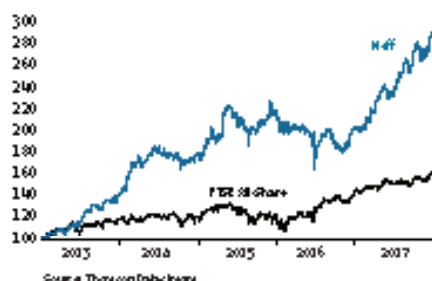




# AlphaScreens: The market according to GARP

*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.

### Foreword by Alpha Editor:

- At this stage in the cycle not many companies have passed all eight of the tests for FTSE All Share companies in Algy Hall's growth at right price (GARP) screen. Only buildings material supplier Grafton (GFTU), packaging specialist Macfarlane (MACF) and recruiter Page group (PAGE) score 8/8.
- In the FTSE All Small Companies screen, which has only seven tests, it is still small specialist REITs that score well. Both the Target Healthcare REIT (THRL) and GCP Student Living (DIGS) should also be valued against metrics other than the PEG ratio that we use here, however.
- Our Aim companies screen also uses the seven test criteria. Among the nine companies that pass all of these tests, specialist software provider Elecosoft (AIM:ELCO) and Scottish housebuilder Springfield Properties (AIM:SPR) are new this month. 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	Market cap	Price	Forward NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-month momentum	Net cash/ debt(-)	Tests passed (out of 8)	Test failed
Name	TIDM	Mkt Cap	PFwd NTM PE	PEG		DYFY EPS gr+1FY EPS gr+23-mth Momentum	Net Cash/Debt(-)	Cur	Tests Passed (out of 7)	Test Failed		
Grafton Group plc	LSE:GFTU	£1,742m	733p	12	0.9	2.1% 11.5% 5.4%	-3.7%	-102m	GBP	8	na	
Macfarlane Group PLC	LSE:MACF	£135m	86p	12	0.8	2.4% 33.0% 2.3%	-11.8%	-11m	GBP	8	na	
PageGroup plc	LSE:PAGE	£1,510m	481p	14	0.8	5.2% 22.3% 10.4%	-20.0%	87m	GBP	8	na	
Shaftesbury PLC	LSE:SHB	£2,762m	901p	48	0.6	1.8% 7.9% 11.6%	-1.1%	-767m	GBP	7	/Fwd EPS/	
Reckitt Benckiser	LSE:RB.	£46,182m	6,531p	19	1.0	2.5% 3.5% 7.6%	-3.5%	-10,769m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%	
Howden Joinery	LSE:HWDN	£2,754m	453p	14	1.1	2.5% 7.3% 7.7%	-3.7%	213m	GBP	7	/Fwd EPS/	
MJ Gleeson plc	LSE:GLE	£368m	674p	11	0.6	4.7% 7.7% 10.2%	-6.4%	41m	GBP	7	/5yr EPS grth/	
Spectris plc	LSE:SXS	£2,454m	2,125p	13	1.0	2.7% 5.8% 10.7%	-5.8%	-232m	GBP	7	/HY EPS grth/	
Arrow Global Group PLC	LSE:ARW	£363m	206p	5	0.4	5.9% 12.5% 19.6%	-10.7%	-1,056m	GBP	7	/FCF/	
Clipper Logistics plc	LSE:CLG	£289m	285p	16	1.0	2.9% 17.3% 11.5%	-8.7%	-52m	GBP	7	/mid PE/	
Costain Group PLC	LSE:COST	£408m	382p	10	0.9	3.7% 8.1% 5.8%	-11.1%	78m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%	
S&U plc	LSE:SUS	£257m	2,140p	8	0.5	4.9% 18.1% 13.6%	-15.2%	-122m	GBP	7	/FCF/	
Ashtead Group plc	LSE:AHT	£9,003m	1,878p	11	0.3	1.8% 32.1% 9.7%	-19.0%	-3,033m	GBP	7	/5yr EPS grth/	
Bovis Homes Group PLC	LSE:BVS	£1,270m	945p	10	0.5	5.0% 44.8% 8.8%	-17.7%	43m	GBP	7	/HY EPS grth/	
Electrocomponents plc	LSE:ECM	£2,754m	622p	18	0.9	2.1% 24.6% 8.9%	-15.9%	-66m	GBP	7	/5yr EPS grth/	
SThree plc	LSE:STHR	£357m	277p	10	0.8	5.1% 12.1% 10.9%	-18.9%	-6m	GBP	7	/HY EPS grth/	
Hays plc	LSE:HAS	£2,272m	156p	13	0.7	5.7% 10.4% 9.3%	-20.9%	123m	GBP	7	/Fwd EPS/	
Shire plc	LSE:SHP	£41,750m	4,563p	11	0.9	0.6% 0.6% 4.1%	3.5%	-15,154m	USD	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
4imprint Group plc	LSE:FOUR	£541m	1,930p	20	0.9	2.3% 24.5% 11.7%	0.8%	27m	USD	6	/mid PE/5yr EPS grth/	
The Unite Group plc	LSE:UTG	£2,266m	860p	23	0.7	2.6% 14.6% 11.6%	-0.9%	-412m	GBP	6	/5yr EPS grth/5yr Rev grth/	
Henry Boot PLC	LSE:BOOT	£350m	264p	9	0.5	3.0% -12.5% 2.5%	-1.7%	-26m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
MedicX Fund Limited	LSE:MXF	£341m	77p	20	0.2	7.8% 5.4% 4.8%	-4.0%	-362m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
Big Yellow Group Plc	LSE:BYG	£1,484m	897p	21	0.5	3.5% 8.3% 7.2%	-4.2%	-345m	GBP	6	/5yr EPS grth/Fwd EPS/	
Kier Group plc	LSE:KIE	£834m	856p	7	0.5	8.1% 11.6% 19.1%	-5.3%	-213m	GBP	6	/HY EPS grth/Fwd EPS/	
National Express	LSE:NEX	£1,988m	390p	12	0.9	3.5% 12.3% 5.3%	-4.8%	-943m	GBP	6	/5yr Rev grth/FCF/	
Photo-Me International	LSE:PHTM	£416m	110p	12	0.6	7.7% -2.3% 8.0%	-8.6%	25m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/	
Marshall's plc	LSE:MSLH	£878m	444p	18	0.8	2.4% 14.6% 7.3%	-8.7%	-49m	GBP	6	/mid PE/5yr EPS grth/	
Persimmon Plc	LSE:PSN	£6,722m	2,128p	8	0.3	11.0% 11.3% 1.8%	-14.1%	1,155m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
Morgan Sindall Group plc	LSE:MGNS	£583m	1,300p	9	0.5	3.5% 24.3% -0.3%	-12.9%	53m	GBP	6	/5yr EPS grth/FCF/	
Mondi plc	LSE:MNDI	£8,554m	1,768p	11	0.7	3.1% 20.9% 4.0%	-14.8%	-2,457m	EUR	6	/5yr EPS grth/5yr Rev grth/	
Paragon Banking	LSE:PAG	£1,032m	400p	8	0.6	3.9% 8.8% 10.7%	-16.3%	-6,072m	GBP	6	/FCF/Fwd EPS/	
Games Workshop	LSE:GAW	£971m	2,990p	18	0.9	4.3% -7.6% 4.4%	-13.5%	29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%	
JD Sports Fashion plc	LSE:JD.	£3,825m	393p	14	0.6	0.4% 9.4% 9.4%	-17.6%	-85m	GBP	6	/5yr EPS grth/FCF/	
Vp plc	LSE:VP.	£402m	1,018p	11	1.0	2.6% 18.8% 5.7%	-13.9%	-179m	GBP	6	/HY EPS grth/FCF/	
Plus500 Ltd.	LSE:PLUS	£1,458m	1,280p	6	0.2	17.2% 70.2% -23.9%	-26.8%	512m	USD	6	/5yr EPS grth/FCF/	
Babcock International	LSE:BAB	£2,947m	584p	7	0.8	5.0% 2.0% 2.8%	-17.4%	-1,238m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%Fwd EPS/	
Robert Walters plc	LSE:RWA	£375m	540p	12	0.4	2.5% 15.7% 7.2%	-26.3%	25m	GBP	6	/5yr EPS grth/Fwd EPS/	
XP Power Limited	LSE:XPP	£459m	2,400p	13	0.9	3.3% 18.8% 9.5%	-22.2%	-47m	GBP	6	/FCF/Fwd EPS/	
Computacenter plc	LSE:CCC	£1,244m	1,104p	14	0.8	2.4% 12.8% 6.7%	-28.7%	50m	GBP	6	/5yr EPS grth/HY EPS grth/	

Source: S&P CapitalIQ, as at 17 December 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
Name	TIDM	Mkt Cap	Pfwd NTM PE	PEG	DY	FY EPS gr+1	FY EPS gr+2	3-mth Momentum	Net Cash/Debt(-)	Cur	Tests Passed (out of 7)	Test Failed	
Target Healthcare REIT	LSE:THRL	£418m	109p	18	0.80	6.1%	12.5%	13.5%	-4.8%	-23m	GBP	7	na
GCP Student Living Plc	LSE:DIGS	£624m	152p	29	0.36	4.0%	29.7%	17.7%	1.3%	-204m	GBP	7	na
Haynes Publishing.C.	LSE:HYNS	£27m	176p	11	1.02	4.3%	25.2%	7.9%	-21.1%	3m	GBP	6	/Hi RoE or Marg/
TT Electronics plc	LSE:TTG	£329m	212p	14	0.77	2.7%	36.0%	16.3%	-20.4%	-41m	GBP	6	/Hi RoE or Marg/
Morgan Sindall Group plc	LSE:MGNS	£583m	1,300p	9	0.97	3.5%	24.3%	-0.3%	-12.9%	53m	GBP	6	/Fwd EPS grth/
Macfarlane Group PLC	LSE:MACF	£135m	86p	12	0.91	2.4%	33.0%	2.3%	-11.8%	-11m	GBP	6	/Mom or Upgrade/
Hansteen Holdings PLC	LSE:HSTN	£395m	96p	17	0.53	6.4%	28.0%	6.9%	-7.9%	-225m	GBP	6	/Debt/
Capital Drilling Limited	LSE:CAPD	£52m	38p	9	0.83	3.5%	24.1%	6.9%	-7.3%	6m	USD	6	/Hi RoE or Marg/
McBride plc	LSE:MCB	£233m	127p	9	0.71	3.4%	20.1%	12.1%	-4.0%	-115m	GBP	6	/Debt/
TClarke plc	LSE:CTO	£35m	84p	6	0.80	4.2%	8.7%	6.7%	-1.9%	5m	GBP	6	/Fwd EPS grth/
Gem Diamonds Limited	LSE:GEMD	£152m	110p	7	0.58	-	275.5%	-38.4%	-0.4%	29m	USD	6	/Fwd EPS grth/
The Alumasc Group plc	LSE:ALU	£46m	128p	8	0.65	5.8%	15.6%	14.8%	1.2%	-5m	GBP	6	/Cash Conv/
Hostelworld Group Plc	LSE:HSW	£170m	178p	17	1.00	8.5%	-33.4%	101.4%	-36.5%	23m	EUR	5	/Fwd EPS grth/Hi RoE or Marg/
S&U plc	LSE:SUS	£257m	2,140p	8	0.62	4.9%	18.1%	13.6%	-15.2%	-122m	GBP	5	/Hi RoE or Marg/Cash Conv/
Arrow Global Group PLC	LSE:ARW	£363m	206p	5	0.54	5.9%	12.5%	19.6%	-10.7%	-1,056m	GBP	5	/Hi RoE or Marg/Cash Conv/
Kenmare Resources plc	LSE:KMR	£231m	211p	5	0.17	-	141.6%	20.1%	-6.8%	-9m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Reach plc	LSE:RCH	£204m	69p	2	0.71	8.6%	1.8%	6.6%	-2.3%	-81m	GBP	5	/Fwd EPS grth/Cash Conv/
Empiric Student Property	LSE:ESP	£552m	92p	22	0.37	6.1%	79.2%	28.4%	-2.7%	-289m	GBP	5	/Fwd EPS grth/Debt/
DFS Furniture plc	LSE:DFS	£476m	225p	12	0.96	5.0%	33.7%	14.3%	0.5%	-160m	GBP	5	/Hi RoE or Marg/Debt/

Source: S&P CapitalIQ, as at 17 December 2018

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

Name	TIDM	Market cap	Price	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
Name	TIDM	Mkt Cap	PFwd NTM PE	PEG		DYFY EPS gr+1FY EPS gr+2	3-mth Momentum	Net Cash/Debt(-)	Cur	Tests Passed (out of 7)	Test Failed		
Dewhurst PLC	AIM:DWHT	£61m	950p	16	0.90	1.3% 9.8% 27.6%	-16.3%	18m	GBP	7	na		
Elecosoft plc	AIM:ELCO	£56m	73p	20	0.90	0.8% 44.0% 14.8%	-15.5%	3m	GBP	7	na		
Sylvania Platinum Limited	AIM:SLP	£52m	18p	6	0.22	1.9% 12.9% 39.7%	-10.9%	14m	USD	7	na		
Concurrent Technologies plc	AIM:CNC	£56m	77p	12	0.52	2.9% 68.9% 5.2%	-3.0%	8m	GBP	7	na		
Secure Income REIT Plc	AIM:SIR	£1,209m	376p	24	0.59	3.5% 7.3% 13.5%	-1.8%	-812m	GBP	7	na		
Central Asia Metals plc	AIM:CAML	£366m	214p	7	0.54	7.7% 36.6% 0.7%	0.7%	-128m	USD	7	na		
Springfield Properties Plc	AIM:SPR	£114m	119p	10	0.94	3.1% 8.6% 15.2%	3.0%	-15m	GBP	7	na		
Petards Group plc	AIM:PEG	£14m	25p	12	0.37	- 43.9% 8.8%	0.6%	1m	GBP	7	na		
Atalaya Mining Plc	AIM:ATYM	£290m	212p	10	0.41	- 38.8% 26.5%	1.2%	52m	EUR	7	na		
SCISYS PLC	AIM:SSY	£44m	151p	13	0.80	1.4% 23.0% 8.5%	-20.4%	-3m	GBP	6	/Mom or Upgrade/		
SDX Energy Inc.	AIM:SDX	£162m	46p	-	0.00	- -22.5% 95.7%	-22.6%	25m	USD	6	/Fwd EPS grth/		
Caledonia Mining Corporation Plc	AIM:CMCL	£86m	445p	-	0.00	- 12.6%	18.9%	-19.8%	6m	USD	6	/Mom or Upgrade/	
Dart Group PLC	AIM:DTG	£1,197m	805p	8	0.72	0.9% 51.8%	-14.4%	-16.2%	460m	GBP	6	/Fwd EPS grth/	
Shanta Gold Limited	AIM:SHG	£33m	4p	2	0.10	- 247.5%	-14.1%	-10.2%	-45m	USD	6	/Fwd EPS grth/	
Sigma Capital Group plc	AIM:SGM	£115m	129p	11	0.31	- 178.8%	8.2%	-1.2%	-3m	GBP	6	/Fwd EPS grth/	
Trans-Siberian Gold plc	AIM:TSG	£39m	35p	9	0.17	6.7% 109.6%	66.1%	0.1%	-10m	USD	6	/Fwd EPS grth/	
Elektron Technology plc	AIM:EKT	£81m	46p	23	0.78	- 97.2%	9.8%	2.3%	7m	GBP	6	/Fwd EPS grth/	
System1 Group PLC	AIM:SYS1	£30m	240p	12	0.42	3.1% 96.4%	12.1%	0.9%	3m	GBP	6	/Fwd EPS grth/	
Goals Soccer Centres plc	AIM:GOAL	£54m	72p	11	0.33	- 18.1%	24.6%	4.3%	-30m	GBP	6	/Debt/	
Base Resources Limited	AIM:BSE	£307m	15p	-	0.00	- -0.1%	-41.5%	3.1%	-59m	USD	6	/Fwd EPS grth/	
Arcontech Group Plc	AIM:ARC	£17m	126p	19	0.59	1.0% 54.8%	3.4%	7.3%	3m	GBP	6	/Cash Conv/	
Pennant International Group plc	AIM:PEN	£43m	128p	13	0.63	- 117.5%	-10.4%	14.9%	3m	GBP	6	/Fwd EPS grth/	
Amerisur Resources plc	AIM:AMER	£127m	11p	7	0.06	- 902.9%	-44.2%	-28.6%	38m	USD	5	/Fwd EPS grth/Hi RoE or Marg/	
Christie Group plc	AIM:CTG	£27m	108p	10	0.74	2.6% 15.7%	13.0%	-12.8%	-3m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/	
Arbuthnot Banking Group PLC	AIM:ARBB	£209m	1,405p	19	0.82	2.3% 24.8%	42.7%	-3.8%	734m	GBP	5	/Hi RoE or Marg/Cash Conv/	
Real Estate Investors plc	AIM:RLE	£100m	54p	15	0.84	6.5% 9.8%	10.9%	-3.5%	-84m	GBP	5	/Cash Conv/Debt/	
Eland Oil & Gas PLC	AIM:ELA	£242m	110p	3	0.13	- 724.0%	-32.2%	-3.8%	4m	USD	5	/Fwd EPS grth/Cash Conv/	
Pelatro Plc	AIM:PTRO	£24m	75p	8	0.63	- -1.3%	69.7%	-0.7%	2m	USD	5	/Fwd EPS grth/Cash Conv/	
Summit Germany Limited	AIM:SMTG	£521m	112p	12	0.26	3.6% 54.8%	-9.3%	-1.8%	-348m	EUR	5	/Fwd EPS grth/Debt/	
Pan African Resources PLC	AIM:PAF	£156m	8p	5	0.34	- 43.3%	22.5%	9.9%	-90m	GBP	5	/Cash Conv/Debt/	

Source: S&P CapitalIQ, as at 17 December 2018

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