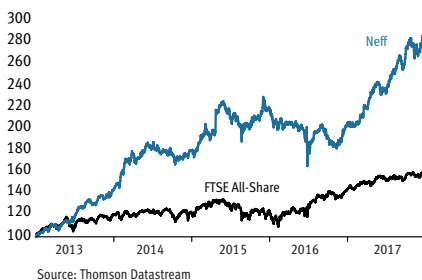




AlphaScreens: The market according to GARP

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.

■ **Macfarlane Group (MACF)** once again passes all eight of our FTSE All-Share GARP tests, although its price-to-earnings growth (PEG) ratio has risen from 0.8 to 1 since last month. The other company with a perfect score is recruiter **Page Group (PAGE)**.

■ **Unilever (ULVR)** only fails one test – revenue growth. Arguably, the company's recent and projected profit growth has been over-reliant on cost-cutting (which is why it was axed from Phil Oakley's Fantasy Sipp last week), but with a PEG of 0.8 at least our screen is telling us that profit growth isn't too dear.

■ On our small-cap screen, Simon Thompson's pick **TClarke (CTO)** is still scoring top marks. On the Alternative Investment Market (Aim), specialist technology component company **Concurrent Technologies (CNC)** scores well, along with miners **Atalaya (ATYM)**, **Sylvania Platinum (SLP)** and IT services company **Scysis (SSY)**. JN

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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 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	£153m	97p	12	1.0	2.4%	36.9%	0.7%	33.7%	-13m	GBP	8	na
PageGroup	LSE:PAGE	£1,440m	458p	12	0.7	5.6%	13.2%	10.1%	-5.7%	98m	GBP	8	na
Robert Walters	LSE:RWA	£428m	616p	12	0.5	2.4%	10.4%	6.5%	26.6%	74m	GBP	7	/5yr EPS grth/
Bovis Homes	LSE:BVS	£1,509m	1,123p	10	0.6	5.1%	9.2%	9.3%	30.8%	127m	GBP	7	/Fwd EPS/
MJ Gleeson	LSE:GLE	£428m	784p	13	0.7	4.1%	8.1%	10.2%	28.5%	28m	GBP	7	/5yr EPS grth/
Grafton	LSE:GFTU	£1,868m	786p	12	1.0	2.3%	-1.2%	5.8%	17.0%	-53m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Ashtead	LSE:AHT	£9,038m	1,922p	10	0.3	1.7%	37.6%	10.2%	10.1%	-3,725m	GBP	7	/5yr EPS grth/
4imprint	LSE:FOUR	£608m	2,170p	19	1.0	2.5%	13.9%	10.0%	12.2%	27m	USD	7	/5yr EPS grth/
Electrocomponents	LSE:ECM	£2,485m	561p	15	0.8	2.4%	24.0%	8.0%	8.3%	-141m	GBP	7	/5yr EPS grth/
Hays	LSE:HAS	£2,222m	153p	12	0.8	5.8%	5.9%	8.7%	5.7%	33m	GBP	7	/FCF/
Unilever	LSE:ULVRE	£107,515m	4,113p	19	0.8	3.3%	7.0%	9.6%	-6.0%	-20,781m	EUR	7	/5yr Rev grth/
Huntsworth	LSE:HNT	£294m	85p	10	1.2	2.7%	18.2%	7.2%	-21.9%	-77m	GBP	7	/5yr EPS grth/
Barratt Developments	LSE:BDEV	£6,094m	601p	9	0.3	7.4%	5.0%	2.6%	30.2%	379m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Morgan Sindall	LSE:MGNS	£586m	1,304p	9	0.4	4.1%	1.5%	7.1%	18.8%	160m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
SThree	LSE:STHR	£374m	296p	9	0.4	4.9%	12.0%	6.5%	14.2%	-4m	GBP	6	/5yr EPS grth/HY EPS grth/
Marshalls	LSE:MSLH	£1,086m	548p	22	0.9	2.0%	18.3%	7.2%	18.5%	-49m	GBP	6	/mid PE/5yr EPS grth/
Safestore	LSE:SAFE	£1,256m	598p	21	0.7	2.7%	5.7%	6.0%	13.9%	-416m	GBP	6	/mid PE/Av FY2 Fwd EPS growth > 7.5%
On the Beach	LSE:OTB	£533m	407p	17	-2.1	0.8%	14.6%	17.3%	8.7%	86m	GBP	6	/mid PE/5yr EPS grth/
Primary Health Prop	LSE:PHP	£971m	123p	22	0.9	4.6%	7.9%	7.0%	13.6%	-688m	GBP	6	/HY EPS grth/Fwd EPS/
National Express	LSE:NEX	£2,138m	419p	12	1.0	3.5%	6.6%	4.4%	11.6%	-971m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Howden Joinery	LSE:HWDN	£2,945m	484p	14	1.2	2.4%	6.1%	6.0%	11.0%	231m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%/Fwd EPS/
The Unite Group	LSE:UTG	£2,372m	900p	23	0.6	3.2%	13.0%	8.2%	7.6%	-469m	GBP	6	/HY EPS grth/Fwd EPS/
Harworth Group plc	LSE:HWG	£412m	128p	31	0.4	0.7%	6.1%	73.3%	6.8%	-65m	GBP	6	/HY EPS grth/FCF/
Lookers plc	LSE:LOOK	£401m	103p	8	1.2	3.8%	-7.0%	0.5%	5.4%	-80m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Speedy Hire	LSE:SDY	£292m	56p	12	0.8	2.9%	15.3%	15.0%	0.5%	-63m	GBP	6	/5yr EPS grth/5yr Rev grth/
S&U	LSE:SUS	£235m	1,960p	8	0.5	5.7%	15.1%	5.9%	-5.8%	-122m	GBP	6	/FCF/Fwd EPS/
Carnival	LSE:CCL	£28,488m	4,120p	11	0.5	3.7%	12.6%	10.0%	-6.2%	-9,360m	USD	6	/5yr EPS grth/5yr Rev grth/
Games Workshop	LSE:GAW	£959m	2,950p	17	0.8	4.4%	-6.3%	3.5%	-6.5%	25m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%/

Source: S&P CapitalIQ, as at 11 March 2019

Small-cap GARP selection (passing at least 5 of 7 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 7)	Test failed
TClarke	LSE:CTO	£47m	109p	7	0.52	3.2%	21.1%	8.9%	20.6%	5m	GBP	7	na
Macfarlane	LSE:MACF	£153m	97p	12	0.92	2.4%	36.9%	0.7%	33.7%	-13m	GBP	7	na
SOCO Int'l	LSE:SIA	£224m	68p	15	0.25	8.1%	51.4%	31.3%	-7.0%	145m	USD	6	/Mom or Upgrade/
GCP Student Living	LSE:DIGS	£627m	153p	30	0.37	4.0%	28.4%	18.1%	1.4%	-204m	GBP	6	/Mom or Upgrade/
Residential Secure Income	LSE:RESI	£159m	93p	19	0.09	5.4%	437.6%	-29.0%	4.1%	-67m	GBP	6	/Fwd EPS grth/
Hansteeen Holdings	LSE:HSTN	£401m	97p	17	0.54	6.3%	27.9%	6.9%	4.7%	-225m	GBP	6	/Debt/
Target Healthcare REIT Ltd	LSE:THRL	£445m	116p	20	0.89	5.7%	4.6%	21.0%	6.8%	-41m	GBP	6	/Cash Conv/
Kenmare Resources	LSE:KMR	£222m	203p	5	0.20	-	160.4%	-2.1%	9.9%	-9m	USD	6	/Fwd EPS grth/
McBride	LSE:MCB	£188m	103p	8	0.90	4.2%	-7.4%	31.7%	-21.2%	-98m	GBP	5	/Fwd EPS grth/Debt/
Gem Diamonds Ltd	LSE:GEMD	£136m	98p	7	0.51	-	203.8%	-23.5%	-11.9%	29m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Empiric Student Property	LSE:ESP	£579m	96p	23	0.39	5.2%	79.2%	28.4%	1.9%	-289m	GBP	5	/Fwd EPS grth/Debt/
Mears Group	LSE:MER	£326m	295p	10	1.07	4.1%	8.1%	17.8%	4.6%	-45m	GBP	5	/Hi RoE or Marg/Cash Conv/
Arrow Global	LSE:ARW	£346m	197p	5	1.01	6.5%	7.3%	14.6%	4.9%	-1,051m	GBP	5	/Hi RoE or Marg/Cash Conv/
DFS Furniture	LSE:DFS	£495m	234p	13	1.05	4.8%	34.0%	12.0%	20.1%	-160m	GBP	5	/Hi RoE or Marg/Debt/
UP Global Sourcing	LSE:UPGS	£49m	61p	9	0.73	4.4%	29.6%	2.2%	40.7%	-13m	GBP	5	/Cash Conv/Debt//

Source: S&P CapitalIQ, as at 11 March 2019

Aim GARP selection (passing at least 5 of 7 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 7)	Test failed
Concurrent Tech	AIM:CNC	£48m	66p	10	0.45	3.3%	68.9%	5.2%	-6.3%	8m	GBP	7	na
Atalaya Mining	AIM:ATYM	£302m	220p	9	0.40	-	61.4%	12.7%	3.5%	46m	EUR	7	na
SCISYS Group	AIM:SSY	£48m	161p	13	0.85	1.3%	23.0%	8.5%	9.9%	-3m	GBP	7	na
Sylvania Platinum	AIM:SLP	£74m	26p	5	0.20	1.3%	81.0%	6.1%	48.7%	20m	USD	7	na
Arcontech Group	AIM:ARC	£18m	134p	21	0.63	1.0%	54.8%	3.4%	-8.8%	3m	GBP	6	/Cash Conv/
Warpaint London	AIM:W7L	£73m	95p	9	0.87	5.5%	3.4%	21.9%	-7.4%	5m	GBP	6	/Mom or Upgrade/
System1 Group	AIM:SYS1	£26m	205p	11	0.36	3.7%	96.4%	12.1%	-2.4%	3m	GBP	6	/Fwd EPS grth/
Petards Group	AIM:PEG	£15m	27p	13	0.40	-	43.9%	8.8%	-1.9%	1m	GBP	6	/Mom or Upgrade/
Elektron Technology	AIM:EKT	£81m	46p	20	0.76	-	97.2%	11.4%	0.6%	7m	GBP	6	/Fwd EPS grth/
Christie Group	AIM:CTG	£25m	99p	9	0.68	2.8%	15.7%	13.0%	2.0%	-3m	GBP	6	/Hi RoE or Marg/
Dart Group	AIM:DTG	£1,232m	828p	9	0.74	0.9%	51.8%	-14.4%	6.9%	460m	GBP	6	/Fwd EPS grth/
Synectics	AIM:SNX	£35m	210p	12	0.61	2.2%	42.1%	23.5%	6.3%	8m	GBP	6	/Hi RoE or Marg/
Warehouse REIT	AIM:WHR	£168m	101p	16	0.15	5.9%	243.9%	-17.9%	7.5%	-121m	GBP	6	/Fwd EPS grth/
Nexus Infrastructure	AIM:NEXS	£79m	207p	10	0.69	3.2%	14.2%	15.3%	11.3%	19m	GBP	6	/Cash Conv/
Central Asia Metals	AIM:CAML	£433m	253p	9	0.78	6.5%	37.2%	-4.5%	15.3%	-128m	USD	6	/Fwd EPS grth/
Accesso Technology	AIM:ACSO	£221m	820p	15	0.76	-	46.5%	19.4%	-32.3%	-12m	USD	5	/Hi RoE or Marg/Mom or Upgrade/
Ashley House	AIM:ASH	£5m	8p	-	0.45	-	-57.3%	159.3%	-31.4%	-2m	GBP	5	/Fwd EPS grth/Mkt Cap/
Swallowfield	AIM:SWL	£32m	185p	7	0.83	3.4%	15.9%	5.3%	-22.9%	-2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Sigma Capital	AIM:SGM	£101m	113p	10	0.27	-	179.3%	7.8%	-13.7%	-3m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Pennant Int'l	AIM:PEN	£40m	112p	12	0.28	-	100.1%	-4.8%	-6.7%	2m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Caledonia Mining	AIM:CMCL	£86m	430p	-	0.00	-	-23.9%	1.8%	-4.9%	6m	USD	5	/Fwd EPS grth/Mom or Upgrade/
SDX Energy Inc.	AIM:SDX	£137m	40p	-	0.00	-	-65.5%	161.6%	-2.6%	19m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Pan African Resources	AIM:PAF	£174m	9p	5	0.36	-	38.9%	29.3%	1.4%	-105m	GBP	5	/Cash Conv/Debt/
Tricorn Group	AIM:TCN	£7m	20p	6	0.55	-	25.5%	10.0%	2.6%	-3m	GBP	5	/Debt/Mkt Cap/
1pm plc	AIM:OPM	£38m	44p	6	0.60	1.3%	8.8%	12.7%	6.1%	-3m	GBP	5	/Hi RoE or Marg/Cash Conv/
Springfield Properties	AIM:SPR	£111m	116p	8	0.59	3.4%	23.7%	12.3%	8.5%	-25m	GBP	5	/Cash Conv/Debt/
Summit Properties	AIM:SMTP	£549m	120p	12	0.27	3.3%	54.8%	-9.2%	8.0%	-348m	EUR	5	/Fwd EPS grth/Debt/
Pelatro	AIM:PTRO	£28m	86p	9	0.71	-	-1.3%	69.7%	11.0%	2m	USD	5	/Fwd EPS grth/Cash Conv/
Amerisur Resources	AIM:AMER	£207m	17p	15	0.12	-	724.3%	-43.8%	8.2%	38m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
M.T.I Wireless Edge Ltd.	AIM:MWE	£18m	21p	9	0.42	7.4%	13.6%	28.6%	12.4%	4m	USD	5	/Hi RoE or Marg/Cash Conv/
Eland Oil & Gas	AIM:ELA	£268m	123p	4	0.18	-	574.7%	-29.3%	11.9%	4m	USD	5	/Fwd EPS grth/Cash Conv/
EKF Diagnostics	AIM:EKF	£144m	32p	29	0.84	-	251.7%	-34.6%	19.8%	9m	GBP	5	/Fwd EPS grth/Hi RoE or Marg//

Source: S&P CapitalIQ, as at 11 March 2019

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