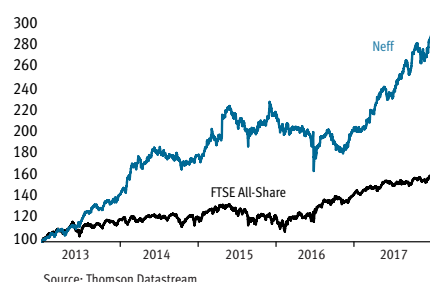




AlphaScreens: The market according to GARP

Growth at a reasonable price, or GARP, has proved a reliable strategy that has previously generated market-beating returns. We run our GARP screens across three indices: FTSE All-Share, All Small, and Aim

Neff 5-year cumulative total return



Algy Hall's view:

Buying shares that offer growth at a reasonable price (GARP) can generate strong returns. Prominent exponents of this style of investing include the likes of Jim Slater, Peter Lynch and, arguably, also John Neff. A key metric to assess whether companies offer the magic combination of value and growth is the price-to-earnings-growth (PEG) ratio. In its most basic form the ratio simply compares a share's valuation against its earnings with its earnings growth rate (historic or forecast). This approach is not overly exacting, but over many years it has proved a very effective way of identifying great investment opportunities when combined with other factors that suggest there are solid foundations to the value and growth measures used by the ratio.

- Our GARP screen for the FTSE All-Share now only has two companies that pass all eight tests. **Page Group (PAGE)** and **Shaftesbury (SHB)**, which due to its diverse and quality portfolio may well prove more resilient than other property companies. Packaging Group **RPC (RPC)** no longer achieves a perfect score.
- Our small-cap screen, which uses the FTSE All Small Index as its selection universe, still sees multichannel retailer **Bon-marche (BON)** and **Haynes Publishing (HYNS)**, achieving a 7/7 score.
- Our screen of Aim-traded companies, which also has seven rules, has five companies that meets them all. The newest addition is **Dewhurst (DWHT)**, the manufacturer of specialist electrical components.

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Large-cap GARP criteria

Our large-cap GARP screen is run on all FTSE All-Share stocks and uses a PEG ratio based on the historic price/earnings (PE) ratio divided by a combination of the earnings growth rate and dividend yield. The earnings growth rate is calculated based on the average of the five-year historic growth rate and the average forecast growth over the next two years. The screening criteria are:

- A PEG ratio below the median average.
- A PE ratio that is higher than that of the lowest quarter of stocks screened (ie not suspiciously cheap) and below the top quarter (ie not dangerously expensive).
- A five-year historic EPS compound annual growth rate above 7.5 per cent but below 20 per cent (ie high, but sustainably so).
- A five-year historic revenue compound annual growth rate above 5 per cent (ie sales growth underpinning earnings growth).
- Year-on-year EPS growth in each of the past two half-year periods.
- Average forecast EPS growth of more than 7.5 per cent for the next two financial years.
- Positive free cash flow in each of the past three years.
- No downgrade to forecast EPS over the last three months.

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 at the top of page 4, followed by those failing one test, then those failing two tests and so on as detailed in the ‘Tests passed’ column. All stocks must pass the PEG test to feature in the table. While the primary ranking of the socks 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 PEG and three-month price momentum.

Small-cap GARP criteria

Our small-cap GARP screen is run on all stocks in the FTSE All-Small and Alternative Investment Market (Aim) indices, with the results from the individual indices listed in separate tables. The screen uses a PEG based on the historic PE ratio and average forecast growth for the next two financial years. The screening criteria are:

- A PEG ratio in the bottom quarter of all stocks screened.
- EPS growth forecast for each of the next two financial years and an average growth rate over the period of more than 10 per cent and less than 50 per cent (ie high, but sustainably so).
- Either a return on equity of over 12.5 per cent or an operating margin of over 15 per cent (ie an indicator of a quality business that may have a sustainable advantage).
- Either three-month share price momentum better than the median average or earnings upgrades of 10 per cent or more over the past three months (ie recent reasons to feel positive).
- Operating cash conversion of 90 per cent or more.
- Net debt of less than 1.5 times cash profits.
- 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 tables on page 5, followed by those failing one test, then those failing two tests and so on as detailed in the ‘Tests passed’ column. All stocks must pass the low PEG test to feature in the table. While the primary ranking of the socks 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 PEG and three-month price momentum.

Large-cap GARP selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Forward NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 8)	Test failed
PageGroup	LSE:PAGE	£1,819m	581p	19	1.1	4.3%	17.7%	7.5%	9.7%	96m	GBP	8	na
Shaftesbury	LSE:SHB	£2,871m	936p	50	0.6	1.8%	8.1%	11.3%	-4.1%	-767m	GBP	8	na
Ashtead	LSE:AHT	£10,981m	2,252p	14	0.3	1.5%	27.8%	8.3%	17.0%	-2,712m	GBP	7	/5yr EPS grth/
Babcock International	LSE:BAB	£4,238m	840p	10	1.3	3.5%	2.2%	3.8%	28.0%	-1,238m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
S&U	LSE:SUS	£312m	2,600p	11	0.6	4.0%	19.5%	13.5%	15.4%	-105m	GBP	7	/FCF/
Morgan Sindall	LSE:MGNS	£645m	1,460p	11	1.0	3.1%	20.1%	0.7%	16.0%	193m	GBP	7	/FCF/
Howden Joinery	LSE:HWDN	£3,225m	533p	17	1.2	2.1%	7.6%	7.8%	16.1%	241m	GBP	7	/HY EPS grth/
WPP	LSE:WPP	£15,399m	1,221p	10	0.6	4.9%	-2.6%	3.8%	10.8%	-4,483m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Big Yellow	LSE:BYG	£1,500m	952p	23	0.5	3.3%	9.0%	6.7%	10.0%	-345m	GBP	7	/5yr EPS grth/
Inchcape	LSE:INCH	£3,166m	764p	12	1.3	3.5%	-2.8%	3.4%	11.8%	-344m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
MJ Gleeson	LSE:GLE	£432m	794p	15	0.5	3.0%	10.9%	9.1%	5.8%	27m	GBP	7	/5yr EPS grth/
SThree	LSE:STHR	£468m	373p	13	1.1	3.8%	11.7%	15.3%	6.8%	6m	GBP	7	/HY EPS grth/
Playtech	LSE:PTC	£2,434m	773p	11	0.5	4.1%	14.9%	17.9%	4.1%	107m	EUR	7	/5yr EPS grth/
Morgan Adv. Materials	LSE:MGAM	£948m	333p	14	0.6	3.3%	10.8%	7.1%	3.1%	-181m	GBP	7	/5yr Rev grth/
Grafton	LSE:GFTU	£1,914m	806p	14	0.7	1.9%	8.5%	7.2%	2.1%	-63m	GBP	7	/5yr EPS grth/
Paragon Banking Group	LSE:PAG	£1,258m	485p	10	0.8	3.2%	11.5%	6.7%	1.0%	-6,072m	GBP	7	/FCF/
Bovis Homes	LSE:BVS	£1,558m	1,160p	12	0.6	4.1%	40.2%	10.2%	-3.1%	145m	GBP	7	/HY EPS grth/
Hays	LSE:HAS	£2,721m	188p	16	1.2	1.7%	17.0%	8.9%	-1.4%	35m	GBP	7	/HY EPS grth/
Communis	LSE:CMS	£116m	55p	8	0.6	4.8%	7.2%	6.6%	-12.4%	-24m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Savills	LSE:SVS	£1,243m	911p	12	1.3	3.3%	-0.2%	6.0%	-7.8%	99m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Games Workshop	LSE:GAW	£983m	3,040p	19	1.1	4.3%	94.0%	-24.5%	34.2%	29m	GBP	6	/mid PE/5yr EPS grth/
Electrocomponents	LSE:ECM	£3,277m	742p	21	1.1	1.8%	21.7%	9.4%	28.8%	-66m	GBP	6	/mid PE/5yr EPS grth/
JD Sports Fashion	LSE:JD	£4,149m	426p	16	0.7	0.4%	4.2%	10.4%	19.4%	310m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Vp	LSE:VP	£410m	1,040p	11	1.1	2.5%	18.4%	5.4%	22.4%	-179m	GBP	6	/HY EPS grth/FCF/
Dignity plc	LSE:DTY	£500m	999p	13	-1.4	2.4%	-40.0%	-19.7%	12.8%	-516m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Workspace Group	LSE:WKP	£2,001m	1,112p	27	0.7	2.5%	11.1%	12.2%	12.2%	-533m	GBP	6	/HY EPS grth/Fwd EPS/
Moneysupermarket.com	LSE:MONY	£1,701m	317p	19	1.3	3.3%	-1.1%	8.2%	10.9%	35m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
MedicX Fund Limited	LSE:MXF	£361m	82p	21	0.2	7.4%	7.4%	4.6%	5.9%	-362m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
DS Smith	LSE:SMDS	£5,562m	518p	13	1.0	2.8%	8.8%	7.9%	7.5%	-1,705m	GBP	6	/5yr EPS grth/HY EPS grth/
National Express	LSE:NEX	£2,044m	400p	12	1.1	3.4%	10.9%	3.7%	4.1%	-919m	GBP	6	/5yr Rev grth/Fwd EPS/
Persimmon	LSE:PSN	£8,078m	2,576p	10	0.4	9.1%	8.9%	2.6%	1.6%	1,303m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Bellway	LSE:BWY	£3,792m	3,087p	7	0.3	4.0%	13.9%	5.5%	0.4%	-131m	GBP	6	/5yr EPS grth/FCF/
Barratt Developments	LSE:BDEV	£5,338m	528p	8	0.3	8.1%	5.5%	5.4%	-0.5%	166m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Spectris	LSE:SXS	£3,220m	2,718p	17	1.1	2.1%	9.2%	9.8%	1.7%	-51m	GBP	6	/HY EPS grth/5yr Rev grth/
Assura	LSE:AGR	£1,382m	58p	21	1.2	4.5%	9.8%	5.9%	1.8%	-460m	GBP	6	/HY EPS grth/Fwd EPS/
Tarsus	LSE:TRS	£334m	296p	18	0.7	3.4%	-39.2%	70.6%	-0.3%	-86m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Henry Boot	LSE:BOOT	£391m	295p	10	0.5	2.7%	-11.3%	1.0%	-2.5%	-29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Redrow	LSE:RDW	£1,994m	553p	7	0.2	4.0%	14.7%	8.1%	-7.2%	-35m	GBP	6	/5yr EPS grth/FCF/
4imprint	LSE:FOUR	£502m	1,795p	20	0.8	2.4%	15.8%	11.1%	-3.1%	31m	USD	6	/mid PE/5yr EPS grth/
McColl's Retail Group	LSE:MCLS	£243m	211p	11	0.7	4.9%	6.3%	19.9%	-4.1%	-140m	GBP	6	/5yr EPS grth/HY EPS grth/
Vedanta Resources	LSE:VED	£1,850m	661p	7	0.2	7.4%	122.8%	14.9%	-9.8%	-9,645m	USD	6	/5yr EPS grth/5yr Rev grth/
Ted Baker	LSE:TED	£990m	2,222p	16	1.1	2.7%	10.5%	9.8%	-17.7%	-112m	GBP	6	/FCF/Fwd EPS/

Source: S&P CapitalIQ, as at 25 June 2018

Small-cap GARP selection (passing at least 5 of 7 tests)

Name	TIDM	Market cap	Price	Forward NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
Haynes Publishing	LSE:HYNS	£36m	238p	17	0.82	3.2%	48.9%	10.2%	0.0%	0m	GBP	7	na
Bonmarché Holdings	LSE:BON	£60m	123p	9	0.64	6.3%	10.9%	17.0%	49.1%	4m	GBP	7	na
Hansteen Holdings	LSE:HSTN	£440m	107p	21	0.68	5.7%	22.8%	7.7%	-17.7%	-225m	GBP	6	/Debt/
Pendragon	LSE:PDG	£361m	26p	8	0.96	6.2%	1.7%	12.5%	5.2%	-124m	GBP	6	/Fwd EPS grth/
Target Healthcare REIT	LSE:THRL	£383m	113p	20	1.06	5.7%	19.0%	7.7%	9.3%	-65m	GBP	6	/Cash Conv/
Capital Drilling	LSE:CAPD	£59m	44p	12	0.95	2.9%	19.1%	11.3%	10.7%	8m	USD	6	/Hi RoE or Marg/
GoCompare.com	LSE:GOCO	£566m	135p	17	1.21	1.0%	27.7%	9.0%	21.1%	-39m	GBP	6	/Hi RoE or Marg/
TT Electronics	LSE:TTG	£390m	251p	18	1.08	2.3%	25.2%	18.9%	23.3%	46m	GBP	6	/Hi RoE or Marg/
Macfarlane Group	LSE:MACF	£176m	112p	16	1.19	1.9%	33.0%	2.3%	30.4%	-15m	GBP	6	/Cash Conv/
Gem Diamonds	LSE:GEMD	£171m	123p	7	0.97	-	289.2%	-51.7%	31.5%	1m	USD	6	/Fwd EPS grth/
Arrow Global	LSE:ARW	£458m	260p	7	0.61	4.3%	18.5%	17.3%	-26.1%	-939m	GBP	5	/Hi RoE or Marg/Cash Conv/
Kenmare Resources	LSE:KMR	£241m	220p	6	0.19	-	183.6%	-0.7%	-4.4%	-34m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
Luceco	LSE:LUCE	£85m	53p	8	0.26	-	7.2%	55.0%	-1.8%	-37m	GBP	5	/Mom or Upgrade/Debt/
TClarke	LSE:CTO	£35m	83p	6	0.79	4.2%	8.7%	6.7%	0.6%	12m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Sirius Real Estate	LSE:SRE	£644m	65p	9	0.23	4.3%	133.1%	-25.1%	2.2%	-288m	EUR	5	/Fwd EPS grth/Debt/
Empiric Student Property	LSE:ESP	£529m	88p	25	0.36	6.3%	86.9%	21.7%	6.7%	-246m	GBP	5	/Fwd EPS grth/Debt/
Carr's Group plc	LSE:CARR	£134m	147p	12	0.95	2.7%	41.6%	-0.6%	15.9%	-16m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
S&U plc	LSE:SUS	£312m	2,600p	11	0.72	4.0%	19.5%	13.5%	15.4%	-105m	GBP	5	/Hi RoE or Marg/Cash Conv/

Source: S&P CapitalIQ, as at 25 June 2018

Aim GARP selection (passing at least 5 of 7 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
Dewhurst	AIM:DWHT	£58m	913p	16	0.86	1.3%	9.8%	27.6%	-14.7%	18m	GBP	7	na
Sylvania Platinum	AIM:SLP	£49m	17p	8	0.49	-	2.6%	26.7%	-8.2%	12m	USD	7	na
Warpaint London	AIM:W7L	£196m	255p	19	0.94	2.0%	45.8%	13.4%	25.0%	2m	GBP	7	na
SCISYS	AIM:SSY	£47m	162p	14	0.87	1.3%	20.9%	10.0%	26.5%	-6m	GBP	7	na
Caledonia Mining Corp	AIM:CMCL	£117m	668p	-	0.00	-	26.6%	10.6%	28.2%	12m	USD	7	na
James Cropper	AIM:CRPR	£132m	1,395p	28	0.79	0.8%	53.6%	11.1%	-8.3%	-5m	GBP	6	/Mom or Upgrade/
K3 Capital	AIM:K3C	£124m	294p	22	0.56	1.9%	62.2%	-14.2%	-0.3%	5m	GBP	6	/Fwd EPS grth/
Swallowfield	AIM:SWL	£55m	323p	14	0.72	1.6%	44.7%	11.4%	0.8%	-1m	GBP	6	/Mom or Upgrade/
Secure Income REIT	AIM:SIR	£1,238m	385p	25	0.74	3.2%	13.6%	3.7%	4.1%	-878m	GBP	6	/Fwd EPS grth/
Base Resources	AIM:BSE	£333m	16p	-	0.00	-	128.1%	-23.0%	3.6%	-117m	AUD	6	/Fwd EPS grth/
Atalaya Mining	AIM:ATYM	£345m	252p	10	0.38	-	77.0%	11.1%	16.2%	53m	EUR	6	/Hi RoE or Marg/
Goals Soccer Centres	AIM:GOAL	£64m	86p	13	0.28	-	42.3%	16.7%	16.5%	-30m	GBP	6	/Debt/
SDX Energy	AIM:SDX	£227m	62p	-	0.00	-	85.2%	10.2%	20.9%	29m	USD	6	/Fwd EPS grth/
ProPhotonix	AIM:PPIX	£16m	12p	-	0.00	-	-29.3%	70.0%	37.1%	1m	USD	6	/Fwd EPS grth/
Universe Group	AIM:UNG	£12m	5p	7	0.49	-	75.0%	4.5%	-22.9%	2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Impellam	AIM:IPEL	£234m	465p	6	0.49	4.4%	23.2%	6.3%	-17.9%	-76m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Trans-Siberian Gold	AIM:TSG	£38m	35p	10	0.16	9.2%	109.6%	66.1%	-13.9%	-12m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
M.T.I Wireless Edge	AIM:MWE	£14m	26p	10	0.52	5.8%	46.2%	8.2%	-10.2%	4m	USD	5	/Hi RoE or Marg/Mom or Upgrade/
Petards Group	AIM:PEG	£12m	22p	11	0.29	-	43.9%	14.5%	-9.8%	1m	GBP	5	/Mom or Upgrade/Cash Conv/
System1 Group	AIM:SYS1	£36m	290p	16	0.56	2.6%	81.2%	15.8%	-7.6%	6m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Amiad Water Systems	AIM:AFS	£42m	184p	18	1.04	1.2%	0.9%	33.0%	-1.9%	-10m	USD	5	/Hi RoE or Marg/Mom or Upgrade/
Summit Germany	AIM:SMTG	£540m	116p	12	0.31	3.5%	46.8%	-8.0%	3.6%	-392m	EUR	5	/Fwd EPS grth/Debt/
Amerisur Resources	AIM:AMER	£182m	15p	10	0.09	-	954.3%	-46.7%	3.6%	30m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
Pelatro	AIM:PTRO	£20m	83p	14	0.96	-	-9.0%	62.8%	6.5%	3m	USD	5	/Fwd EPS grth/Cash Conv/
1pmAIM:OPM	£41m	47p	7	0.69	1.1%	16.7%	6.1%	6.8%	-2m	GBP	5/Hi RoE or Marg/Cash Conv/		
Pan African Resources	AIM:PAF	£137m	7p	5	0.38	6.3%	20.7%	4.1%	10.1%	-37m	GBP	5	/Hi RoE or Marg/Debt/
EKF Diagnostics Holdings	AIM:EKF	£147m	32p	28	0.63	-	229.4%	-16.4%	21.5%	7m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Randall & Quilter Inv. Hold.	AIM:RQIH	£220m	175p	13	0.64	5.1%	27.6%	19.3%	21.6%	139m	GBP	5	/Hi RoE or Marg/Cash Conv/
Sigma Capital	AIM:SGM	£130m	146p	11	0.35	-	221.6%	-6.0%	21.4%	6m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Defenx	AIM:DFX	£4m	16p	1	0.05	-	1.7%	37.8%	36.5%	-1m	EUR	5	/Hi RoE or Marg/Mkt Cap/
Tricorn Group	AIM:TCN	£13m	37p	12	0.65	-	25.5%	28.1%	70.4%	-3m	GBP	5	/Hi RoE or Marg/Debt/

Source: S&P CapitalIQ, as at 25 June 2018

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