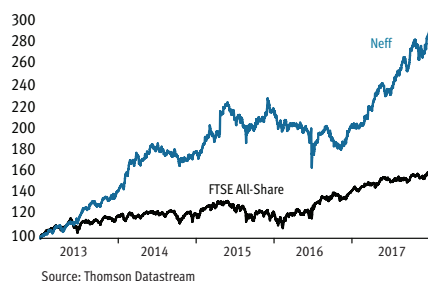




AlphaScreens: The market according to GARP

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 growth at a reasonable price (GARP) screen for the FTSE All-Share index has eight rules, which differ slightly from the seven rules that we use for the FTSE All Small and The FTSE Aim All-Share indices. This is to make the All-Share screen appropriate for larger companies. From the results, where very few large companies rank highly, we can see that the combination of growth and value is currently very hard to find beyond the small-cap space.

■ The only companies that pass all eight of the FTSE All-Share screen tests are **Bovis Homes (BVS)** – although we always suggest treating housebuilder results with caution as the PEG ratio is less appropriate for this sector – and packaging specialist **Macfarlane (MACF)**. Neither of these are big companies.

■ The seven tests designed for small companies are all passed by **Ten Entertainment Group (TEG)** and **Capital Drilling Limited (CAPD)** on the All Small index. Five Aim companies get full marks including three precious metals miners, reflecting a popular play on the rising gold price this year. *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 socks 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
Bovis Homes	LSE:BVS	£1,509m	1,122p	10	0.7	5.1%		8.0%	9.1%	9.1%	80m	GBP	8	na
Macfarlane	LSE:MACF	£151m	96p	12	0.8	2.4%		41.6%	3.6%	-5.5%	-45m	GBP	8	na
The Unite Group	LSE:UTG	£3,080m	1,061p	26	0.7	2.7%		13.6%	10.8%	9.8%	-592m	GBP	7	/HY EPS grth/
SThree	LSE:STHR	£402m	309p	9	0.5	4.7%		9.3%	7.2%	0.5%	-8m	GBP	7	/5yr EPS grth/
Cineworld	LSE:CINE	£3,157m	230p	9	0.8	5.2%		16.3%	10.2%	-9.3%	-7,011m	USD	7	/HY EPS grth/
Robert Walters	LSE:RWA	£394m	550p	10	0.4	2.7%		12.3%	5.5%	-17.6%	-28m	GBP	7	/5yr EPS grth/
PageGroup	LSE:PAGE	£1,418m	447p	13	0.7	5.8%		9.3%	9.4%	-17.7%	-57m	GBP	7	/Fwd EPS/
Sirius Real Estate	LSE:SRE	£775m	75p	18	0.5	4.1%		5.1%	12.9%	18.0%	-296m	EUR	6	/mid PE/Fwd EPS/
Barratt Developments	LSE:BDEV	£6,537m	646p	9	0.5	7.2%		-0.2%	1.2%	14.1%	758m	GBP	6	/mid PE/Av FY2 Fwd EPS growth > 7.5%
Polymetal Intl	LSE:POLY	£5,421m	1,153p	12	1.1	3.5%		13.5%	16.5%	22.8%	-1,736m	USD	6	/HY EPS grth/5yr Rev grth/
Imperial Brands	LSE:IMB	£20,183m	2,139p	8	0.8	8.8%		4.0%	2.0%	11.9%	-12,807m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
NMC Health	LSE:NMC	£6,075m	2,910p	21	1.2	0.6%		28.3%	20.1%	12.1%	-2,228m	USD	6	/mid PE/5yr EPS grth/
SEGRO	LSE:SGRO	£8,603m	785p	31	0.6	2.4%		10.9%	8.5%	6.0%	-1,897m	GBP	6	/mid PE/HY EPS grth/
Ashtead	LSE:AHT	£10,429m	2,275p	11	0.6	1.8%		17.8%	9.9%	2.8%	-5,161m	GBP	6	/5yr EPS grth/HY EPS grth/
British Am. Tobacco	LSE:BATS	£66,702m	2,918p	9	0.7	7.0%		9.3%	7.7%	2.5%	-46,817m	GBP	6	/5yr EPS grth/HY EPS grth/
Games Workshop	LSE:GAW	£1,569m	4,828p	23	0.8	2.6%		3.7%	4.6%	0.0%	29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Legal & General	LSE:GEN	£15,009m	253p	8	0.4	6.5%		8.9%	11.4%	-6.9%	9,659m	GBP	6	/mid PE/FCF/
Arrow Global	LSE:ARW	£390m	223p	6	0.7	5.7%		-6.3%	24.2%	-6.0%	-1,002m	GBP	6	/HY EPS grth/FCF/
RHI Magnesita N.V.	LSE:RHIM	£2,080m	4,238p	8	0.4	2.1%		13.7%	6.4%	-8.1%	-669m	EUR	6	/5yr EPS grth/HY EPS grth/
S&U	LSE:SUS	£258m	2,140p	9	0.5	5.5%		6.8%	9.2%	-8.4%	-109m	GBP	6	/FCF/Fwd EPS/
Aviva	LSE:AV	£15,251m	389p	7	0.8	7.8%		0.8%	1.8%	-7.5%	6,062m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
Mondi	LSE:MNDI	£7,669m	1,582p	10	0.9	4.6%		-6.7%	1.6%	-12.3%	-2,341m	EUR	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
FDM Group	LSE:FDM	£856m	784p	20	1.0	4.1%		5.8%	6.3%	-15.6%	4m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Synthomer	LSE:SYNT	£1,422m	335p	10	1.2	3.9%		-6.2%	8.3%	-14.1%	-270m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%

Source: S&P CapitalIQ, as at 23 Sep 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	£153m	235p	11	0.93	4.7%	25.0%	12.4%	3.0%	-11m	GBP	7	na
Capital Drilling	LSE:CAPD	£85m	63p	11	0.70	2.7%	21.9%	14.7%	34.0%	16m	USD	7	na
TClarke	LSE:CTO	£42m	99p	6	0.59	4.1%	16.9%	5.2%	-14.9%	-1m	GBP	6	/Cash Conv/
Residential Secure Income	LSE:RESI	£158m	92p	25	0.11	5.4%	233.3%	-2.5%	-3.0%	-67m	GBP	6	/Fwd EPS grth/
Empiric Student Property	LSE:ESP	£561m	93p	20	0.61	5.4%	37.5%	6.0%	0.7%	-322m	GBP	6	/Debt/
DWF	LSE:DWF	£360m	120p	11	0.60	0.8%	57.7%	19.4%	2.0%	-35m	GBP	6	/Cash Conv/
Civitas Social Housing	LSE:CSH	£550m	88p	17	0.77	5.7%	44.6%	6.6%	9.9%	-151m	GBP	6	/Cash Conv/
Kenmare Resources	LSE:KMR	£269m	245p	6	0.71	1.7%	6.2%	12.1%	34.1%	-1m	USD	6	/Fwd EPS grth/
Georgia Healthcare	LSE:GHG	£265m	205p	17	0.71	0.7%	27.3%	37.8%	-21.5%	-428m	GEL	5	/Hi RoE or Marg/Debt/
Clipper Logistics	LSE:CLG	£211m	208p	10	0.63	4.7%	45.1%	3.8%	-12.3%	-69m	GBP	5	/Mom or Upgrade/Debt/
UP Global Sourcing	LSE:UPGS	£60m	76p	9	0.58	3.6%	50.0%	0.1%	-11.3%	-14m	GBP	5	/Cash Conv/Debt/
Huntsworth	LSE:HNT	£339m	92p	10	0.93	2.5%	20.4%	9.9%	-6.5%	-132m	GBP	5	/Hi RoE or Marg/Debt/
Macfarlane	LSE:MACF	£151m	96p	12	0.74	2.4%	41.6%	3.6%	-5.5%	-45m	GBP	5	/Mom or Upgrade/Debt/
ASA International	LSE:ASAI	£385m	385p	14	0.90	1.5%	15.4%	25.9%	1.4%	0m	USD	5	/Hi RoE or Marg/Cash Conv/
Sirius Real Estate	LSE:SRE	£775m	75p	18	0.74	4.1%	5.1%	12.9%	18.0%	-296m	EUR	5	/Fwd EPS grth/Debt/

Source: S&P CapitalIQ, as at 23 Sep 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
Atalaya Mining	AIM:ATYM	£273m	199p	6	0.23	-	23.5%	41.8%	-2.8%	9m	EUR	7	na
EKF Diagnostics	AIM:EKF	£149m	33p	25	0.56	-	3.7%	48.2%	1.3%	11m	GBP	7	na
Elektron Technology	AIM:EKT	£100m	56p	19	0.79	-	43.2%	18.9%	5.0%	10m	GBP	7	na
Highland Gold Mining	AIM:HGM	£779m	214p	10	0.49	6.3%	65.3%	4.7%	11.0%	-217m	USD	7	na
Sylvania Platinum	AIM:SLP	£113m	40p	5	0.29	2.0%	41.3%	9.8%	41.6%	21m	USD	7	na
K3 Capital	AIM:K3C	£62m	147p	10	0.61	5.2%	50.6%	0.5%	-29.2%	6m	GBP	6	/Mom or Upgrade/
Hydrogen	AIM:HYDG	£21m	65p	8	0.57	3.1%	32.8%	2.3%	-14.8%	-1m	GBP	6	/Hi RoE or Marg/
Augean	AIM:AUG	£114m	110p	9	0.62	-	42.8%	-0.1%	-11.2%	23m	GBP	6	/Fwd EPS grth/
Cambria Automobiles	AIM:CAMB	£56m	56p	6	0.70	1.8%	22.4%	-0.4%	-6.7%	-3m	GBP	6	/Fwd EPS grth/
Universe	AIM:UNG	£13m	5p	13	0.66	-	21.2%	20.6%	-2.4%	2m	GBP	6	/Hi RoE or Marg/
Tekmar	AIM:TGP	£65m	128p	13	0.76	-	60.7%	7.5%	-1.9%	3m	GBP	6	/Cash Conv/
Springfield Properties	AIM:SPR	£106m	110p	7	0.82	4.0%	10.3%	9.0%	-0.2%	-30m	GBP	6	/Debt/
Anexo	AIM:ANX	£210m	191p	11	0.72	1.0%	45.8%	4.1%	4.5%	-34m	GBP	6	/Cash Conv/
Urban Logistics REIT	AIM:SHED	£110m	126p	15	0.39	5.6%	17.6%	9.8%	3.3%	-62m	GBP	6	/Debt/
Eland Oil & Gas	AIM:ELA	£283m	131p	4	0.23	1.5%	54.0%	1.8%	4.8%	-33m	USD	6	/Cash Conv/
M.T.I Wireless Edge	AIM:MWE	£26m	30p	11	0.61	4.0%	29.4%	13.2%	33.5%	5m	USD	6	/Hi RoE or Marg/
Caledonia Mining Corp	AIM:CMCL	£101m	585p	-	0.00	-	-42.7%	19.1%	28.3%	7m	USD	6	/Fwd EPS grth/
Ashley House	AIM:ASH	£3m	5p	-	0.40	-	-	-	-50.0%	-2m	GBP	5	/Fwd EPS grth/Mkt Cap/
RBG Holdings	AIM:RBGP	£86m	101p	14	0.70	4.2%	45.4%	3.1%	-13.8%	13m	GBP	5	/Mom or Upgrade/Cash Conv/
Synectics	AIM:SNX	£28m	167p	8	0.48	2.8%	42.1%	23.5%	-14.1%	5m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pelatro	AIM:PTRO	£25m	78p	6	0.43	-	60.0%	-0.8%	-1.9%	2m	USD	5	/Fwd EPS grth/Cash Conv/
Cerillion	AIM:CER	£50m	170p	15	0.74	2.7%	71.9%	-0.2%	3.8%	3m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Randall & Quilter Inv.	AIM:RQIH	£362m	185p	10	0.57	5.0%	138.0%	-22.9%	6.3%	166m	GBP	5	/Fwd EPS grth/Cash Conv/
Good Energy	AIM:GOO	£25m	153p	17	0.37	2.4%	37.1%	33.7%	10.7%	-40m	GBP	5	/Hi RoE or Marg/Debt/
Pan African Resources	AIM:PAF	£226m	12p	3	0.09	1.0%	261.6%	-24.0%	10.3%	-128m	USD	5	/Fwd EPS grth/Debt/
Amerisur Resources	AIM:AMER	£212m	17p	11	0.55	-	1466.0%	-53.7%	39.9%	9m	USD	5	/Fwd EPS grth/Hi RoE or Marg/

Source: S&P CapitalIQ, as at 23 Sep 2019

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