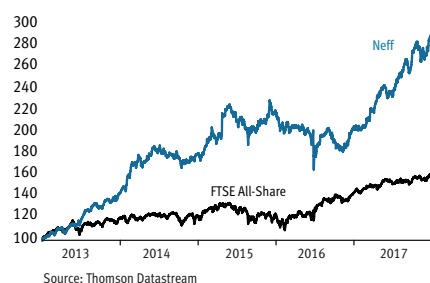




AlphaScreens: The market according to GARP

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 is still proving a tough nut to crack, which is perhaps indicative of where we are in the economic cycle. Only two FTSE All-Share companies – packaging specialist **Macfarlane (MACF)** and recruiter **Page Group (PAGE)** – pass all our growth at the right price criteria.
- There are only seven tests targeting just smaller companies. These are applied to companies included in the FTSE All Small Companies Index (which has some overlap with the All-Share) and Aim shares. Macfarlane again is the only company listed on the main market to pass all small company tests. On Aim, just **Sylvania Platinum (SLP)** scores 7/7.
- What this screen highlights, is the challenge in finding good companies positioned for growth without being too expensive. Currently, companies with a degree of cyclical risk are coming out on top, which is reason to be cautious. *JN*

Analyst: Algy Hall
algy.hall@ft.com

Alpha Production Editor: Sameera Hai Baig

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 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 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 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 PEG and three-month price momentum.

Stock screen methodology formulated and explained by Algy Hall

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

Name	TIDM	Mkt cap	Price	Fwd NTM	PE	PEG	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 8)	Test failed
Macfarlane	LSE:MACF	£151m	96p	13	0.9	2.4%	2.4%	33.2%	3.7%	19.8%	-13m	GBP	8	na
PageGroup	LSE:PAGE	£1,548m	492p	13	0.7	5.3%	5.3%	13.8%	10.5%	8.3%	98m	GBP	8	na
Bovis Homes	LSE:BVS	£1,466m	1,091p	10	0.6	5.2%	5.2%	6.8%	10.0%	23.0%	127m	GBP	7	/Fwd EPS/
Grafton	LSE:GFTU	£1,989m	837p	13	1.0	2.2%	2.2%	-0.5%	5.3%	20.9%	-53m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
MJ Gleeson	LSE:GLE	£442m	810p	14	0.7	4.0%	4.0%	8.1%	10.2%	14.3%	28m	GBP	7	/5yr EPS grth/
Electrocomponents	LSE:ECM	£2,709m	612p	16	0.9	2.2%	2.2%	26.7%	6.6%	15.0%	-141m	GBP	7	/5yr EPS grth/
RHI Magnesita NV.	LSE:RHIM	£2,392m	4,834p	9	1.0	2.7%	2.7%	17.6%	-0.8%	16.5%	-646m	EUR	7	/HY EPS grth/
Primary Health Props	LSE:PHP	£1,461m	129p	23	0.9	4.3%	4.3%	9.8%	6.1%	12.0%	-688m	GBP	7	/HY EPS grth/
Robert Walters	LSE:RWA	£427m	604p	12	0.5	2.4%	2.4%	10.4%	6.5%	9.5%	74m	GBP	7	/5yr EPS grth/
Ashtead	LSE:AHT	£9,529m	2,033p	10	0.4	1.6%	1.6%	37.1%	10.5%	8.7%	-3,725m	GBP	7	/5yr EPS grth/
Unilever	LSE:ULVR	£115,084m	4,402p	20	0.9	3.1%	3.1%	7.2%	9.5%	7.2%	-20,688m	EUR	7	/5yr Rev grth/
Huntsworth	LSE:HNT	£287m	82p	10	1.2	2.8%	2.8%	17.1%	7.2%	-17.5%	-77m	GBP	7	/5yr EPS grth/
Barrat Developments	LSE:BDEV	£6,242m	616p	9	0.3	7.3%	7.3%	4.1%	1.0%	28.6%	379m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
JD Sports Fashion	LSE:JD.	£4,948m	508p	18	0.8	0.3%	0.3%	10.5%	11.5%	35.9%	-85m	GBP	6	/5yr EPS grth/FCF/
4imprint	LSE:FOUR	£701m	2,500p	22	1.2	2.2%	2.2%	13.0%	10.9%	36.5%	27m	USD	6	/mid PE/5yr EPS grth/
Morgan Sindall	LSE:MGNS	£577m	1,290p	9	0.4	4.1%	4.1%	0.6%	7.8%	18.1%	160m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Moneysupermarket.com	LSE:MONY	£1,870m	349p	19	1.2	3.2%	3.2%	7.2%	7.7%	20.2%	30m	GBP	6	/5yr EPS grth/Fwd EPS/
Safestore	LSE:SAFE	£1,283m	611p	21	0.7	2.7%	2.7%	6.1%	6.4%	14.3%	-416m	GBP	6	/mid PE/Av FY2 Fwd EPS growth > 7.5%
Polypipe	LSE:PLP	£816m	409p	13	1.0	2.8%	2.8%	8.6%	6.8%	15.1%	-165m	GBP	6	/HY EPS grth/Fwd EPS/
The Unite Group	LSE:UTG	£2,460m	934p	24	0.6	3.1%	3.1%	13.3%	8.6%	10.4%	-469m	GBP	6	/HY EPS grth/Fwd EPS/
Howden Joinery	LSE:HWDN	£3,134m	517p	15	1.3	2.2%	2.2%	6.2%	6.0%	11.9%	231m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%Fwd EPS/
Harworth	LSE:HWG	£418m	130p	31	0.4	0.7%	0.7%	6.6%	72.4%	8.3%	-65m	GBP	6	/HY EPS grth/FCF/
SThree	LSE:STHR	£362m	287p	9	0.4	5.1%	5.1%	9.6%	7.6%	7.4%	-4m	GBP	6	/5yr EPS grth/HY EPS grth/
On the Beach	LSE:OTB	£544m	415p	17	-2.1	0.8%	0.8%	14.2%	18.0%	5.9%	86m	GBP	6	/mid PE/5yr EPS grth/
National Express	LSE:NEX	£2,060m	404p	12	1.0	3.7%	3.7%	5.9%	4.8%	6.5%	-1,011m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Hays	LSE:HAS	£2,225m	153p	12	0.8	5.8%	5.8%	5.4%	8.5%	3.9%	33m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%FCF/
Cineworld	LSE:CINE	£4,072m	297p	12	1.2	3.9%	3.9%	23.0%	6.0%	4.5%	-3,733m	USD	6	/5yr EPS grth/HY EPS grth/
Synthomer	LSE:SYNT	£1,325m	390p	11	1.0	3.4%	3.4%	7.5%	3.4%	2.2%	-219m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Computacenter	LSE:CCC	£1,209m	1,070p	13	1.0	2.8%	2.8%	6.1%	0.3%	2.1%	57m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Games Workshop	LSE:GAW	£1,028m	3,164p	19	0.9	4.1%	4.1%	-6.3%	3.5%	-1.1%	25m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%

Source: S&P CapitalIQ, as at 8 April 2019

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

Name	TIDM	Mkt cap	Price	Fwd NTM			Fwd EPS grth	Fwd EPS grth	3-month	Net cash/	Tests passed	Test
				PE	PEG	DY	FY+1	FY+2	momentum	debt(-)	(out of 7)	failed
Macfarlane	LSE:MACF	£151m	96p	13	0.91	2.4%	33.2%	3.7%	19.8%	-13m	GBP	7 na
SOCO International	LSE:SIA	£272m	69p	16	0.27	8.0%	50.3%	29.1%	-9.2%	145m	USD	6 /Mom or Upgrade/
Ten Entertainment	LSE:TEG	£147m	226p	11	0.91	4.9%	26.4%	10.5%	-2.6%	-11m	GBP	6 /Mom or Upgrade/
GCP Student Living	LSE:DIGS	£632m	154p	30	0.38	4.0%	28.4%	18.1%	2.7%	-212m	GBP	6 /Mom or Upgrade/
Kenmare Resources	LSE:KMR	£214m	195p	5	0.37	-	14.0%	13.3%	3.8%	14m	USD	6 /Mom or Upgrade/
Target Healthcare REIT	LSE:THRL	£447m	116p	20	0.89	5.7%	4.6%	21.0%	7.3%	-41m	GBP	6 /Cash Conv/
TClarke	LSE:CTO	£54m	126p	7	0.76	3.2%	16.8%	5.1%	41.7%	12m	GBP	6 /Cash Conv/
Empiric Student Property	LSE:ESP	£552m	92p	21	0.56	5.5%	35.0%	10.6%	-0.3%	-301m	GBP	5 /Mom or Upgrade/Debt/
Residential Secure Income	LSE:RESI	£157m	92p	18	0.09	5.5%	437.6%	-29.0%	1.8%	-67m	GBP	5 /Fwd EPS grth/Mom or Upgrade/
Sirius Real Estate	LSE:SRE	£648m	63p	13	0.28	4.4%	50.1%	5.9%	6.4%	-323m	EUR	5 /Cash Conv/Debt/
Regional REIT	LSE:RGL	£394m	106p	12	0.76	7.6%	13.3%	1.8%	13.9%	-270m	GBP	5 /Fwd EPS grth/Cash Conv/
Capital Drilling	LSE:CAPD	£67m	50p	9	1.02	3.3%	22.8%	-1.0%	28.3%	17m	USD	5 /Fwd EPS grth/Hi RoE or Marg/
McColl's Retail	LSE:MCLS	£94m	82p	10	1.09	4.9%	25.1%	0.1%	43.9%	-99m	GBP	5 /Hi RoE or Marg/Debt/
UP Global Sourcing	LSE:UPGS	£49m	62p	9	0.73	4.4%	29.6%	2.2%	33.7%	-13m	GBP	5 /Cash Conv/Debt/

Source: S&P CapitalIQ, as at 8 April 2019

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

Name	TIDM	Mkt cap	Price	Fwd NTM			Fwd EPS grth	Fwd EPS grth	3-month	Net cash/	Tests passed	Test
				PE	PEG	DY	FY+1	FY+2	momentum	debt(-)	(out of 7)	failed
Sylvania Platinum	AIM:SLP	£87m	31p	6	0.23	1.1%	81.9%	5.9%	54.5%	20m	USD	7 na
Elektron Technology	AIM:EKT	£69m	39p	17	0.65	-	97.2%	11.4%	-17.1%	7m	GBP	6 /Fwd EPS grth/
System1	AIM:SYS1	£23m	185p	10	0.32	4.1%	96.4%	12.1%	-17.8%	3m	GBP	6 /Fwd EPS grth/
Arcontech	AIM:ARC	£17m	126p	19	0.59	1.0%	54.8%	3.4%	-8.5%	3m	GBP	6 /Cash Conv/
Petards	AIM:PEG	£15m	26p	13	0.39	-	43.9%	8.8%	-5.6%	1m	GBP	6 /Mom or Upgrade/
Dart	AIM:DTG	£1,197m	805p	8	0.72	0.9%	51.8%	-14.4%	-2.3%	460m	GBP	6 /Fwd EPS grth/
Caledonia Mining	AIM:CMCL	£83m	455p	-	0.00	-	-42.7%	19.1%	1.3%	5m	USD	6 /Fwd EPS grth/
MP Evans	AIM:MPE	£363m	665p	38	0.85	2.7%	131.1%	31.7%	6.4%	-8m	USD	6 /Fwd EPS grth/
Synectics	AIM:SNX	£34m	205p	11	0.60	2.3%	42.1%	23.5%	5.6%	8m	GBP	6 /Hi RoE or Marg/
Nexus Infrastructure	AIM:NEXS	£79m	207p	10	0.69	3.2%	14.2%	15.3%	6.7%	19m	GBP	6 /Cash Conv/
Concurrent Technologies	AIM:CNC	£54m	75p	12	0.72	3.1%	56.9%	-4.1%	8.5%	8m	GBP	6 /Fwd EPS grth/
Warehouse REIT	AIM:WHR	£251m	105p	16	0.19	5.7%	245.8%	-28.3%	8.8%	-121m	GBP	6 /Fwd EPS grth/
Atalaya Mining	AIM:ATYM	£322m	235p	12	0.30	-	-11.8%	92.6%	12.5%	33m	EUR	6 /Fwd EPS grth/
Central Asia Metals	AIM:CAML	£457m	267p	9	0.85	6.2%	37.4%	-5.3%	20.4%	-128m	USD	6 /Fwd EPS grth/
Belvoir Lettings	AIM:BLV	£36m	104p	8	0.84	6.9%	6.8%	13.4%	21.2%	-10m	GBP	6 /Debt/
Pelatro	AIM:PTRO	£32m	97p	8	0.60	-	52.0%	0.1%	34.8%	2m	USD	6 /Cash Conv/
Ashley House	AIM:ASH	£5m	8p	-	0.46	-	-57.3%	159.3%	-28.1%	-2m	GBP	5 /Fwd EPS grth/Mkt Cap/
SDX Energy	AIM:SDX	£129m	36p	-	0.00	-	9900.0%	-80.0%	-24.6%	17m	USD	5 /Fwd EPS grth/Mom or Upgrade/
Sigma Capital	AIM:SGM	£97m	108p	9	0.26	-	179.3%	7.8%	-21.5%	-3m	GBP	5 /Fwd EPS grth/Mom or Upgrade/
Swallowfield	AIM:SWL	£32m	185p	7	0.83	3.4%	15.9%	5.3%	-14.8%	-2m	GBP	5 /Hi RoE or Marg/Mom or Upgrade/
Dewhurst	AIM:DWHT	£57m	838p	12	0.87	1.5%	37.2%	2.2%	-6.9%	9m	GBP	5 /Hi RoE or Marg/Cash Conv/
Tricorn	AIM:TCN	£6m	19p	6	0.52	-	25.5%	10.0%	-7.1%	-3m	GBP	5 /Debt/Mkt Cap/
Pan African Resources	AIM:PAF	£171m	9p	5	0.35	-	24.7%	45.5%	-6.9%	-105m	GBP	5 /Cash Conv/Debt/
Christie	AIM:CTG	£25m	96p	9	0.66	2.9%	15.7%	13.0%	-4.1%	-3m	GBP	5 /Hi RoE or Marg/Mom or Upgrade/
Good Energy	AIM:GOOD	£16m	99p	11	0.42	3.5%	37.9%	24.7%	4.0%	-45m	GBP	5 /Hi RoE or Marg/Debt/
Summit Properties	AIM:SMTP	£533m	117p	12	0.27	3.4%	54.8%	-9.2%	5.4%	-348m	EUR	5 /Fwd EPS grth/Debt/
Springfield Properties	AIM:SPR	£110m	114p	8	0.61	3.4%	22.7%	12.2%	8.0%	-25m	GBP	5 /Cash Conv/Debt/
Eland Oil & Gas	AIM:ELA	£285m	131p	4	0.27	-	63.4%	-9.7%	19.3%	-4m	USD	5 /Fwd EPS grth/Cash Conv/
M.T.I Wireless Edge	AIM:MWE	£20m	23p	9	0.46	5.0%	26.4%	16.2%	36.6%	4m	USD	5 /Hi RoE or Marg/Cash Conv/

Source: S&P CapitalIQ, as at 8 April 2019

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