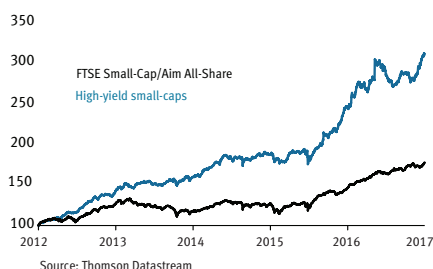




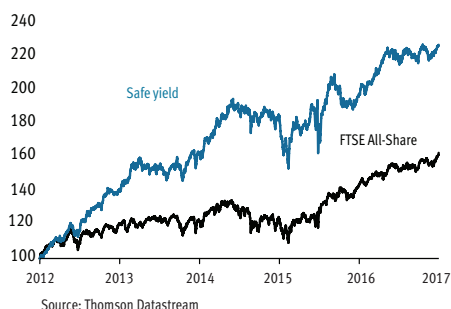
AlphaScreens: Finding dividend diamonds

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:

■ Food outlet concessions group **SSP (SSPG)** was the only FTSE All-Share company to score 8/8 on our dividend screen last month. This month it is joined by home improvements supplier **Norcros (NXR)** and equipment rental business **VP (VP)**.

■ In truth, there is a dearth of safer income stocks that aren't valued too highly to qualify for our screen on yield and the screens are mainly suggesting value plays.

■ The Aim stocks that score well on our junior market screen are deep value companies, so they come with the usual health warning to undertake further research. Financial administration group **STM (STM)** has an interesting business model, but it has suffered significant negative price momentum in the past three months.

■ Aim-traded toy manufacturer **Character Group (CCT)** scores 8/8 and has interesting characteristics such as its solid net cash position, but there doesn't appear to be any catalyst on the horizon for a great deal of further upside. Simon Thompson suggested taking profits in his column back in early June.

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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 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	£3,124m	707p	24	6.3%	8.8%	9.5%	3.1%	-438m	GBP	na	YES	8
Norcross	LSE:NXR	£170m	212p	6	4.0%	8.3%	3.4%	3.6%	-35m	GBP	na	NO	8
Vp	LSE:VP	£309m	780p	8	3.9%	7.7%	4.2%	4.3%	-168m	GBP	na	NO	8
Sirius Real Estate	LSE:SRE	£707m	69p	16	4.6%	5.1%	12.9%	8.8%	-296m	EUR	/CashConv/	YES	7
PageGroup	LSE:PAGE	£1,435m	452p	13	5.8%	10.0%	9.5%	-13.8%	-57m	GBP	/Beta	YES	7
MJ Gleeson	LSE:GLE	£447m	820p	14	3.9%	8.8%	9.8%	-1.6%	28m	GBP	/CashConv/	NO	7
Polymetal International	LSE:POLY	£4,986m	1,061p	11	3.7%	13.9%	10.8%	38.7%	-1,520m	USD	/DivCov/	NO	7
Intl Consolidated Airlines	LSE:IAG	£8,985m	453p	4	6.8%	-5.5%	6.6%	-9.8%	-4,819m	EUR	/EPSGrth/Beta	YES	6
Hays	LSE:HAS	£2,197m	151p	13	5.8%	2.8%	2.1%	2.0%	33m	GBP	/CashConv/Beta	YES	6
Regional REIT	LSE:RGL	£451m	105p	13	7.7%	8.0%	6.9%	-3.9%	-270m	GBP	/IntCov/CashConv/	NO	6
SSE	LSE:SSE	£11,183m	1,095p	12	8.9%	20.4%	14.2%	-0.7%	-9,343m	GBP	/DivCov/IntCov/	NO	6
Redrow	LSE:RDW	£1,905m	554p	6	5.5%	1.2%	1.9%	-5.0%	101m	GBP	/CashConv/Beta	NO	6
Bodycote	LSE:BOY	£1,305m	688p	12	5.7%	-4.0%	5.1%	-16.2%	-112m	GBP	/EPSGrth/Beta	YES	6
Wincanton	LSE:WIN	£282m	228p	7	4.8%	3.7%	2.8%	-13.3%	-19m	GBP	/RoE/CashConv/	NO	6
The Renewables Infra Grp	LSE:TRIG	£1,851m	128p	18	5.2%	-40.8%	-	2.6%	52m	GBP	/EPSGrth/CashConv/	NO	6
Direct Line Insurance	LSE:DLG	£4,054m	297p	11	9.9%	-16.1%	-4.0%	-5.5%	660m	GBP	/DivCov/EPSGrth/	YES	6
Wm Morrison Supermarkets	LSE:MRW	£4,404m	184p	14	6.8%	5.8%	6.6%	-14.3%	-1,031m	GBP	/DivCov/RoE/	YES	6
Morgan Sindall	LSE:MGS	£524m	1,172p	8	4.5%	3.1%	5.9%	-9.4%	58m	GBP	/CashConv/Beta	NO	6
PayPoint	LSE:PAY	£618m	914p	14	7.6%	2.7%	4.1%	-8.4%	37m	GBP	/DivCov/DivGrth/	YES	6
Mondi	LSE:MNDI	£7,715m	1,592p	10	4.8%	-6.6%	2.2%	-4.1%	-2,341m	EUR	/EPSGrth/Beta	NO	6
SThree	LSE:STHR	£338m	268p	8	5.4%	10.1%	7.0%	-10.2%	-8m	GBP	/DivGrth/CashConv/	NO	6
Hollywood Bowl	LSE:BOWL	£329m	219p	15	4.9%	9.7%	5.8%	-5.7%	-5m	GBP	/DivGrth/Beta	YES	6
Henry Boot	LSE:BOOT	£315m	238p	8	3.8%	-0.2%	2.3%	-11.1%	-18m	GBP	/EPSGrth/CashConv/	NO	6
Headlam	LSE:HEAD	£357m	425p	11	5.9%	-10.3%	5.6%	-4.0%	37m	GBP	/DivCov/EPSGrth/	NO	6
Severfield	LSE:SFR	£200m	65p	9	4.3%	9.4%	3.8%	-9.2%	25m	GBP	/RoE/CashConv/	NO	6
Forterra	LSE:FORT	£522m	267p	9	3.9%	5.1%	5.5%	-8.9%	-50m	GBP	/DivGrth/Beta	NO	6
Carnival	LSE:CCL	£24,906m	3,618p	9	4.6%	1.9%	13.6%	-8.1%	-9,990m	USD	/RoE/Beta	NO	6
Tritax Big Box REIT	LSE:BBOX	£2,467m	145p	20	4.7%	2.5%	1.2%	-1.6%	-919m	GBP	/IntCov/RoE/	NO	6
Imperial Brands	LSE:IMB	£19,915m	2,105p	7	8.9%	3.9%	3.9%	-3.3%	-12,807m	GBP	/DivCov/CashConv/	NO	6
Vesuvius	LSE:VSVS	£1,271m	474p	9	4.2%	0.4%	10.7%	-16.6%	-307m	GBP	/RoE/Beta	NO	6
Speedy Hire	LSE:SDY	£266m	51p	9	3.9%	12.9%	9.7%	-15.3%	-90m	GBP	/RoE/CashConv/	NO	6
BAE Systems	LSE:BA	£17,882m	559p	12	4.0%	7.8%	4.6%	17.9%	-3,369m	GBP	/DivCov/CashConv/	NO	6
Ten Entertainment	LSE:TEG	£153m	236p	11	4.7%	25.2%	12.5%	7.7%	-11m	GBP	/DivCov/DivGrth/	NO	6
Tate & Lyle	LSE:TATE	£3,372m	724p	14	4.1%	1.0%	3.3%	-5.8%	-307m	GBP	/DivCov/DivGrth/	NO	6
STV	LSE:STVG	£149m	380p	8	5.3%	15.0%	10.6%	0.0%	-36m	GBP	/DivCov/RoE/	NO	6
Telecom Plus	LSE:TEP	£997m	1,276p	20	4.1%	9.4%	7.3%	-10.5%	-37m	GBP	/DivCov/CashConv/	NO	6

Source: S&P Capital IQ, 12 August 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)
Headlam	LSE:HEAD	£357m	425p	11	5.9%	-10.3%	5.6%	-4.0%	37m	GBP	/FwdEPSGrth/	NO	7
SThree	LSE:STHR	£338m	268p	8	5.4%	10.1%	7.0%	-10.2%	-8m	GBP	/DivGrth/	NO	7
Costain	LSE:COST	£156m	144p	5	10.5%	-28.3%	12.9%	-54.4%	119m	GBP	/FwdEPSGrth/FCF/	NO	6
Regional REIT	LSE:RGL	£451m	105p	13	7.7%	8.0%	6.9%	-3.9%	-270m	GBP	/EPSGrth/IntCov/	NO	6
Reach	LSE:RCH	£266m	90p	2	6.8%	0.9%	-4.3%	12.5%	-13m	GBP	/FwdEPSGrth/EPSGrth/	NO	6
Record	LSE:REC	£62m	32p	13	9.4%	-26.5%	1.6%	0.5%	24m	GBP	/FwdEPSGrth/DivCov/	YES	6
888 Holdings	LSE:888	£535m	147p	12	5.8%	-26.8%	11.4%	6.8%	133m	USD	/FwdEPSGrth/IntCov/	NO	6
SOCO International	LSE:SIA	£258m	65p	15	8.4%	36.2%	15.8%	1.6%	145m	USD	/EPSGrth/DivCov/	NO	6
Photo-Me International	LSE:PHTM	£378m	100p	11	8.4%	6.5%	3.6%	9.2%	15m	GBP	/EPSGrth/DivCov/	NO	6
Arrow Global	LSE:ARW	£406m	232p	6	5.5%	1.5%	14.9%	17.5%	-1,002m	GBP	/IntCov/FCF/	NO	6
S&U	LSE:SUS	£268m	2,220p	9	5.3%	6.8%	9.2%	0.2%	-109m	GBP	/IntCov/FCF/	NO	6
Tyman	LSE:TYMN	£391m	201p	7	6.0%	7.6%	8.1%	-20.7%	-290m	GBP	/DivCov/IntCov/	NO	6
STV	LSE:STVG	£149m	380p	8	5.3%	15.0%	10.6%	0.0%	-36m	GBP	/EPSGrth/DivCov/	NO	6
McBride	LSE:MCB	£115m	63p	7	6.8%	-19.3%	-12.3%	-29.5%	-98m	GBP	/FwdEPSGrth/DivCov/	NO	6

Source: S&P Capital IQ, 12 August 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%	-20.6%	16m	GBP	na	NO	8
The Character Group	AIM:CCT	£119m	555p	12	4.7%	6.6%	10.9%	-4.4%	20m	GBP	na	NO	8
Michelmersh Brick	AIM:MBH	£76m	82p	11	3.9%	16.1%	5.7%	-14.3%	-12m	GBP	na	NO	8
Gateley (Holdings)	AIM:GTLY	£181m	163p	12	4.9%	6.3%	7.1%	1.9%	-3m	GBP	na	NO	8
Northern Bear	AIM:NTBR	£11m	62p	-	6.5%	-	-	-2.5%	2m	GBP	/FwdEPSGrth/	YES	7
Fulcrum Utility Services	AIM:FCRM	£60m	27p	7	7.8%	1.5%	-8.2%	-12.3%	10m	GBP	/FwdEPSGrth/	NO	7
Billington	AIM:BLN	£38m	315p	9	4.1%	1.5%	3.7%	-2.7%	8m	GBP	/FwdEPSGrth/	NO	7
Somero Enterprises	AIM:SOM	£158m	280p	10	5.6%	-9.5%	3.1%	-23.2%	28m	USD	/FwdEPSGrth/	NO	7
NWF	AIM:NWF	£81m	166p	11	4.0%	-2.3%	1.5%	3.7%	-10m	GBP	/FwdEPSGrth/	NO	7
Rotala	AIM:ROL	£27m	56p	7	4.8%	26.7%	9.1%	4.9%	-31m	GBP	/IntCov/	NO	7
The Property Franchise Grp	AIM:TPFG	£44m	172p	13	4.9%	0.8%	5.1%	3.0%	2m	GBP	/FwdEPSGrth/	NO	7
M.T.I Wireless Edge	AIM:MWE	£19m	22p	8	5.6%	30.1%	15.2%	-15.4%	5m	USD	/DivCov/	NO	7
Vertu Motors	AIM:VTU	£124m	34p	7	4.8%	0.0%	9.9%	-12.8%	0m	GBP	/FwdEPSGrth/EPGrth/	NO	6
Tremor International	AIM:TRMR	£181m	149p	4	4.4%	-13.7%	12.9%	12.4%	54m	USD	/FwdEPSGrth/DivGrth/	YES	6
Elegant Hotels	AIM:EHG	£62m	70p	7	5.7%	9.2%	5.5%	-3.2%	-69m	USD	/DivGrth/IntCov/	NO	6
Miton	AIM:MGR	£71m	46p	11	4.4%	-9.3%	22.7%	-19.4%	26m	GBP	/FwdEPSGrth/IntCov/	NO	6
Telford Homes	AIM:TEF	£264m	348p	13	4.9%	-40.7%	18.0%	26.7%	-75m	GBP	/FwdEPSGrth/EPGrth/	NO	6
Belvoir	AIM:BLV	£37m	106p	8	6.8%	6.8%	13.4%	-12.4%	-10m	GBP	/DivGrth/FCF/	NO	6
MS International	AIM:MSI	£35m	211p	-	3.9%	-	-	0.5%	23m	GBP	/FwdEPSGrth/DivGrth/	NO	6
Polar Capital	AIM:POLR	£502m	540p	12	6.1%	-16.0%	13.4%	-9.3%	147m	GBP	/FwdEPSGrth/IntCov/	NO	6
Shoe Zone	AIM:SHOE	£100m	201p	11	5.7%	-7.5%	0.4%	-5.3%	3m	GBP	/FwdEPSGrth/IntCov/	NO	6
Redde	AIM:REDD	£352m	115p	8	10.1%	9.8%	-0.8%	-3.2%	-41m	GBP	/FwdEPSGrth/DivCov/	NO	6
Highland Gold Mining	AIM:HGM	£838m	230p	13	5.8%	39.5%	3.6%	43.9%	-211m	USD	/EPSGrth/DivCov/	NO	6
Inspired Energy	AIM:INSE	£100m	14p	8	4.6%	15.1%	7.2%	-12.7%	-24m	GBP	/EPSGrth/DivCov/	NO	6

Source: S&P Capital IQ, 12 August 2019

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