over the 25 years to the end of 2018, the average annual return from the FTSE All-Share based on share price alone stood at 3.2 per cent, compared with a 6.7 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 412 per cent, compared with 118 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.

Foreword by Alpha Editor:

- None of the companies included in the FTSE All-Share index pass all eight of our dividend yield tests, with only nine companies scoring 7/8.
- Of these, four companies fail the cash conversion test. We require companies' cash from operations to be more than 100 per cent of operating profits (ie earnings before interest and tax). Housebuilders **Bellway (BWY)**, **Redrow (RDW)** and **MJ Gleeson (GLE)** all fail on this one criteria.
- The three-year dividend growth requirement is the only test failed by **British American Tobacco (BATS)**, **Ten Entertainment Group (TEG)** and **Hollywood Bowl Group (BOWL)**. **Imperial Brands (IMB)** fails the stringent dividend cover test.
- Two Aim-listed companies, **The Property Franchise Group (TPFG)** and **Fulcrum Utility Services Limited (FCRM)** achieve perfect 8/8 scores. *JN*

Analyst: Algy Hall
algy.hall@ft.com

Alpha Production Editor: Sameera Hai Baig

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 (ie dividend cover is not expected to dramatically fall).
- Operating cash conversion of 100 per cent or more (ie earnings are being tuned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (ie interest payments on borrowings are not likely 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, and 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 (ie rising earnings to support dividend growth and maintain or improve dividend cover).
- Positive free cash flow (ie a weak test that earnings are turned into cash with which to pay dividends).
- Interest payments covered at least five times by operating profits (ie 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 (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 table that follows, 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. Special dividends are included in the yield calculation used by the screen, and where a special dividend has been paid this 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.

Stock screen methodology formulated and explained by Algy Hall

Large-cap dividend diamonds selection (passing at least 6 out of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Dividend yield	FY EPS gr+1	FY EPS gr+2	3-mth momentum	Net Cash/Debt (-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
British American Tobacco	LSE:BATS	£57,139m	2,689p	9	7.3%	2.7%	8.7%	-16.7%	-46,199m	GBP	/DivGrth/	YES	7
Ten Entertainment	LSE:TEG	£157m	242p	13	5.8%	5.6%	21.7%	6.5%	-8m	GBP	/DivGrth/	YES	7
SSP	LSE:SSPG	£3,053m	658p	24	6.4%	12.2%	7.7%	-4.4%	-343m	GBP	/Beta	YES	7
Bellway	LSE:BWY	£3,436m	2,794p	6	5.1%	3.0%	3.1%	-6.9%	99m	GBP	/CashConv/	NO	7
Redrow	LSE:RDW	£2,103m	583p	6	5.0%	5.6%	5.0%	3.8%	101m	GBP	/CashConv/	NO	7
Hollywood Bowl	LSE:BOWL	£333m	222p	16	4.8%	8.7%	7.2%	3.7%	-2m	GBP	/DivGrth/	YES	7
Norcros	LSE:NXR	£159m	198p	6	3.9%	7.2%	4.7%	-10.7%	-54m	GBP	/CashConv/	NO	7
MJ Gleeson	LSE:GLE	£396m	726p	12	4.4%	7.7%	10.2%	4.9%	41m	GBP	/CashConv/	NO	7
Imperial Brands	LSE:IMB	£24,063m	2,538p	9	7.4%	4.8%	4.2%	-6.8%	-11,192m	GBP	/DivCov/	NO	7
Barratt Developments	LSE:BDEV	£5,705m	563p	8	8.0%	5.1%	2.6%	4.7%	379m	GBP	/CashConv/Beta	YES	6
Hays	LSE:HAS	£2,196m	151p	12	5.8%	9.7%	8.9%	-5.9%	123m	GBP	/CashConv/Beta	YES	6
Keller	LSE:KLR	£343m	477p	6	7.2%	-20.6%	16.1%	-27.8%	-367m	GBP	/EPSGrth/Beta	NO	6
Playtech	LSE:PTec	£1,209m	384p	7	8.2%	-7.4%	4.4%	-18.4%	-359m	EUR	/EPSGrth/Beta	NO	6
Jupiter Fund Management	LSE:JUP	£1,417m	314p	11	10.7%	-8.3%	-21.1%	-5.2%	364m	GBP	/EPSGrth/Beta	YES	6
Hansteen Holdings	LSE:HSTN	£375m	91p	16	6.7%	27.9%	6.9%	-4.1%	-225m	GBP	/IntCov/RoE/	NO	6
Sirius Real Estate	LSE:SRE	£664m	65p	13	4.4%	50.1%	-3.3%	9.2%	-323m	EUR	/EPSGrth/CashConv/	NO	6
Derwent London	LSE:DLN	£3,625m	3,250p	30	4.2%	15.1%	2.3%	5.1%	-826m	GBP	/RoE/CashConv/	YES	6
Tritax Big Box REIT	LSE:BBOX	£2,042m	139p	19	4.8%	-	-	-2.4%	-594m	GBP	/EPSGrth/CashConv/	NO	6
PageGroup	LSE:PAGE	£1,401m	446p	13	5.7%	21.4%	11.4%	-11.0%	87m	GBP	/CashConv/Beta	YES	6
LondonMetric Property	LSE:LMP	£1,291m	185p	21	4.3%	2.5%	4.2%	-1.7%	-648m	GBP	/IntCov/CashConv/	NO	6
PayPoint	LSE:PAY	£595m	881p	14	9.4%	1.3%	4.9%	9.6%	33m	GBP	/DivCov/Beta	YES	6
LSL Property Services	LSE:LSL	£254m	247p	10	4.6%	-9.8%	6.9%	-5.0%	-63m	GBP	/DivGrth/EPSGrth/	NO	6
Inchcape	LSE:INCH	£2,384m	575p	9	4.8%	-4.6%	-1.5%	-0.9%	-164m	GBP	/EPSGrth/Beta	NO	6
Morgan Sindall	LSE:MGNS	£504m	1,122p	8	4.0%	24.2%	-0.3%	-14.4%	53m	GBP	/EPSGrth/Beta	NO	6
Primary Health Properties	LSE:PHP	£910m	117p	21	4.8%	8.4%	7.5%	6.8%	-688m	GBP	/IntCov/RoE/	NO	6
easyJet	LSE:EZJ	£5,068m	1,282p	11	4.6%	1.7%	9.5%	2.4%	396m	GBP	/DivGrth/RoE/	NO	6
GCP Student Living	LSE:DIGS	£635m	155p	30	4.0%	29.7%	17.7%	1.8%	-204m	GBP	/IntCov/RoE/	NO	6
Costain	LSE:COST	£385m	360p	10	3.9%	8.5%	5.2%	-7.3%	78m	GBP	/CashConv/Beta	NO	6
Severfield	LSE:SFR	£207m	68p	10	3.8%	6.8%	7.9%	-2.6%	25m	GBP	/RoE/CashConv/	NO	6
Polymetal International	LSE:POLY	£3,972m	846p	10	4.3%	-2.1%	26.6%	19.5%	-1,652m	USD	/DivGrth/EPSGrth/	NO	6
Tarsus	LSE:TRS	£302m	247p	16	4.0%	-43.0%	73.9%	-10.0%	-95m	GBP	/EPSGrth/CashConv/	NO	6
Brewin Dolphin	LSE:BRW	£812m	296p	14	5.5%	-3.7%	7.7%	-17.4%	187m	GBP	/DivCov/EPSGrth/	NO	6
Carnival	LSE:CCL	£29,266m	4,230p	11	3.7%	-	-	-1.5%	-9,360m	USD	/EPSGrth/Beta	NO	6
XP Power	LSE:PPP	£402m	2,100p	12	3.7%	13.9%	5.9%	-15.8%	-47m	GBP	/CashConv/Beta	NO	6
United Utilities	LSE:UU	£5,596m	821p	15	4.8%	18.3%	5.1%	6.8%	-7,447m	GBP	/DivCov/IntCov/	NO	6
Tyman	LSE:TYMN	£456m	234p	8	4.8%	4.4%	11.6%	-12.7%	-218m	GBP	/DivCov/RoE/	NO	6
Tate & Lyle	LSE:TATE	£3,222m	693p	13	4.2%	2.0%	2.4%	-1.4%	-317m	GBP	/DivCov/DivGrth/	NO	6
St. James's Place	LSE:STJ	£4,850m	923p	20	4.6%	23.1%	6.3%	-12.5%	7,812m	GBP	/DivCov/Beta	NO	6
Dunelm	LSE:DNLM	£1,423m	705p	16	3.8%	12.7%	5.4%	13.3%	-124m	GBP	/DivCov/Beta	NO	6
John Menzies	LSE:MNZS	£461m	556p	15	3.7%	-35.4%	12.4%	8.2%	-243m	GBP	/DivCov/EPSGrth/	NO	6

Source: S&P Capital IQ, 11 February 2019

Continued on the next page

FTSE All-Small dividend diamonds selection (passing at least 6 out of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Dividend yield	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net Cash/ Debt (-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
Dunedin Enterprise Inv Trust	LSE:DNE	£76m	366p	-	5.2%	-	-	6.1%	0m	GBP	/FwdEPSGrth/	NO	7
Highcroft Investments	LSE:HCFT	£45m	875p	-	5.3%	-	-	-0.6%	-14m	GBP	/FwdEPSGrth/	NO	7
Headlam	LSE:HEAD	£339m	402p	10	6.2%	1.3%	-9.7%	-7.5%	16m	GBP	/FwdEPSGrth/	NO	7
Target Healthcare REIT	LSE:THRL	£445m	116p	19	5.7%	10.6%	14.8%	3.9%	-23m	GBP	/DivGrth/	NO	7
Ten Entertainment	LSE:TEG	£157m	242p	13	5.8%	5.6%	21.7%	6.5%	-8m	GBP	/DivGrth/EPsGrth/	YES	6
Keller	LSE:KLR	£343m	477p	6	7.2%	-20.6%	16.1%	-27.8%	-367m	GBP	/FwdEPSGrth/FCF/	NO	6
De La Rue	LSE:DLAR	£443m	430p	10	5.8%	5.2%	3.6%	-10.2%	-93m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Arrow Global	LSE:ARW	£322m	183p	5	6.6%	12.4%	18.3%	-21.9%	-1,056m	GBP	/IntCov/FCF/	NO	6
Photo-Me International	LSE:PTM	£352m	93p	10	9.1%	-3.0%	8.1%	-18.5%	31m	GBP	/FwdEPSGrth/DivCov/	NO	6
The Alumasc Group	LSE:ALU	£42m	118p	8	6.3%	-3.5%	19.9%	-7.0%	0m	GBP	/FwdEPSGrth/EPsGrth/	NO	6
Chesnara	LSE:CSN	£511m	341p	14	5.9%	-53.6%	-21.3%	-1.7%	83m	GBP	/FwdEPSGrth/DivGrth/	NO	6
S&U	LSE:SUS	£251m	2,090p	9	5.4%	15.1%	5.9%	3.9%	-122m	GBP	/IntCov/FCF/	NO	6
Air Partner	LSE:AIR	£46m	90p	10	6.1%	9.0%	9.4%	-15.0%	10m	GBP	/EPsGrth/DivCov/	NO	6
STV	LSE:STVG	£141m	360p	8	5.6%	7.2%	13.7%	-5.0%	-38m	GBP	/EPsGrth/DivCov/	YES	6

Source: S&P Capital IQ, 11 February 2019

Continued on the next page

Aim dividend diamonds selection (passing at least 6 out of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Dividend yield	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net Cash/Debt (-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
The Property Franchise Group	AIM:TPFG	£32m	123p	9	6.1%	9.4%	2.7%	-10.3%	1m	GBP	na	NO	8
Fulcrum Utility Services	AIM:FCRM	£112m	51p	11	4.1%	15.3%	0.1%	-22.8%	10m	GBP	na	NO	8
Northern Bear	AIM:NTBR	£13m	73p	-	5.5%	-	-	-10.8%	-1m	GBP	/FwdEPSGrth/	YES	7
Walker Greenbank	AIM:WGB	£60m	85p	8	5.2%	-25.9%	-0.2%	4.0%	-3m	GBP	/FwdEPSGrth/	NO	7
Staffline	AIM:STAF	£180m	670p	6	4.0%	0.3%	9.3%	-46.4%	-37m	GBP	/FwdEPSGrth/	NO	7
Billington	AIM:BILN	£33m	270p	9	4.3%	3.4%	-0.4%	-0.4%	6m	GBP	/FwdEPSGrth/	NO	7
NWF	AIM:NWF	£82m	169p	12	3.7%	-14.2%	4.3%	-2.8%	-15m	GBP	/FwdEPSGrth/	NO	7
The Character Group	AIM:CCT	£115m	540p	11	4.4%	7.3%	10.2%	9.0%	16m	GBP	/EPSGrth/	NO	7
Shoe Zone	AIM:SHOE	£116m	233p	13	4.9%	-7.5%	0.4%	24.9%	16m	GBP	/FwdEPSGrth/	NO	7
Redde	AIM:REDD	£552m	180p	13	6.5%	10.4%	5.5%	-1.1%	-8m	GBP	/DivCov/	NO	7
Murgitroyd	AIM:MUR	£44m	490p	14	4.3%	5.5%	5.7%	-18.2%	3m	GBP	/EPSGrth/	NO	7
Gateley (Holdings)	AIM:GTLY	£194m	175p	14	4.0%	23.8%	6.4%	13.2%	-8m	GBP	/EPSGrth/	NO	7
Best of the Best	AIM:BOTB	£28m	275p	-	4.9%	-	-	13.2%	7m	GBP	/FwdEPSGrth/IntCov/	YES	6
Elegant Hotels	AIM:EHG	£65m	73p	8	5.5%	10.2%	5.6%	2.1%	-72m	USD	/DivGrth/IntCov/	NO	6
M.T.I Wireless Edge	AIM:MWE	£17m	20p	11	7.7%	5.3%	22.5%	4.6%	4m	USD	/IntCov/FCF/	NO	6
Eddie Stobart Logistics	AIM:ESL	£400m	106p	9	5.5%	16.5%	14.2%	-6.0%	-114m	GBP	/DivGrth/EPSGrth/	NO	6
Rotala	AIM:ROL	£25m	52p	8	4.8%	14.5%	3.7%	0.0%	-33m	GBP	/IntCov/FCF/	NO	6
MS INTERNATIONAL	AIM:MSI	£36m	221p	-	3.7%	-	-	11.6%	17m	GBP	/FwdEPSGrth/DivGrth/	NO	6
XLMedia	AIM:XLM	£183m	84p	8	6.2%	-9.1%	11.1%	-21.0%	42m	USD	/FwdEPSGrth/FCF/	NO	6
Real Estate Investors	AIM:RLE	£96m	52p	14	6.8%	9.8%	10.9%	-4.6%	-84m	GBP	/EPSGrth/IntCov/	NO	6
Belvoir Lettings	AIM:BLV	£36m	103p	9	6.8%	2.7%	6.7%	6.7%	-4m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Polar Capital	AIM:POLR	£442m	480p	11	5.8%	28.9%	-13.9%	-3.7%	105m	GBP	/FwdEPSGrth/IntCov/	NO	6
Bilby	AIM:BILB	£27m	66p	5	3.8%	7.4%	6.4%	-37.2%	-8m	GBP	/DivGrth/FCF/	NO	6
Central Asia Metals	AIM:CAML	£417m	244p	8	6.8%	40.2%	-6.0%	15.4%	-128m	USD	/FwdEPSGrth/DivCov/	NO	6
Amino Technologies	AIM:AMO	£55m	76p	8	9.7%	-11.4%	4.7%	-40.1%	20m	USD	/FwdEPSGrth/DivCov/	NO	6
Park Group	AIM:PARK	£133m	71p	13	4.3%	-1.2%	10.8%	-8.2%	35m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Hunters Property	AIM:HUNT	£14m	43p	-	5.1%	-	-	11.7%	-3m	GBP	/FwdEPSGrth/DivCov/	NO	6
Zytronic	AIM:ZYT	£59m	370p	15	6.2%	12.0%	1.7%	-8.2%	15m	GBP	/EPSGrth/DivCov/	NO	6
Finsbury Food Group	AIM:FIF	£107m	84p	8	4.0%	9.2%	4.8%	-28.0%	-15m	GBP	/EPSGrth/DivCov/	NO	6

Source: S&P Capital IQ, 11 February 2019

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Registered office: Number One, Southwark Bridge,
London SE1 9HL. ISSN 0261-3115.