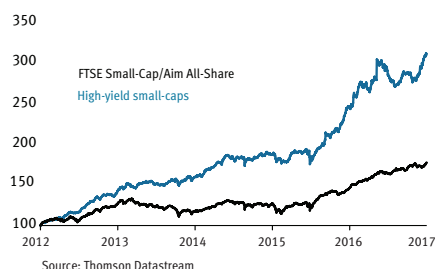




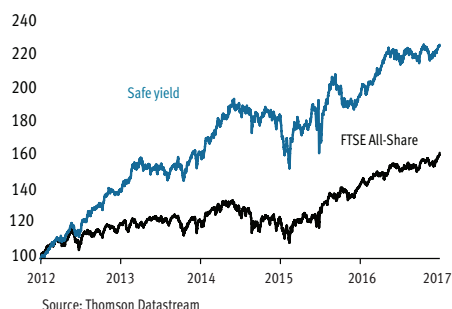
AlphaScreens: Finding dividend diamonds

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:

- Very few companies pass all the quality tests for our Alpha dividend yield screen. Only one FTSE All-Share company valued over £1bn – food outlet concessions operator **SSP Group (SSPG)** – scores 8/8.
- Out of companies included in the FTSE All Small index, fashion company **Superdry (SDRY)** and flooring products manufacturer **Headlam (HEAD)** only fail the forward EPS growth test, but as this is an important consideration when buying a smaller company for income, investors should tread carefully.
- High dividend yield can be a value indicator and both Aim companies that score 8/8 have been covered by our small-cap value expert, Simon Thompson, in the past 18 months. Simon's investment case for financial services company **STM (STM)** has yet to play out, but he remains positive on the company. On balance, he felt it was time to take profits on **Character Group (CCT)**, which owns a portfolio of iconic children's brands.

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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	£2,983m	675p	23	6.6%	9.1%	9.5%	-9.3%	-438m	GBP	na	YES	8
Norcros	LSE:NXR	£179m	223p	6	3.8%	8.8%	4.3%	17.8%	-35m	GBP	na	NO	8
Sirius Real Estate	LSE:SRE	£697m	68p	16	4.5%	5.3%	13.7%	7.4%	-296m	EUR	/CashConv/	NO	7
Morgan Sindall	LSE:MGNS	£523m	1,170p	8	4.5%	0.6%	7.8%	-7.1%	160m	GBP	/Beta	NO	7
Vesuvius	LSE:VSVS	£1,462m	545p	11	3.6%	3.1%	7.6%	-14.0%	-248m	GBP	/Beta	NO	7
MJ Gleeson	LSE:GLE	£436m	800p	13	4.0%	8.8%	9.8%	-2.5%	28m	GBP	/CashConv/	NO	7
Polymetal International	LSE:POLY	£4,796m	1,020p	11	3.8%	13.1%	9.4%	22.3%	-1,520m	USD	/DivCov/	NO	7
Hays	LSE:HAS	£2,305m	158p	13	5.6%	2.7%	6.1%	4.0%	33m	GBP	/CashConv/Beta	YES	6
Regional REIT	LSE:RGL	£400m	107p	13	7.5%	13.3%	1.8%	0.7%	-270m	GBP	/IntCov/CashConv/	NO	6
Redrow	LSE:RDW	£1,881m	547p	6	5.6%	1.6%	2.1%	-13.3%	101m	GBP	/CashConv/Beta	NO	6
SSE	LSE:SSE	£11,823m	1,151p	13	8.5%	20.5%	13.7%	-0.7%	-9,343m	GBP	/DivCov/IntCov/	NO	6
Bellway	LSE:BWY	£3,398m	2,760p	6	5.2%	3.3%	0.4%	-12.6%	-27m	GBP	/CashConv/Beta	NO	6
Bodycote	LSE:BOY	£1,580m	833p	15	4.7%	-2.2%	5.2%	-4.3%	36m	GBP	/EPSGrth/Beta	YES	6
Greencoat UK Wind	LSE:UKW	£2,136m	141p	16	4.8%	-53.1%	4.6%	0.1%	-477m	GBP	/EPSGrth/CashConv/	NO	6
PageGroup	LSE:PAGE	£1,632m	514p	14	5.0%	13.6%	9.6%	5.1%	98m	GBP	/CashConv/Beta	YES	6
TBC Bank	LSE:TBCG	£836m	1,524p	6	3.7%	8.8%	13.2%	-5.4%	-1,553m	GEL	/IntCov/CashConv/	NO	6
Wincanton	LSE:WIN	£331m	268p	8	4.1%	3.8%	2.7%	14.7%	-19m	GBP	/RoE/CashConv/	NO	6
Wm Morrison Supermarkets	LSE:MRW	£4,987m	209p	15	6.0%	7.5%	6.5%	-8.8%	-1,031m	GBP	/DivCov/RoE/	YES	6
Paragon Banking	LSE:PAG	£1,161m	449p	9	4.3%	7.3%	7.1%	0.7%	-5,703m	GBP	/IntCov/CashConv/	NO	6
PayPoint	LSE:PAY	£628m	930p	14	7.5%	3.7%	5.4%	6.3%	37m	GBP	/DivCov/DivGrth/	YES	6
Hollywood Bowl	LSE:BOWL	£332m	221p	16	4.9%	9.7%	5.8%	1.4%	-5m	GBP	/DivGrth/Beta	YES	6
Henry Boot	LSE:BOOT	£329m	248p	9	3.6%	-0.2%	2.3%	-8.9%	-18m	GBP	/EPSGrth/CashConv/	NO	6
Headlam	LSE:HEAD	£390m	464p	12	5.4%	-10.3%	5.7%	4.7%	37m	GBP	/DivCov/EPSGrth/	NO	6
Severfield	LSE:SFR	£206m	68p	9	4.1%	9.4%	3.8%	1.9%	25m	GBP	/RoE/CashConv/	NO	6
Imperial Brands	LSE:IMB	£18,594m	1,961p	7	9.6%	3.8%	3.1%	-21.7%	-12,807m	GBP	/DivCov/CashConv/	NO	6
Mondi	LSE:MNDI	£8,683m	1,793p	11	3.8%	-3.7%	2.9%	-1.9%	-2,218m	EUR	/EPSGrth/Beta	NO	6
Carnival	LSE:CCL	£24,760m	3,587p	10	4.5%	1.8%	13.6%	-9.3%	-9,990m	USD	/RoE/Beta	NO	6
Forterra	LSE:FORT	£585m	299p	11	3.5%	6.2%	4.6%	1.2%	-39m	GBP	/DivGrth/Beta	NO	6
Primary Health Properties	LSE:PHP	£1,557m	137p	24	4.1%	9.1%	6.4%	6.8%	-688m	GBP	/IntCov/RoE/	NO	6
Ibstock	LSE:IBST	£981m	240p	12	4.0%	1.2%	7.0%	-6.5%	-48m	GBP	/DivCov/Beta	NO	6
National Express	LSE:NEX	£2,084m	409p	12	3.6%	6.2%	6.0%	0.9%	-1,011m	GBP	/DivCov/RoE/	NO	6
BAE Systems	LSE:BA	£15,831m	495p	11	4.5%	4.2%	6.6%	-2.7%	-1,000m	GBP	/DivCov/CashConv/	NO	6
Ten Entertainment Group	LSE:TEG	£152m	234p	11	4.7%	26.1%	11.9%	3.8%	-11m	GBP	/DivCov/DivGrth/	NO	6
STV	LSE:STVG	£140m	358p	8	5.6%	15.0%	10.6%	-4.8%	-36m	GBP	/DivCov/RoE/	NO	6
Tate & Lyle	LSE:TATE	£3,507m	753p	14	3.9%	0.7%	3.2%	2.7%	-307m	GBP	/DivCov/DivGrth/	NO	6
Liontrust Asset Mgmt	LSE:LJO	£376m	744p	14	3.6%	12.6%	9.1%	24.3%	39m	GBP	/DivCov/IntCov/	NO	6
Telecom Plus	LSE:TEP	£1,094m	1,400p	22	3.7%	9.8%	7.7%	-7.3%	-37m	GBP	/DivCov/CashConv/	NO	6

Source: S&P Capital IQ, 8 July 2019

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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	£373m	455p	9	6.9%	-54.2%	1.9%	4.4%	19m	GBP	/FwdEPSGrth/	NO	7
Headlam	LSE:HEAD	£390m	464p	12	5.4%	-10.3%	5.7%	4.7%	37m	GBP	/FwdEPSGrth/	NO	7
Costain	LSE:COST	£205m	190p	6	8.0%	-21.8%	12.7%	-48.3%	119m	GBP	/FwdEPSGrth/FCF/	NO	6
Regional REIT	LSE:RGL	£400m	107p	13	7.5%	13.3%	1.8%	0.7%	-270m	GBP	/EPSGrth/IntCov/	NO	6
Record	LSE:REC	£62m	32p	14	9.5%	-29.4%	1.3%	15.0%	24m	GBP	/FwdEPSGrth/DivCov/	YES	6
Photo-Me Intl	LSE:PHTM	£365m	97p	11	8.7%	-5.2%	12.4%	19.5%	31m	GBP	/FwdEPSGrth/DivCov/	NO	6
Highcroft Investments	LSE:HCFT	£47m	905p	-	5.8%	-	-	0.0%	-14m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
SOCO International	LSE:SIA	£260m	66p	17	8.4%	29.3%	11.7%	-6.0%	145m	USD	/EPSGrth/DivCov/	NO	6
888 Holdings	LSE:888	£590m	161p	14	5.1%	-26.6%	11.7%	-0.7%	133m	USD	/FwdEPSGrth/IntCov/	NO	6
STV	LSE:STVG	£140m	358p	8	5.6%	15.0%	10.6%	-4.8%	-36m	GBP	/EPSGrth/DivCov/	NO	6
Keller	LSE:KLR	£422m	586p	6	6.1%	14.1%	10.0%	-10.4%	-287m	GBP	/EPSGrth/DivCov/	NO	6
McBride	LSE:MCB	£141m	77p	7	5.6%	-14.7%	24.4%	-23.4%	-98m	GBP	/FwdEPSGrth/DivCov/	NO	6

Source: S&P Capital IQ, 8 July 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)
STM	AIM:STM	£25m	43p	7	4.7%	6.1%	6.5%	-15.7%	16m	GBP	na	NO	8
The Character Group	AIM:CCT	£124m	580p	12	4.5%	6.6%	10.9%	7.9%	20m	GBP	na	NO	8
Northern Bear	AIM:NTBR	£11m	62p	-	6.5%	-	-	-1.6%	-1m	GBP	/FwdEPSGrth/	YES	7
Fulcrum Utility Services	AIM:FCRM	£60m	27p	7	7.7%	1.5%	-8.2%	-14.8%	10m	GBP	/FwdEPSGrth/	NO	7
Vertu Motors	AIM:VTU	£153m	41p	8	3.9%	7.4%	9.0%	14.6%	0m	GBP	/EPSGrth/	NO	7
Billington	AIM:BILN	£40m	330p	10	3.9%	1.5%	3.7%	19.5%	8m	GBP	/FwdEPSGrth/	NO	7
Somero Enterprises	AIM:SOM	£163m	290p	11	5.2%	-9.5%	3.1%	-13.1%	28m	USD	/FwdEPSGrth/	NO	7
NWF	AIM:NWF	£83m	170p	11	3.7%	-8.1%	0.1%	11.0%	-15m	GBP	/FwdEPSGrth/	NO	7
Rotala	AIM:ROL	£29m	60p	-	4.5%	-	-	9.1%	-31m	GBP	/IntCov/	NO	7
The Property Franchise Grp	AIM:TPFG	£43m	168p	13	5.0%	0.8%	5.1%	12.0%	2m	GBP	/FwdEPSGrth/	NO	7
Gateley	AIM:GTLY	£184m	166p	13	4.2%	23.8%	6.4%	11.1%	-8m	GBP	/EPSGrth/	NO	7
MTI Wireless Edge	AIM:MWE	£20m	23p	8	5.2%	30.1%	15.2%	-6.0%	5m	USD	/DivCov/	NO	7
Diversified Gas & Oil	AIM:DGOC	£752m	111p	7	9.9%	33.3%	0.8%	-11.6%	-485m	USD	/DivGrth/EPSGrth/	YES	6
Tremor International	AIM:TRMR	£146m	119p	3	5.4%	-13.7%	12.9%	-34.9%	54m	USD	/FwdEPSGrth/DivGrth/	YES	6
RTC	AIM:RTC	£9m	61p	-	6.3%	-	-	8.3%	-5m	GBP	/FwdEPSGrth/MktCap/	NO	6
Elegant Hotels	AIM:EHG	£63m	71p	7	5.7%	9.2%	5.5%	-0.6%	-69m	USD	/DivGrth/IntCov/	NO	6
Miton	AIM:MGR	£72m	47p	11	4.3%	-9.2%	24.3%	-25.2%	26m	GBP	/FwdEPSGrth/IntCov/	NO	6
MS International	AIM:MSI	£34m	209p	-	3.9%	-	-	3.0%	23m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Telford Homes	AIM:TEF	£265m	350p	13	4.9%	-40.7%	18.0%	25.9%	-75m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Belvoir Lettings	AIM:BLV	£40m	115p	9	6.3%	6.8%	13.4%	5.5%	-10m	GBP	/DivGrth/FCF/	NO	6
Polar Capital	AIM:POLR	£544m	586p	14	5.6%	-20.5%	14.2%	13.2%	147m	GBP	/FwdEPSGrth/IntCov/	NO	6
Ramsdens	AIM:RFX	£58m	190p	10	3.8%	10.0%	10.7%	7.5%	8m	GBP	/DivGrth/FCF/	NO	6
Shoe Zone	AIM:SHOE	£108m	216p	12	5.3%	-7.5%	0.4%	1.9%	3m	GBP	/FwdEPSGrth/IntCov/	NO	6
Central Asia Metals	AIM:CAML	£356m	208p	8	7.0%	4.9%	17.5%	-21.1%	-110m	USD	/DivGrth/DivCov/	NO	6
Portmeirion	AIM:PMP	£105m	985p	15	3.8%	-8.1%	9.5%	-15.4%	2m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Redde	AIM:REDD	£355m	116p	9	10.1%	9.7%	-2.4%	-5.0%	-41m	GBP	/FwdEPSGrth/DivCov/	NO	6
Amino Technologies	AIM:AMO	£84m	116p	12	6.3%	-10.6%	3.7%	42.8%	20m	USD	/FwdEPSGrth/DivCov/	NO	6
Highland Gold Mining	AIM:HGM	£745m	205p	11	6.5%	46.0%	0.8%	10.0%	-211m	USD	/EPSGrth/DivCov/	NO	6
Inspired Energy	AIM:INSE	£96m	14p	7	4.8%	13.0%	4.2%	-21.2%	-24m	GBP	/EPSGrth/DivCov/	NO	6

Source: S&P Capital IQ, 8 July 2019

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