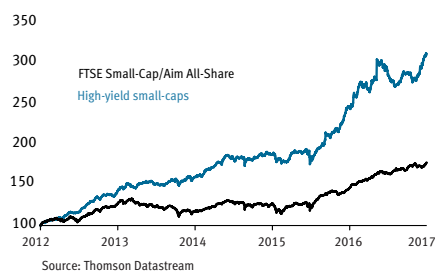




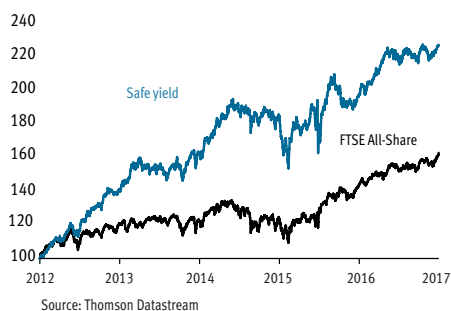
AlphaScreens: Finding dividend diamonds

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 2017, the average annual return from the FTSE All-Share based on share price alone stood at 5.5 per cent, compared with a 9.2 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 727 per cent, compared with 310 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:

- No companies pass all eight tests for our dividend yield screen. There are 17 that score 7/8, with the tests failed providing valuable pointers for income investors' further research.
- For example, **British American Tobacco (BATS)** fails the dividend growth test and housebuilders **Barrett Developments (BDEV)** and **Redrow (RDW)** do not convert a high enough proportion of profits into cash, according to the screen's criteria.
- Another important point is that many companies with very attractive yields suffered negative share price momentum in recent months, highlighting that investors need to look at measures other than yield in case they fall into a value trap. *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 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, 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 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	£59,087m	2,583p	8	7.6%	2.7%	8.4%	-27.0%	-46,199m	GBP	/DivGrth/	YES	7
Ten Entertainment Group	LSE:TEG	£144m	222p	11	6.3%	8.1%	20.7%	-9.0%	-8m	GBP	/DivGrth/	YES	7
Barratt Developments	LSE:BDEV	£4,798m	474p	7	9.3%	3.2%	3.0%	-14.2%	791m	GBP	/CashConv/	YES	7
Redrow	LSE:RDW	£1,804m	500p	6	5.6%	5.9%	5.6%	-10.3%	63m	GBP	/CashConv/	NO	7
Playtech	LSE:PTEC	£1,260m	400p	7	8.1%	-7.8%	10.4%	-14.4%	-359m	EUR	/EPSGrth/	NO	7
Bellway	LSE:BWY	£3,221m	2,620p	6	5.5%	3.0%	4.2%	-10.1%	99m	GBP	/CashConv/	NO	7
Tritax Big Box REIT	LSE:BBOX	£1,970m	134p	19	5.0%	10.3%	4.1%	-7.9%	-594m	GBP	/CashConv/	NO	7
Forterra	LSE:FORT	£436m	220p	8	4.3%	4.5%	7.4%	-13.3%	-52m	GBP	/DivGrth/	NO	7
PayPoint	LSE:PAY	£540m	800p	12	10.4%	1.3%	4.9%	-9.2%	33m	GBP	/DivCov/	YES	7
MJ Gleeson	LSE:GLE	£359m	658p	11	4.9%	7.7%	10.2%	2.3%	41m	GBP	/CashConv/	NO	7
Norcros	LSE:NRX	£153m	190p	6	4.1%	7.2%	4.7%	-8.9%	-54m	GBP	/CashConv/	NO	7
Hollywood Bowl	LSE:BOWL	£335m	223p	16	4.7%	8.7%	7.2%	10.3%	-2m	GBP	/DivGrth/	YES	7
Costain	LSE:COST	£363m	339p	9	4.1%	8.1%	5.5%	-18.2%	78m	GBP	/CashConv/	NO	7
Imperial Brands	LSE:IMB	£23,257m	2,453p	9	7.7%	3.7%	4.5%	-11.2%	-11,192m	GBP	/DivCov/	NO	7
Polymetal International	LSE:POLY	£4,022m	857p	11	4.3%	1.2%	22.3%	42.7%	-1,652m	USD	/DivGrth/	NO	7
Brewin Dolphin	LSE:BRW	£915m	333p	14	4.9%	8.1%	10.7%	-5.2%	187m	GBP	/DivCov/	NO	7
Dunelm	LSE:DNLM	£1,168m	579p	13	4.6%	10.0%	6.4%	21.3%	-124m	GBP	/DivCov/	NO	7
Taylor Wimpey	LSE:TW	£4,584m	140p	7	11.1%	5.4%	-1.4%	-14.9%	496m	GBP	/EPSGrth/CashConv/	YES	6
Hays	LSE:HAS	£2,060m	141p	11	6.2%	10.3%	9.1%	-24.3%	123m	GBP	/CashConv/Beta	YES	6
Keller	LSE:KLR	£362m	503p	6	6.8%	-20.6%	18.4%	-49.7%	-367m	GBP	/EPSGrth/Beta	NO	6
Sirius Real Estate	LSE:SRE	£591m	58p	11	5.0%	50.1%	-3.3%	-3.6%	-323m	EUR	/EPSGrth/CashConv/	NO	6
Jupiter Fund Management	LSE:JUP	£1,356m	301p	10	11.2%	-6.9%	-13.3%	-21.8%	364m	GBP	/EPSGrth/Beta	YES	6
Derwent London	LSE:DLN	£3,180m	2,851p	26	4.8%	15.1%	2.3%	3.7%	-826m	GBP	/RoE/CashConv/	YES	6
Hansteen Holdings	LSE:HSTN	£366m	89p	16	6.9%	28.0%	6.9%	-8.4%	-225m	GBP	/IntCov/RoE/	NO	6
SL Private Equity	LSE:SLPE	£499m	325p	-	3.8%	-	-	-4.9%	57m	GBP	/EPSGrth/CashConv/	NO	6
Card Factory	LSE:CARD	£628m	184p	10	7.8%	-8.4%	4.2%	-0.8%	-160m	GBP	/DivCov/EPSGrth/	YES	6
LondonMetric Property	LSE:LMP	£1,216m	175p	20	4.5%	2.8%	4.4%	-1.7%	-648m	GBP	/IntCov/CashConv/	NO	6
PageGroup	LSE:PAGE	£1,398m	445p	13	5.7%	22.3%	10.4%	-19.8%	87m	GBP	/CashConv/Beta	YES	6
LSL Property Services	LSE:LSL	£225m	219p	9	5.2%	-10.0%	6.8%	-15.5%	-63m	GBP	/DivGrth/EPSGrth/	NO	6
easyJet	LSE:EZJ	£4,378m	1,107p	9	5.3%	4.0%	7.8%	-7.8%	396m	GBP	/DivGrth/RoE/	NO	6
OneSavings Bank	LSE:OSB	£871m	356p	6	3.8%	6.6%	6.4%	-7.4%	-69m	GBP	/IntCov/CashConv/	NO	6
Headlam	LSE:HEAD	£341m	401p	9	6.2%	1.6%	2.0%	-11.4%	16m	GBP	/DivCov/CashConv/	NO	6
Inchcape	LSE:INCH	£2,301m	555p	9	5.0%	-4.6%	-1.5%	-11.7%	-164m	GBP	/EPSGrth/Beta	NO	6
Morgan Sindall	LSE:MGNS	£477m	1,062p	7	4.2%	24.3%	-0.3%	-17.8%	53m	GBP	/EPSGrth/Beta	NO	6
Bovis Homes	LSE:BVS	£1,155m	859p	9	5.5%	46.1%	6.1%	-16.3%	43m	GBP	/DivCov/RoE/	NO	6
GCP Student Living	LSE:DIGS	£613m	149p	29	4.1%	29.7%	17.7%	1.1%	-204m	GBP	/IntCov/RoE/	NO	6
Big Yellow	LSE:BYG	£1,443m	872p	20	3.8%	8.5%	7.2%	-1.0%	-291m	GBP	/RoE/CashConv/	NO	6
XP Power	LSE:XPP	£383m	2,000p	11	3.9%	18.4%	7.6%	-30.2%	-47m	GBP	/CashConv/Beta	NO	6
United Utilities	LSE:UU	£5,188m	761p	14	5.2%	16.9%	5.4%	8.7%	-7,447m	GBP	/DivCov/IntCov/	NO	6
RPC	LSE:RPC	£2,710m	669p	9	4.2%	4.2%	5.6%	-18.2%	-1,195m	GBP	/DivCov/Beta	NO	6
Tyman	LSE:TYMN	£453m	233p	8	4.8%	4.6%	11.8%	-30.5%	-218m	GBP	/DivCov/RoE/	NO	6
Tate & Lyle	LSE:TATE	£3,127m	673p	13	4.3%	1.6%	2.2%	0.8%	-317m	GBP	/DivCov/DivGrth/	NO	6
St. James's Place	LSE:STJ	£5,100m	971p	21	4.4%	22.8%	10.9%	-14.2%	7,812m	GBP	/DivCov/Beta	NO	6
John Menzies	LSE:MNZS	£415m	501p	14	4.1%	-35.4%	12.4%	-6.4%	-243m	GBP	/DivCov/EPSGrth/	NO	6
Carnival	LSE:CCL	£26,425m	3,808p	10	4.1%	12.6%	12.0%	-14.5%	-9,341m	USD	/DivCov/CashConv/	NO	6

Source: S&P Capital IQ, 7 January 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 InvTrust	LSE:DNE	£68m	330p	-	5.8%	-	-	0.0%	0m	GBP	/FwdEPSGrth/	NO	7
De La Rue	LSE:DLAR	£435m	423p	9	5.9%	5.5%	5.6%	-6.6%	-93m	GBP	/DivGrth/	NO	7
Headlam	LSE:HEAD	£341m	401p	9	6.2%	1.6%	2.0%	-11.4%	16m	GBP	/FwdEPSGrth/	NO	7
Target Healthcare REIT	LSE:THRL	£414m	108p	18	6.1%	12.5%	13.5%	-5.2%	-23m	GBP	/DivGrth/	NO	7
DFS Furniture	LSE:DFS	£390m	184p	10	6.1%	33.7%	14.3%	-7.5%	-160m	GBP	/DivCov/	NO	7
Ten Entertainment Group	LSE:TEG	£144m	222p	11	6.3%	8.1%	20.7%	-9.0%	-8m	GBP	/DivGrth/EPStGrth/	YES	6
Keller	LSE:KLR	£362m	503p	6	6.8%	-20.6%	18.4%	-49.7%	-367m	GBP	/FwdEPSGrth/FCF/	NO	6
Arrow Global	LSE:ARW	£322m	183p	5	6.6%	11.6%	20.0%	-6.2%	-1,056m	GBP	/IntCov/FCF/	NO	6
Photo-Me International	LSE:PHTM	£324m	86p	10	9.8%	-6.6%	9.1%	-30.0%	31m	GBP	/FwdEPSGrth/DivCov/	NO	6
The Alumasc Group	LSE:ALU	£39m	108p	6	6.8%	15.7%	14.7%	-20.8%	-5m	GBP	/EPStGrth/FCF/	NO	6
Chesnara	LSE:CSN	£513m	342p	14	5.9%	-53.6%	-21.3%	-3.1%	83m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Air Partner	LSE:AIR	£44m	85p	9	6.5%	9.0%	9.4%	-22.3%	10m	GBP	/EPStGrth/DivCov/	NO	6
SThree	LSE:STHR	£331m	262p	9	5.3%	14.6%	10.5%	-31.3%	-6m	GBP	/DivGrth/DivCov/	NO	6
STV Group	LSE:STVG	£133m	340p	7	5.9%	8.7%	13.9%	-4.4%	-38m	GBP	/EPStGrth/DivCov/	YES	6

Source: S&P Capital IQ, 7 January 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	£29m	113p	9	6.7%	9.4%	2.7%	-22.1%	1m	GBP	na	NO	8
Fulcrum Utility Services	AIM:FCRM	£102m	46p	10	4.5%	15.3%	0.1%	-26.7%	10m	GBP	na	NO	8
Somero Enterprises	AIM:SOM	£177m	315p	11	3.9%	21.6%	4.6%	-19.7%	21m	USD	na	NO	8
Bioventix	AIM:BVXP	£158m	3,075p	27	3.8%	4.4%	12.0%	-2.6%	7m	GBP	na	YES	8
Northern Bear	AIM:NTBR	£13m	71p	-	5.7%	-	-	-9.8%	-1m	GBP	/FwdEPSGrth/	YES	7
Walker Greenbank	AIM:WGB	£62m	88p	8	5.0%	-25.9%	-0.2%	19.8%	-3m	GBP	/FwdEPSGrth/	NO	7
Belvoir Lettings	AIM:BLV	£31m	88p	8	8.0%	2.7%	13.2%	-14.9%	-4m	GBP	/DivGrth/	NO	7
H&T	AIM:HAT	£103m	273p	9	3.9%	1.1%	7.2%	-10.3%	-17m	GBP	/FwdEPSGrth/	NO	7
Central Asia Metals	AIM:CAML	£363m	212p	7	7.8%	29.9%	6.4%	-10.4%	-128m	USD	/DivCov/	NO	7
Billington Holdings	AIM:BILN	£33m	270p	9	4.3%	3.4%	-0.4%	1.1%	6m	GBP	/FwdEPSGrth/	NO	7
The Character Group	AIM:CCT	£110m	527p	11	4.6%	7.3%	10.2%	-0.2%	16m	GBP	/EPSGrth/	NO	7
Murgitroyd	AIM:MUR	£41m	454p	13	4.6%	5.5%	5.7%	-32.5%	3m	GBP	/EPSGrth/	NO	7
Redde	AIM:REDD	£514m	168p	12	7.0%	10.4%	5.5%	-6.5%	-8m	GBP	/DivCov/	NO	7
Best of the Best	AIM:BOTB	£23m	224p	19	6.0%	-11.2%	-	-17.8%	2m	GBP	/FwdEPSGrth/IntCov/	YES	6
M.T.I Wireless Edge	AIM:MWE	£16m	19p	10	8.4%	5.3%	22.5%	-8.3%	4m	USD	/IntCov/FCF/	NO	6
Eddie Stobart Logistics	AIM:ESL	£387m	103p	9	5.7%	15.7%	13.7%	-11.9%	-114m	GBP	/DivGrth/EPSGrth/	NO	6
MS INTERNATIONAL	AIM:MSI	£35m	210p	-	3.9%	-	-	9.9%	17m	GBP	/FwdEPSGrth/DivGrth/	NO	6
XLMedia	AIM:XLM	£162m	74p	7	7.1%	-9.5%	10.9%	-17.2%	42m	USD	/FwdEPSGrth/FCF/	NO	6
Rotala	AIM:ROL	£23m	49p	7	5.2%	17.8%	4.6%	-8.9%	-33m	GBP	/IntCov/FCF/	NO	6
Real Estate Investors	AIM:RLE	£95m	51p	14	6.8%	9.8%	10.9%	-10.6%	-84m	GBP	/EPSGrth/IntCov/	NO	6
Bilby	AIM:BILB	£25m	62p	5	4.1%	7.4%	6.4%	-41.1%	-8m	GBP	/DivGrth/FCF/	NO	6
Polar Capital	AIM:POLR	£458m	500p	10	5.6%	38.5%	-10.6%	-16.4%	105m	GBP	/FwdEPSGrth/IntCov/	NO	6
Gateley (Holdings)	AIM:GTLY	£142m	128p	11	5.5%	16.9%	8.6%	-20.0%	-1m	GBP	/DivGrth/EPSGrth/	NO	6
Hunters Property	AIM:HUNT	£12m	38p	-	5.8%	-	-	-18.6%	-3m	GBP	/FwdEPSGrth/DivCov/	NO	6
Zytronic	AIM:ZYT	£52m	323p	13	7.1%	12.0%	1.7%	-27.4%	15m	GBP	/EPSGrth/DivCov/	NO	6
Park Group	AIM:PARK	£140m	75p	13	4.1%	-1.2%	10.8%	9.7%	35m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Maintel	AIM:MAI	£66m	465p	6	7.3%	16.5%	17.9%	-31.1%	-26m	GBP	/EPSGrth/DivCov/	NO	6
Personal Group	AIM:PGH	£138m	448p	16	5.1%	5.1%	8.3%	-12.5%	14m	GBP	/DivGrth/DivCov/	NO	6

Source: S&P Capital IQ, 7 January 2019

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