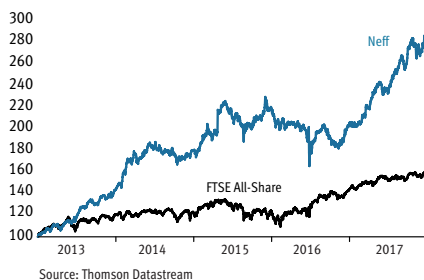




# AlphaScreens: The market according to GARP

*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.

- Two companies from the FTSE All-Share Index pass 8/8 of our growth at right price (GARP) tests designed for larger companies. These are housebuilder **Bovis Homes (BVS)** and packaging product specialist **Macfarlane (MACF)**.
- At a market capitalisation of £156m, Macfarlane isn't a big firm and it is also included on the FTSE All Small companies index, which we screen with seven different tests aimed at small companies. Interestingly MACF doesn't get full marks on this screen, which pays closer attention to the absolute level of indebtedness, as its net debt is too high relative to earnings before tax, depreciation and amortisation (ebitda).
- Bovis is hardly a blue chip, either (its market cap is £1.65bn) – and it is usual to caution against housebuilder shares being identified by this screen as there are more suitable metrics than the price/earnings growth (PEG) ratio to value the sector.
- Aim is often an interesting hunting ground for growth companies and along with some specialist miners focussed on precious metals, companies that score perfectly against the seven small company tests include hazardous waste expert **Augean (AUG)**. 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	Fwd NTM Price	Fwd NTM			Fwd EPS grth		3-month momentum	Net cash/debt(-)	Cur	Tests passed (out of 8)	Test failed
				PE	PEG	DY	FY+1	FY+2					
Bovis Homes	LSE:BVS	£1,649m	1,226p	11	0.8	4.6%	8.1%	8.9%	16.8%	80m	GBP	8	na
Macfarlane	LSE:MACF	£156m	99p	12	0.9	2.3%	41.6%	3.6%	4.2%	-45m	GBP	8	na
Sirius Real Estate	LSE:SRE	£759m	74p	18	0.4	4.1%	5.3%	12.7%	12.2%	-296m	EUR	7	/mid PE/
Unite	LSE:UTG	£3,339m	1,150p	28	0.8	2.5%	13.2%	12.9%	9.9%	-592m	GBP	7	/HY EPS grth/
SThree	LSE:STHR	£366m	279p	8	0.4	5.2%	8.8%	7.1%	3.0%	-8m	GBP	7	/5yr EPS grth/
Cineworld	LSE:CINE	£3,036m	221p	9	0.8	5.3%	16.9%	9.0%	-10.4%	-7,011m	USD	7	/HY EPS grth/
Polymetal Int.	LSE:POLY	£5,515m	1,173p	12	1.0	3.4%	14.3%	22.3%	17.9%	-1,736m	USD	6	/HY EPS grth/5yr Rev grth/
Motorpoint	LSE:MOTR	£214m	236p	12	-0.5	3.2%	3.6%	12.6%	8.3%	-68m	GBP	6	/5yr EPS grth/FCF/
Segro	LSE:SGRO	£9,154m	835p	33	0.7	2.3%	10.9%	8.5%	11.1%	-1,897m	GBP	6	/mid PE/HY EPS grth/
Barratt Dev.	LSE:BDEV	£6,823m	674p	9	0.6	6.9%	-0.2%	0.9%	6.3%	758m	GBP	6	/mid PE/Av FY2 Fwd EPS growth > 7.5%
Legal & General .	LSE:LGEN	£16,351m	275p	9	0.5	6.0%	9.4%	11.3%	2.3%	9,659m	GBP	6	/mid PE/FCF/
Speedy Hire .	LSE:SDY	£292m	56p	10	0.4	3.6%	13.1%	9.5%	-1.4%	-90m	GBP	6	/5yr EPS grth/5yr Rev grth/
Ashtead Group .	LSE:AHT	£9,846m	2,155p	10	0.6	1.9%	18.2%	9.6%	-2.5%	-5,161m	GBP	6	/5yr EPS grth/HY EPS grth/
Aviva	LSE:AV	£16,144m	412p	7	0.8	7.3%	0.7%	1.8%	-1.8%	6,062m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
Robert Walters	LSE:RWA	£351m	490p	10	0.4	3.0%	3.5%	3.8%	-3.9%	-28m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Games Workshop	LSE:GAW	£1,491m	4,586p	22	0.7	2.7%	3.7%	4.6%	-3.3%	29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
PageGroup	LSE:PAGE	£1,371m	432p	13	0.7	6.0%	6.0%	7.6%	-4.0%	-57m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%Fwd EPS/
SSP Group	LSE:SSPG	£2,930m	663p	22	0.2	6.7%	9.8%	8.2%	-5.4%	-438m	GBP	6	/mid PE/5yr EPS grth/
British American Tobacco	LSE:BATS	£60,895m	2,664p	8	0.7	7.6%	9.2%	7.4%	-13.9%	-46,817m	GBP	6	/5yr EPS grth/HY EPS grth/
Synthomer	LSE:SYNT	£1,264m	298p	9	1.0	4.4%	-9.3%	13.0%	-11.5%	-270m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
RHI Magnesita NV	LSE:RHIM	£1,752m	3,570p	7	0.3	2.4%	12.9%	6.1%	-21.7%	-669m	EUR	6	/5yr EPS grth/HY EPS grth/
Mondi	LSE:MNDI	£7,458m	1,539p	11	1.2	4.6%	-9.8%	-6.3%	-12.7%	-2,341m	EUR	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
FDM	LSE:FDM	£767m	703p	18	0.9	4.6%	5.2%	6.0%	-21.1%	4m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%

Source: S&amp;P Capital IQ, as at 21 Oct 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
Ten Entertainment	LSE:TEG	£169m	260p	13	1.10	4.4%		19.7%	15.0%	4.8%	-10m	GBP	7	na
Capital Drilling	LSE:CAPD	£85m	63p	12	0.52	2.6%		21.9%	26.4%	33.0%	16m	USD	7	na
TClarke	LSE:CTO	£42m	101p	6	0.60	4.0%		16.9%	5.2%	-14.8%	-1m	GBP	6	/Cash Conv/
Residential Secure Income	LSE:RESI	£156m	91p	25	0.11	5.5%		233.3%	-2.5%	-0.7%	-67m	GBP	6	/Fwd EPS grth/
Civitas Social Housing	LSE:CSH	£541m	87p	17	0.76	5.8%		44.6%	6.6%	2.5%	-151m	GBP	6	/Cash Conv/
Macfarlane	LSE:MACF	£156m	99p	12	0.76	2.3%		41.6%	3.6%	4.2%	-45m	GBP	6	/Debt/
Empiric Student Property	LSE:ESP	£586m	97p	21	0.64	5.1%		37.5%	6.0%	6.7%	-322m	GBP	6	/Debt/
Kenmare Resources	LSE:KMR	£259m	236p	6	0.79	1.8%		5.8%	10.3%	14.6%	-1m	USD	6	/Fwd EPS grth/
Georgia Healthcare	LSE:GHG	£246m	190p	16	0.66	0.7%		27.3%	37.8%	-19.0%	-428m	GEL	5	/Hi RoE or Marg/Debt/
UP Global Sourcing	LSE:UPGS	£59m	75p	9	0.57	3.7%		50.0%	0.1%	-10.8%	-14m	GBP	5	/Cash Conv/Debt/
Clipper Logistics	LSE:CLG	£234m	230p	12	0.73	4.2%		40.7%	5.2%	-9.6%	-69m	GBP	5	/Mom or Upgrade/Debt/
DWF	LSE:DWF	£360m	120p	11	0.60	0.8%		57.7%	19.4%	-2.2%	-35m	GBP	5	/Mom or Upgrade/Cash Conv/
Regional Reit	LSE:RGL	£455m	105p	13	0.80	7.6%		7.1%	7.0%	-1.5%	-299m	GBP	5	/Fwd EPS grth/Cash Conv/
Huntsworth	LSE:HNT	£332m	90p	10	0.95	2.6%		20.2%	9.2%	2.3%	-132m	GBP	5	/Hi RoE or Marg/Debt/
Severfield	LSE:SFR	£231m	76p	10	1.08	3.7%		14.2%	6.2%	16.3%	25m	GBP	5	/Hi RoE or Marg/Cash Conv/

Source: S&amp;P Capital IQ, as at 21 Oct 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
Cake Box	AIM:CBOX	£65m	162p	16	0.80	2.2%		34.5%	14.4%	-10.7%	1m	GBP	7	na
Highland Gold Mining	AIM:HGM	£707m	194p	9	0.43	6.9%		75.0%	0.2%	-12.0%	-217m	USD	7	na
Atalaya Mining	AIM:ATYM	£257m	187p	6	0.29	-		18.6%	33.4%	-10.1%	9m	EUR	7	na
EKF Diagnostics	AIM:EKF	£151m	33p	25	0.57	-		3.7%	48.2%	-5.0%	11m	GBP	7	na
Sylvania Platinum	AIM:SLP	£104m	37p	6	0.35	2.1%		29.9%	10.4%	25.4%	21m	USD	7	na
Augean	AIM:AUG	£168m	161p	11	0.43	-		71.9%	11.1%	31.4%	23m	GBP	7	na
Pelatro	AIM:PTRO	£17m	53p	4	0.32	-		52.5%	0.5%	-30.6%	0m	USD	6	/Cash Conv/
Hydrogen	AIM:HYDG	£19m	57p	7	0.49	3.5%		32.8%	2.3%	-18.1%	-1m	GBP	6	/Hi RoE or Marg/
K3 Capital	AIM:K3C	£63m	148p	10	0.61	5.1%		50.6%	0.5%	-8.4%	6m	GBP	6	/Mom or Upgrade/
RBG	AIM:RBGP	£85m	99p	13	0.59	4.0%		51.3%	4.7%	-5.3%	13m	GBP	6	/Cash Conv/
Cambria Automobiles	AIM:CAMB	£57m	57p	6	0.72	1.8%		22.4%	-0.4%	-0.9%	-3m	GBP	6	/Fwd EPS grth/
Urban Logistics REIT	AIM:SHED	£117m	133p	16	0.41	5.3%		17.6%	9.8%	3.1%	-62m	GBP	6	/Debt/
Anexo Group	AIM:ANX	£208m	190p	11	0.72	1.1%		45.8%	4.1%	7.4%	-34m	GBP	6	/Cash Conv/
Serica Energy	AIM:SQZ	£339m	127p	4	0.10	-		204.2%	-28.4%	6.4%	88m	GBP	6	/Fwd EPS grth/
Universe Group	AIM:UNG	£13m	5p	11	0.67	-		21.2%	20.6%	14.0%	-3m	GBP	6	/Hi RoE or Marg/
MTI Wireless Edge	AIM:MWE	£25m	29p	11	0.59	4.0%		29.4%	13.2%	31.8%	5m	USD	6	/Hi RoE or Marg/
Caledonia Mining	AIM:CMCL	£99m	565p	-	0.00	-		-42.7%	19.1%	24.2%	7m	USD	6	/Fwd EPS grth/
Eland Oil & Gas	AIM:ELA	£352m	163p	6	0.30	1.2%		5.9%	45.1%	36.2%	-33m	USD	6	/Cash Conv/
Ashley House	AIM:ASH	£3m	5p	-	0.40	-		-	-	-40.8%	-2m	GBP	5	/Fwd EPS grth/Mkt Cap/
Ariana Resources	AIM:AAU	£21m	2p	5	0.25	-		90.5%	-7.6%	-15.2%	1m	GBP	5	/Fwd EPS grth/Cash Conv/
Synectics	AIM:SNX	£28m	167p	8	0.48	2.8%		42.1%	23.5%	-7.5%	5m	GBP	5	/Hi RoE or Marg/Cash Conv/
PCF Group	AIM:PCF	£72m	29p	9	0.47	1.0%		34.6%	20.3%	-0.9%	-22m	GBP	5	/Hi RoE or Marg/Cash Conv/
Getech Group	AIM:GTC	£10m	27p	8	0.46	-		73.8%	7.8%	1.9%	2m	GBP	5	/Hi RoE or Marg/Mkt Cap/
Pan African Resources	AIM:PAF	£217m	11p	4	0.08	1.0%		235.4%	-17.0%	1.4%	-128m	USD	5	/Fwd EPS grth/Debt/
Cerillion	AIM:CER	£56m	189p	17	0.82	2.4%		71.9%	-0.2%	12.5%	3m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Randall & Quilter	AIM:RQIH	£390m	199p	11	0.61	4.6%		138.0%	-22.9%	13.1%	166m	GBP	5	/Fwd EPS grth/Cash Conv/
Crimson Tide	AIM:TIDE	£12m	3p	26	0.75	-		900.0%	-20.6%	15.6%	0m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
H&T	AIM:HAT	£153m	386p	11	0.61	2.8%		25.1%	14.6%	16.8%	-32m	GBP	5	/Hi RoE or Marg/Debt/

Source: S&amp;P Capital IQ, as at 21 Oct 2019

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