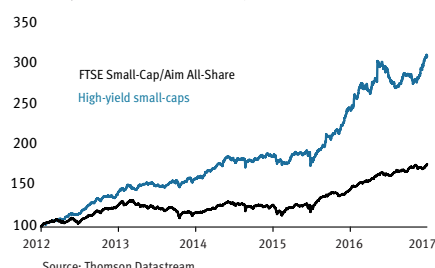




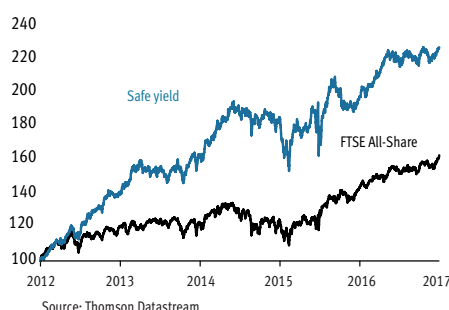
AlphaScreens: Finding dividend diamonds

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:

- How a company performs against mechanical screening criteria is only ever part of the story when it comes to choosing shares. Equipment rental group **Vp (VP.)** might pass all our FTSE All-Share dividend yield tests, but it is probably one to avoid until the conclusion of an investigation by the Competition and Markets Authority for alleged price collusion.
- The only other company to pass all eight tests was **SSP Group (SSPG)**, which manages concessions for food and beverage outlets at travel hubs.
- The test most commonly failed by companies included in the FTSE All-Share index was the requirement to have dividend payments covered twice by earnings. **Imperial Brands (IMB)**, **Polymetal (POLY)**, **Domino's Pizza (DOM)** and **Telecom Plus (TEP)** all fall short on this measure.
- Our small-cap dividend yield screen is more growth-orientated. Screening the main market FTSE All Small Companies index and the FTSE Aim All-Share index, we find that the growing earnings forecast test is proving the stumbling block for many companies that would otherwise score full marks.

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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	EPS grth FY+1	EPS grth FY+2	3-month momentum	Net cash/debt(-)	Currency	Test Failed	Special dividend	Tests passed (out of 8)
SSP	LSE:SSPG	£3,089m	699p	24	6.4%	9.7%	9.3%	-0.1%	-343m	GBP	na	YES	8
Vp	LSE:VP	£284m	718p	7	3.6%	15.7%	6.0%	-30.1%	-188m	GBP	na	NO	8
Sirius Real Estate	LSE:SRE	£644m	63p	18	4.4%	8.1%	67.0%	-1.5%	-323m	EUR	/CashConv/	NO	7
Morgan Sindall	LSE:MGNS	£578m	1,292p	9	4.1%	0.6%	7.8%	17.9%	160m	GBP	/Beta	NO	7
Hollywood Bowl	LSE:BOWL	£360m	240p	18	4.4%	8.4%	6.9%	7.7%	-2m	GBP	/DivGrth/	YES	7
Norcros	LSE:NXR	£166m	207p	7	3.8%	5.0%	7.1%	6.4%	-54m	GBP	/CashConv/	NO	7
Imperial Brands	LSE:IMB	£22,290m	2,351p	8	8.0%	3.1%	4.2%	-9.3%	-11,192m	GBP	/DivCov/	NO	7
Carnival	LSE:CCL	£27,719m	4,013p	11	3.8%	7.3%	11.4%	-7.6%	-10,955m	USD	/Beta	NO	7
Polymetal Int'l	LSE:POLY	£3,740m	795p	10	4.6%	8.0%	6.1%	-5.8%	-1,520m	USD	/DivCov/	NO	7
Domino's Pizza	LSE:DOM	£1,200m	261p	15	3.6%	6.9%	7.5%	-1.6%	-203m	GBP	/DivCov/	NO	7
Telecom Plus	LSE:TEP	£1,114m	1,426p	25	3.6%	6.1%	9.2%	1.9%	-17m	GBP	/DivCov/	NO	7
Int'l Consolidated Airlines	LSE:IAG	£10,418m	525p	6	5.4%	-4.9%	8.6%	-20.7%	-1,277m	EUR	/EPSGrth/Beta	NO	6
Hays	LSE:HAS	£2,205m	151p	13	5.8%	3.4%	6.3%	-1.9%	33m	GBP	/CashConv/Beta	YES	6
Regional REIT	LSE:RGL	£396m	106p	12	7.6%	13.3%	1.8%	5.5%	-270m	GBP	/IntCov/CashConv/	NO	6
Redrow	LSE:RDW	£2,032m	591p	6	5.2%	3.4%	4.0%	-2.8%	101m	GBP	/CashConv/Beta	NO	6
Greencoat UK Wind	LSE:UKW	£1,699m	138p	16	4.9%	-53.1%	4.6%	6.7%	-477m	GBP	/EPSGrth/CashConv/	NO	6
Bellway	LSE:BWY	£3,764m	3,058p	7	4.7%	3.5%	1.6%	8.7%	-27m	GBP	/CashConv/Beta	NO	6
Bodycote	LSE:BOY	£1,600m	843p	15	4.6%	-1.8%	5.2%	9.7%	36m	GBP	/EPSGrth/Beta	YES	6
PageGroup	LSE:PAGE	£1,694m	534p	14	4.8%	13.6%	10.3%	16.1%	98m	GBP	/CashConv/Beta	YES	6
LondonMetric Property	LSE:LMP	£1,411m	202p	23	3.9%	2.6%	3.9%	10.1%	-648m	GBP	/IntCov/CashConv/	NO	6
Wm Morrison	LSE:MRW	£5,138m	216p	15	5.8%	8.6%	6.3%	-11.1%	-1,031m	GBP	/DivCov/RoE/	YES	6
PayPoint	LSE:PAY	£678m	1,004p	15	8.3%	1.3%	4.9%	17.4%	33m	GBP	/DivCov/Beta	YES	6
Tritax Big Box REIT	LSE:BBOX	£2,535m	149p	21	4.5%	1.8%	5.1%	6.3%	-772m	GBP	/RoE/CashConv/	NO	6
Costain	LSE:COST	£350m	325p	8	4.7%	5.5%	7.3%	-8.0%	119m	GBP	/CashConv/Beta	NO	6
Savills	LSE:SVS	£1,198m	880p	12	3.5%	-5.5%	6.4%	6.8%	74m	GBP	/EPSGrth/Beta	YES	6
Headlam	LSE:HEAD	£372m	444p	12	5.6%	-10.3%	5.7%	11.5%	37m	GBP	/DivCov/EPSGrth/	NO	6
Mondi	LSE:MNDI	£8,273m	1,708p	11	3.8%	-2.4%	3.5%	-7.5%	-2,218m	EUR	/EPSGrth/Beta	NO	6
Primary Health Properties	LSE:PHP	£1,495m	132p	23	4.2%	9.8%	5.9%	14.0%	-688m	GBP	/IntCov/RoE/	NO	6
Motorpoint	LSE:MOTR	£175m	183p	10	3.6%	12.7%	0.3%	-5.7%	-51m	GBP	/DivGrth/CashConv/	NO	6
Forterra	LSE:FORT	£593m	302p	11	3.5%	5.2%	4.1%	11.1%	-39m	GBP	/DivGrth/Beta	NO	6
Severfield	LSE:SFR	£219m	72p	11	3.6%	5.7%	9.1%	5.9%	25m	GBP	/RoE/CashConv/	NO	6
MJ Gleeson	LSE:GLE	£464m	850p	14	3.8%	8.1%	10.2%	16.4%	28m	GBP	/CashConv/Beta	NO	6
United Utilities	LSE:UU	£5,564m	816p	15	4.9%	19.7%	4.3%	-3.3%	-7,447m	GBP	/DivCov/IntCov/	NO	6
Ibstock	LSE:IBST	£1,061m	259p	13	3.7%	1.1%	6.5%	9.6%	-48m	GBP	/DivCov/Beta	NO	6
BAE Systems	LSE:BA	£15,408m	482p	11	4.6%	4.2%	7.4%	-8.3%	-1,000m	GBP	/DivCov/CashConv/	NO	6
National Express PLC	LSE:NEX	£2,090m	410p	12	3.6%	5.8%	5.5%	5.2%	-1,011m	GBP	/DivCov/RoE/	NO	6
RPC	LSE:RPC	£3,205m	790p	11	3.5%	3.0%	5.9%	-0.3%	-1,195m	GBP	/DivCov/Beta	NO	6
Ten Entertainment	LSE:TEG	£150m	230p	11	4.8%	26.0%	11.9%	-2.9%	-11m	GBP	/DivCov/DivGrth/	NO	6
Tate & Lyle	LSE:TATE	£3,569m	768p	15	3.8%	2.0%	3.3%	12.1%	-317m	GBP	/DivCov/DivGrth/	NO	6
STV	LSE:STVG	£145m	371p	8	5.4%	14.5%	11.3%	5.6%	-36m	GBP	/DivCov/RoE/	NO	6

Source: S&P Capital IQ, 7 May 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	EPS grth FY+1	EPS grth FY+2	3-month momentum	Net Cash/ Debt(-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
Superdry	LSE:SDRY	£412m	502p	9	6.2%	-42.5%	2.1%	-3.0%	19m	GBP	/FwdEPSGrth/	NO	7
Headlam	LSE:HEAD	£372m	444p	12	5.6%	-10.3%	5.7%	11.5%	37m	GBP	/FwdEPSGrth/	NO	7
Regional REIT	LSE:RGL	£396m	106p	12	7.6%	13.3%	1.8%	5.5%	-270m	GBP	/EPSGrth/IntCov/	NO	6
De La Rue	LSE:DLAR	£463m	446p	10	5.6%	5.2%	3.6%	4.0%	-93m	GBP	/FwdEPSGrth/DivGrth/	NO	6
The Alumasc	LSE:ALU	£33m	93p	7	7.9%	-3.5%	19.9%	-22.5%	0m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Highcroft Investments	LSE:HCFT	£45m	875p	-	6.0%	-	-	2.9%	-14m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Photo-Me Int'l	LSE:PHTM	£345m	91p	10	9.2%	-4.7%	10.7%	-4.1%	31m	GBP	/FwdEPSGrth/DivCov/	NO	6
S&U	LSE:SUS	£261m	2,170p	9	5.4%	7.0%	8.7%	-1.1%	-109m	GBP	/IntCov/FCF/	NO	6
SOCO Int'l	LSE:SIA	£284m	72p	17	7.6%	50.3%	7.0%	-1.0%	145m	USD	/EPSGrth/DivCov/	NO	6
Air Partner	LSE:AIR	£47m	90p	10	6.1%	5.3%	6.8%	1.6%	10m	GBP	/EPSGrth/DivCov/	NO	6
Northgate	LSE:NTG	£483m	368p	10	4.8%	6.0%	14.3%	-3.2%	-481m	GBP	/EPSGrth/IntCov/	NO	6
STV	LSE:STVG	£145m	371p	8	5.4%	14.5%	11.3%	5.6%	-36m	GBP	/EPSGrth/DivCov/	NO	6
Keller	LSE:KLR	£509m	707p	8	5.1%	14.1%	10.0%	41.5%	-287m	GBP	/EPSGrth/DivCov/	NO	6

Source: S&P Capital IQ, 7 May 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	EPS grth FY+1	EPS grth FY+2	3-month momentum	Net Cash/Debt(-)	Currency	Test failed	Special dividend	Tests passed (out of 8)
Northern Bear	AIM:NTBR	£12m	64p	-	6.3%	-	-	-10.3%	-1m	GBP	/FwdEPSGrth/	YES	7
Fulcrum Utility Services	AIM:FCRM	£74m	34p	8	6.3%	1.4%	-8.1%	-34.1%	10m	GBP	/FwdEPSGrth/	NO	7
Billington	AIM:BILN	£37m	305p	9	4.3%	1.5%	3.7%	11.1%	8m	GBP	/FwdEPSGrth/	NO	7
STM	AIM:STM	£30m	51p	9	4.0%	-1.2%	7.3%	1.9%	16m	GBP	/FwdEPSGrth/	NO	7
NWF	AIM:NWF	£77m	157p	11	4.0%	-14.1%	4.2%	-8.7%	-15m	GBP	/FwdEPSGrth/	NO	7
Rotala	AIM:ROL	£26m	54p	8	5.0%	21.6%	1.6%	-0.6%	-31m	GBP	/IntCov/	NO	7
The Character	AIM:CCT	£119m	560p	12	4.3%	7.3%	10.2%	4.6%	16m	GBP	/EPSGrth/	NO	7
The Property Franchise	AIM:TPFG	£41m	159p	12	5.3%	0.8%	5.1%	29.6%	2m	GBP	/FwdEPSGrth/	NO	7
Somero Enterprises.	AIM:SOM	£203m	360p	12	4.0%	5.7%	1.9%	6.2%	28m	USD	/FwdEPSGrth/	NO	7
Gateley (Holdings)	AIM:GTLY	£177m	160p	13	4.4%	22.0%	7.1%	-8.1%	-8m	GBP	/EPSGrth/	NO	7
Best of the Best	AIM:BOTB	£28m	295p	-	4.6%	-	-	1.8%	7m	GBP	/FwdEPSGrth/IntCov/	YES	6
RTC	AIM:RTC	£10m	70p	-	5.5%	-	-	18.6%	-5m	GBP	/FwdEPSGrth/MktCap/	NO	6
Taptica Int'l	AIM:TAP	£175m	136p	4	4.5%	-15.6%	6.8%	-38.6%	54m	USD	/FwdEPSGrth/DivGrth/	YES	6
Elegant Hotels	AIM:EHG	£63m	71p	7	5.6%	10.2%	5.6%	-6.8%	-72m	USD	/DivGrth/IntCov/	NO	6
MS Int'l	AIM:MSI	£34m	209p	-	3.9%	-	-	-5.4%	17m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Belvoir Lettings	AIM:BLV	£40m	115p	9	6.3%	6.8%	13.4%	14.1%	-10m	GBP	/DivGrth/FCF/	NO	6
Shoe Zone	AIM:SHOE	£103m	207p	12	5.6%	-7.5%	0.4%	-11.7%	16m	GBP	/FwdEPSGrth/IntCov/	NO	6
Polar Capital	AIM:POLR	£550m	586p	13	4.8%	31.1%	-16.3%	22.6%	105m	GBP	/FwdEPSGrth/IntCov/	NO	6
Amino Technologies	AIM:AMO	£61m	84p	9	8.8%	-11.4%	4.0%	1.2%	20m	USD	/FwdEPSGrth/DivCov/	NO	6
Park Group	AIM:PARK	£119m	64p	12	4.8%	-4.5%	-7.8%	-8.9%	35m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Central Asia Metals	AIM:CAML	£384m	224p	9	6.5%	10.0%	16.0%	-12.2%	-110m	USD	/DivGrth/DivCov/	NO	6
Redde	AIM:REDD	£359m	117p	9	9.9%	10.2%	-4.7%	-34.0%	-41m	GBP	/FwdEPSGrth/DivCov/	NO	6
M.T.I Wireless Edge	AIM:MWE	£23m	26p	10	4.4%	26.4%	16.2%	30.0%	4m	USD	/EPSGrth/DivCov/	NO	6
Inspired Energy	AIM:INSE	£116m	16p	9	4.0%	11.6%	6.8%	-9.2%	-24m	GBP	/EPSGrth/DivCov/	NO	6

Source: S&P Capital IQ, 7 May 2019

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