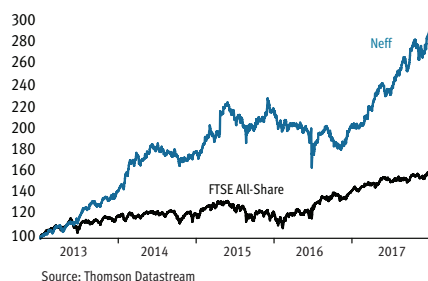




AlphaScreens: The market according to GARP

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.

- The biggest FTSE All-Share companies aren't ranking high on our growth at a reasonable price (GARP) screen. No company with a market capitalisation of more than £5bn passes more than 6/8 tests.
- Some bigger companies that meet three-quarters of the criteria include insurers **Legal & General (LGEN)** and **Aviva (AV.)**, equipment rental group **Ashtead (AHT)** and real estate investment trust (Reit) **Segro (SGRO)**.
- From the FTSE SmallCap index only **Capital Drilling (CAPD)**, which contracts services to mining and oil exploration companies, ticks all our tweaked small-cap screen's boxes.
- The same Aim companies as last month do well against the small-cap screen, although **K3 Capital Group (K3C)** – which helps other smaller businesses with capital raising or sourcing private buyers – now also gets full marks. *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	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
Bovis Homes	LSE:BVS	£1,716m	1,160p	10	0.7	4.9%	9.1%	7.9%	12.9%	80m	GBP	8	na	
Macfarlane	LSE:MACF	£150m	95p	12	0.8	2.4%	41.6%	3.6%	4.8%	-45m	GBP	8	na	
NMC Health	LSE:NMC	£4,947m	2,368p	18	0.9	0.8%	27.9%	22.8%	37.7%	-2,228m	USD	7	/5yr EPS grth/	
Sirius Real Estate	LSE:SRE	£772m	75p	18	0.5	4.0%	8.4%	9.4%	10.1%	-296m	EUR	7	/mid PE/	
Workspace	LSE:WKP	£1,976m	1,094p	23	-12.5	3.0%	10.9%	8.6%	37.6%	-623m	GBP	6	/5yr EPS grth/HY EPS grth/	
Speedy Hire	LSE:SDY	£312m	60p	11	0.5	3.3%	14.0%	9.3%	24.8%	-161m	GBP	6	/5yr EPS grth/5yr Rev grth/	
Games Workshop	LSE:GAW	£1,832m	5,635p	25	0.9	2.2%	13.1%	4.4%	31.0%	29m	GBP	6	/mid PE/5yr EPS grth/	
Legal & General	LSE:LGDN	£16,429m	277p	9	0.5	5.9%	9.4%	11.3%	24.1%	9,659m	GBP	6	/FCF/Fwd EPS/	
Segro	LSE:SGRO	£9,384m	856p	33	0.7	2.2%	10.9%	8.2%	16.5%	-1,897m	GBP	6	/mid PE/HY EPS grth/	
Motorpoint	LSE:MOTR	£227m	250p	13	-0.5	3.0%	3.6%	12.6%	11.5%	-68m	GBP	6	/5yr EPS grth/FCF/	
Ashtead	LSE:AHT	£10,855m	2,386p	11	0.6	1.7%	17.6%	9.5%	13.4%	-5,161m	GBP	6	/5yr EPS grth/HY EPS grth/	
Aviva	LSE:AV	£17,014m	434p	7	0.9	7.0%	0.8%	1.8%	15.1%	6,062m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/	
The Unite Group	LSE:UTG	£3,422m	1,176p	29	0.8	2.5%	10.5%	15.9%	14.1%	-592m	GBP	6	/HY EPS grth/Fwd EPS/	
SThree	LSE:STHR	£368m	288p	9	0.4	5.0%	8.8%	7.1%	10.0%	-8m	GBP	6	/5yr EPS grth/Fwd EPS/	
Barratt Developments	LSE:BDEV	£6,596m	652p	9	0.5	7.1%	-0.2%	0.9%	6.6%	758m	GBP	6	/mid PE/Av FY2 Fwd EPS growth > 7.5%	
Polymetal International	LSE:POLY	£5,499m	1,170p	12	1.0	3.4%	14.9%	20.9%	7.6%	-1,736m	USD	6	/HY EPS grth/5yr Rev grth/	
PageGroup	LSE:PAGE	£1,463m	461p	14	0.8	5.6%	4.4%	6.2%	4.8%	-57m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%Fwd EPS/	
SSP	LSE:SSPG	£2,930m	659p	22	0.2	6.7%	9.9%	8.1%	-5.6%	-438m	GBP	6	/mid PE/5yr EPS grth/	

Source: S&P Capital IQ, as at 18 November 2019

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

Name	TIDM	Market cap	Price	Fwd NTM			Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
				PE	PEG	DY							
Capital Drilling	LSE:CAPD	£95m	70p	13	0.58	2.3%	22.4%	26.1%	26.2%	16m	USD	7	na
Kenmare Resources	LSE:KMR	£257m	234p	6	0.69	1.8%	11.9%	6.2%	-7.6%	-1m	USD	6	/Fwd EPS grth/
TClarke	LSE:CTO	£46m	109p	6	0.65	3.7%	16.9%	5.2%	-5.3%	-1m	GBP	6	/Cash Conv/
Residential Secure Income	LSE:RESI	£155m	91p	25	0.11	5.5%	233.3%	-2.5%	-1.8%	-67m	GBP	6	/Fwd EPS grth/
Empiric Student Property	LSE:ESP	£565m	94p	20	0.61	5.3%	37.5%	6.0%	4.2%	-322m	GBP	6	/Debt/
Macfarlane	LSE:MACF	£150m	95p	12	0.73	2.4%	41.6%	3.6%	4.8%	-45m	GBP	6	/Debt/
Civitas Social Housing	LSE:CSH	£535m	86p	16	0.75	5.9%	44.6%	6.6%	5.3%	-151m	GBP	6	/Cash Conv/
Clipper Logistics	LSE:CLG	£249m	245p	12	0.78	4.0%	40.7%	5.2%	6.8%	-69m	GBP	6	/Debt/
DWF	LSE:DWF	£377m	126p	12	0.64	2.0%	57.6%	19.0%	12.0%	-35m	GBP	6	/Cash Conv/
Hansard Global	LSE:HSD	£55m	40p	9	0.41	11.2%	36.9%	16.0%	-10.6%	1,147m	GBP	5	/Mom or Upgrade/Cash Conv/
Target Healthcare REIT	LSE:THRL	£527m	115p	19	0.94	5.8%	22.2%	6.5%	-1.2%	-80m	GBP	5	/Mom or Upgrade/Cash Conv/
Regional REIT	LSE:RGL	£469m	109p	14	0.93	7.4%	2.7%	10.0%	5.0%	-299m	GBP	5	/Fwd EPS grth/Cash Conv/
Severfield	LSE:SFR	£232m	76p	10	1.10	3.7%	13.3%	6.9%	22.6%	25m	GBP	5	/Hi RoE or Marg/Cash Conv/

Source: S&P Capital IQ, as at 18 November 2019

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

Name	TIDM	Market cap	Price	Fwd NTM			Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 7)	Test failed
				PE	PEG	DY							
Cake Box	AIM:CBOX	£57m	143p	14	0.70	2.5%	34.5%	14.4%	-16.9%	1m	GBP	7	na
Highland Gold Mining	AIM:HGM	£702m	193p	9	0.42	6.9%	71.8%	2.1%	-13.5%	-217m	USD	7	na
Atalaya Mining	AIM:ATYM	£265m	193p	6	0.25	-	10.6%	51.5%	-3.8%	9m	EUR	7	na
K3 Capital	AIM:K3C	£61m	146p	10	0.60	5.2%	50.6%	0.5%	3.6%	6m	GBP	7	na
EKF Diagnostics	AIM:EKF	£144m	32p	24	0.54	-	3.7%	48.2%	10.0%	11m	GBP	7	na
Augean	AIM:AUG	£190m	183p	13	0.49	-	71.9%	11.1%	108.9%	23m	GBP	7	na
Pelatro	AIM:PTRO	£15m	47p	4	0.28	-	52.5%	0.5%	-33.9%	0m	USD	6	/Cash Conv/
Hydrogen	AIM:HYDG	£13m	40p	5	0.35	5.0%	32.8%	2.3%	-27.8%	-1m	GBP	6	/Hi RoE or Marg/
Anexo	AIM:ANX	£189m	172p	10	0.65	1.2%	45.8%	4.1%	-4.4%	-34m	GBP	6	/Cash Conv/
Bushveld Minerals	AIM:BMN	£257m	22p	8	0.57	-	-18.2%	64.5%	4.0%	63m	USD	6	/Fwd EPS grth/
Urban Logistics REIT	AIM:SHED	£120m	137p	16	0.43	5.1%	18.6%	8.9%	4.8%	-69m	GBP	6	/Cash Conv/
Sylvania Platinum	AIM:SLP	£107m	38p	6	0.38	2.1%	27.1%	10.8%	12.4%	21m	USD	6	/Cash Conv/
RBG	AIM:RBGP	£81m	95p	12	0.50	4.2%	58.2%	5.2%	17.3%	13m	GBP	6	/Cash Conv/
Universe	AIM:UNG	£13m	5p	11	0.67	-	21.2%	20.6%	19.3%	-3m	GBP	6	/Hi RoE or Marg/
Serica Energy	AIM:SQZ	£330m	124p	4	0.08	-	195.2%	-18.7%	18.5%	88m	GBP	6	/Fwd EPS grth/
Eland Oil & Gas	AIM:ELA	£332m	154p	6	0.33	1.3%	5.9%	37.6%	30.6%	-33m	USD	6	/Cash Conv/
M.T.I Wireless Edge	AIM:MWE	£31m	36p	13	0.72	3.3%	29.4%	13.2%	63.6%	5m	USD	6	/Hi RoE or Marg/
Caledonia Mining Corp	AIM:CMCL	£113m	624p	-	0.00	-	-42.7%	19.1%	36.2%	8m	USD	6	/Fwd EPS grth/
Synectics	AIM:SNX	£26m	153p	7	0.44	3.1%	42.1%	23.5%	-24.1%	5m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pan African Resources	AIM:PAF	£206m	11p	3	0.08	1.1%	235.4%	-17.0%	-22.9%	-128m	USD	5	/Fwd EPS grth/Debt/
System1	AIM:SYS1	£26m	203p	8	0.20	3.7%	236.4%	-10.0%	-7.7%	1m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Getech	AIM:GTC	£10m	26p	8	0.45	-	73.8%	7.8%	0.0%	2m	GBP	5	/Hi RoE or Marg/Mkt Cap/
Ariana Resources	AIM:AAU	£21m	2p	7	0.49	-	42.9%	-2.7%	1.2%	1m	GBP	5	/Fwd EPS grth/Cash Conv/
Crimson Tide	AIM:TIDE	£11m	2p	24	0.69	-	900.0%	-20.6%	4.5%	0m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Filtronic	AIM:FTC	£16m	8p	26	0.18	-	-24.2%	140.9%	10.2%	2m	GBP	5	/Fwd EPS grth/Cash Conv/
Randall & Quilter Inv.	AIM:RQIH	£351m	179p	10	0.55	5.1%	138.0%	-22.9%	16.5%	166m	GBP	5	/Fwd EPS grth/Cash Conv/
PCF	AIM:PCF	£90m	36p	11	0.59	0.8%	37.9%	17.2%	41.2%	-22m	GBP	5	/Hi RoE or Marg/Cash Conv/
Volex	AIM:VLX	£179m	121p	9	0.36	1.7%	147.3%	-7.1%	38.1%	1m	USD	5	/Fwd EPS grth/Hi RoE or Marg/

Source: S&P Capital IQ, as at 18 November 2019

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