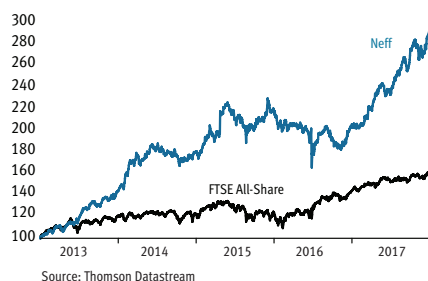




AlphaScreens: The market according to GARP

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:

- FTSE All Share constituent **Macfarlane Group (MACF)** comes in at the top of our growth at the right price (GARP) small-cap screen. The specialist distributor of protective packaging materials also scores full marks on our screen that includes large FTSE All-Share companies.
- Simon Thompson pick **T Clarke (CTO)** still has a perfect score on the small-cap screen, which shows that the building services group, which is on a buoyant earnings cycle, is not yet expensive.
- On our Aim-screen, mining companies **Atalaya Mining (ATYM)** and **Sylvania Platinum (SLP)** still score well. *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 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.

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	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 8)	Test failed
Grafton	LSE:GFTU	£1,775m	747p	12	0.9	2.1%	13.0%	3.9%	9.4%	-102m	GBP	8	na
Macfarlane	LSE:MACF	£142m	90p	13	0.8	2.3%	34.1%	5.4%	2.9%	-11m	GBP	8	na
Ashtead	LSE:AHT	£9,120m	1,922p	10	0.3	1.7%	36.2%	10.6%	7.2%	-3,612m	GBP	7	/5yr EPS grth/
MJ Gleeson	LSE:GLE	£398m	730p	12	0.6	4.4%	7.7%	10.2%	8.7%	41m	GBP	7	/5yr EPS grth/
Bovis Homes	LSE:BVS	£1,350m	1,005p	10	0.5	4.7%	47.8%	4.5%	7.4%	43m	GBP	7	/HY EPS grth/
Costain	LSE:COST	£403m	377p	10	0.9	3.7%	8.5%	5.2%	7.8%	78m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Hays	LSE:HAS	£2,222m	153p	12	0.7	5.8%	9.6%	9.0%	-2.3%	123m	GBP	7	/Fwd EPS/
Electrocomponents	LSE:ECM	£2,396m	541p	15	0.8	2.4%	23.4%	8.5%	-8.3%	-141m	GBP	7	/5yr EPS grth/
PageGroup	LSE:PAGE	£1,408m	448p	13	0.7	5.6%	21.4%	11.4%	-10.4%	87m	GBP	7	/Fwd EPS/
Robert Walters	LSE:RWA	£364m	525p	12	0.4	2.5%	17.0%	6.7%	-14.8%	25m	GBP	7	/5yr EPS grth/
SThree	LSE:STHR	£352m	273p	10	0.7	5.1%	15.2%	9.9%	-12.0%	-6m	GBP	7	/HY EPS grth/
Reckitt Benckiser	LSE:RB.	£40,313m	5,698p	16	0.9	2.9%	3.4%	8.2%	-14.9%	-10,769m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
XP Power	LSE:XPP	£394m	2,060p	12	0.9	3.8%	13.9%	5.9%	-17.3%	-47m	GBP	7	/FCF/
Plus500	LSE:PLUS	£1,728m	1,520p	8	0.2	14.1%	88.3%	-30.5%	12.6%	512m	USD	6	/5yr EPS grth/FCF/
Micro Focus International	LSE:MCRO	£6,206m	1,493p	10	0.7	4.7%	-1.6%	10.3%	21.6%	-4,337m	USD	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
JD Sports Fashion	LSE:JD.	£4,395m	452p	16	0.7	0.4%	10.5%	11.2%	15.3%	-85m	GBP	6	/5yr EPS grth/FCF/
Spectris	LSE:SXS	£2,905m	2,514p	15	1.2	2.2%	6.9%	10.0%	26.0%	-232m	GBP	6	/HY EPS grth/Fwd EPS/
Marshalls	LSE:MSLH	£987m	498p	20	0.9	2.2%	17.5%	6.7%	17.9%	-49m	GBP	6	/mid PE/5yr EPS grth/
S&U	LSE:SUS	£247m	2,060p	8	0.5	5.1%	15.4%	10.1%	9.9%	-122m	GBP	6	/FCF/Fwd EPS/
Big Yellow	LSE:BYG	£1,557m	941p	22	0.6	3.6%	8.5%	7.3%	9.7%	-291m	GBP	6	/5yr EPS grth/HY EPS grth/
The Unite Group	LSE:UTG	£2,368m	899p	24	0.8	2.5%	14.8%	11.8%	7.7%	-412m	GBP	6	/5yr EPS grth/5yr Rev grth/
Arrow Global	LSE:ARW	£340m	193p	5	0.4	6.3%	11.8%	19.0%	3.3%	-1,056m	GBP	6	/FCF/Fwd EPS/
Mondi	LSE:MNDI	£8,913m	1,842p	12	0.8	2.9%	20.3%	3.4%	4.3%	-2,457m	EUR	6	/5yr EPS grth/5yr Rev grth/
4imprint	LSE:FOUR	£554m	1,975p	21	1.0	2.2%	17.1%	12.5%	4.4%	27m	USD	6	/mid PE/5yr EPS grth/
Paragon Banking Group	LSE:PAG	£1,059m	410p	8	0.5	4.7%	8.4%	7.0%	1.8%	-5,800m	GBP	6	/FCF/Fwd EPS/
Ferguson	LSE:FERG	£11,694m	5,074p	12	1.0	2.8%	18.0%	5.0%	2.5%	-1,097m	USD	6	/HY EPS grth/5yr Rev grth/
Workspace	LSE:WKP	£1,652m	917p	21	1.2	3.0%	10.4%	13.2%	0.0%	-467m	GBP	6	/5yr EPS grth/HY EPS grth/
Vp	LSE:VP.	£391m	989p	10	1.1	2.6%	15.8%	5.9%	-1.3%	-188m	GBP	6	/HY EPS grth/FCF/
Games Workshop	LSE:GAW	£946m	2,910p	17	0.8	4.5%	-6.3%	3.5%	-4.3%	25m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
National Express	LSE:NEX	£1,937m	380p	11	0.9	3.6%	12.2%	5.6%	-4.2%	-943m	GBP	6	/5yr Rev grth/FCF/
Computacenter	LSE:CCC	£1,181m	1,048p	14	0.7	2.5%	13.1%	7.5%	-15.0%	50m	GBP	6	/5yr EPS grth/HY EPS grth/

Source: S&P CapitalIQ, as at 28 January 2019

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
GCP Student Living	LSE:DIGS	£608m	148p	28	0.35	4.1%	29.7%	17.7%	-0.3%	-204m	GBP	7	na
Macfarlane	LSE:MACF	£142m	90p	13	0.84	2.3%	34.1%	5.4%	2.9%	-11m	GBP	7	na
TClarke	LSE:CTO	£40m	93p	6	0.44	3.8%	21.1%	8.9%	17.3%	5m	GBP	7	na
Hansteen	LSE:HSTN	£377m	91p	16	0.51	6.7%	27.9%	6.9%	-5.1%	-225m	GBP	6	/Debt/
Gem Diamonds	LSE:GEMD	£139m	100p	6	0.54	-	296.5%	-42.5%	-1.6%	29m	USD	6	/Fwd EPS grth/
Target Healthcare REIT	LSE:THRL	£416m	108p	18	0.80	6.1%	12.5%	13.5%	-0.9%	-23m	GBP	6	/Mom or Upgrade/
McBride	LSE:MCB	£239m	131p	9	0.73	3.3%	20.1%	12.1%	0.0%	-115m	GBP	6	/Debt/
TT Electronics	LSE:TTG	£316m	197p	13	0.71	2.9%	36.0%	16.3%	2.0%	-41m	GBP	6	/Hi RoE or Marg/
Capital Drilling	LSE:CAPD	£56m	41p	10	0.90	3.1%	24.1%	6.9%	7.9%	6m	USD	6	/Hi RoE or Marg/
SThree	LSE:STHR	£352m	273p	10	0.98	5.1%	15.2%	9.9%	-12.0%	-6m	GBP	5	/Mom or Upgrade/Cash Conv/
The Alumasc Group	LSE:ALU	£39m	108p	6	0.55	6.8%	15.7%	14.7%	-14.5%	-5m	GBP	5	/Mom or Upgrade/Cash Conv/
Kenmare Resources	LSE:KMR	£218m	199p	5	0.18	-	159.5%	2.0%	-10.0%	-9m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Morgan Sindall	LSE:MGNS	£502m	1,118p	8	0.83	4.0%	24.2%	-0.3%	-3.7%	53m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Empiric Student Property	LSE:ESP	£556m	92p	22	0.37	5.4%	79.2%	28.4%	-1.8%	-289m	GBP	5	/Fwd EPS grth/Debt/
Residential Secure Income	LSE:RESI	£152m	89p	18	0.09	3.4%	437.6%	-29.0%	-2.2%	-67m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Arrow Global	LSE:ARW	£340m	193p	5	0.53	6.3%	11.8%	19.0%	3.3%	-1,056m	GBP	5	/Hi RoE or Marg/Cash Conv/
S&U	LSE:SUS	£247m	2,060p	8	0.75	5.1%	15.4%	10.1%	9.9%	-122m	GBP	5	/Hi RoE or Marg/Cash Conv/

Source: S&P CapitalIQ, as at 28 January 2019

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

Name	TIDM	Market cap	Price	Fwd 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
Concurrent Technologies	AIM:CNC	£51m	70p	11	0.47	3.2%	68.9%	5.2%	-12.0%	8m	GBP	7	na
Atalaya Mining	AIM:ATYM	£326m	238p	9	0.42	-	62.5%	12.9%	-3.7%	46m	EUR	7	na
Secure Income REIT	AIM:SIR	£1,248m	388p	25	0.57	3.4%	7.6%	14.5%	1.8%	-812m	GBP	7	na
Petards	AIM:PEG	£16m	27p	13	0.41	-	43.9%	8.8%	25.6%	1m	GBP	7	na
Sylvania Platinum	AIM:SLP	£60m	21p	6	0.19	1.7%	35.0%	30.4%	31.3%	14m	USD	7	na
Warpaint London	AIM:W7L	£66m	85p	8	0.79	6.1%	5.0%	20.1%	-59.4%	5m	GBP	6	/Mom or Upgrade/
Pennant International	AIM:PEN	£39m	115p	11	0.56	-	117.5%	-10.4%	-13.6%	3m	GBP	6	/Fwd EPS grth/
Sigma Capital	AIM:SGM	£111m	125p	11	0.30	-	179.3%	7.8%	-5.1%	-3m	GBP	6	/Fwd EPS grth/
Christie	AIM:CTG	£27m	104p	10	0.72	2.6%	15.7%	13.0%	-3.6%	-3m	GBP	6	/Hi RoE or Marg/
Dart	AIM:DTG	£1,255m	844p	9	0.76	0.9%	51.8%	-14.4%	3.2%	460m	GBP	6	/Fwd EPS grth/
Nexus Infrastructure	AIM:NEXS	£73m	192p	9	0.68	3.4%	15.1%	12.7%	4.9%	19m	GBP	6	/Cash Conv/
Warehouse REIT	AIM:WHR	£167m	101p	16	0.15	6.0%	230.1%	-16.7%	4.3%	-121m	GBP	6	/Fwd EPS grth/
Arcontech	AIM:ARC	£18m	133p	20	0.62	1.0%	54.8%	3.4%	6.0%	3m	GBP	6	/Cash Conv/
Central Asia Metals	AIM:CAML	£390m	228p	8	0.65	7.3%	43.8%	-7.1%	7.7%	-128m	USD	6	/Fwd EPS grth/
Shanta Gold	AIM:SHG	£40m	5p	4	0.19	-	151.7%	-12.2%	13.2%	-45m	USD	6	/Fwd EPS grth/
System1	AIM:SYS1	£28m	225p	12	0.39	3.3%	96.4%	12.1%	25.0%	3m	GBP	6	/Fwd EPS grth/
Elektron Technology	AIM:EKT	£83m	47p	24	0.80	-	97.2%	9.8%	39.0%	7m	GBP	6	/Fwd EPS grth/
Tricorn Group	AIM:TCN	£6m	19p	6	0.52	-	25.5%	10.0%	-24.9%	-3m	GBP	5	/Debt/Mkt Cap/
Goals Soccer Centres	AIM:GOAL	£42m	57p	9	0.34	-	17.8%	15.5%	-22.1%	-30m	GBP	5	/Mom or Upgrade/Debt/
Arbuthnot Banking Group	AIM:ARBB	£166m	1,115p	15	0.66	3.0%	26.6%	39.8%	-15.2%	734m	GBP	5	/Hi RoE or Marg/Cash Conv/
SDX Energy	AIM:SDX	£149m	40p	-	0.00	-	-65.5%	161.6%	-17.7%	19m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Caledonia Mining Corp.	AIM:CMCL	£81m	420p	-	0.00	-	-23.9%	1.8%	-10.8%	6m	USD	5	/Fwd EPS grth/Mom or Upgrade/
Pelatro	AIM:PTRO	£22m	68p	7	0.57	-	-1.3%	69.7%	-1.4%	2m	USD	5	/Fwd EPS grth/Cash Conv/
M.T.I Wireless Edge	AIM:MWE	£17m	19p	10	0.75	8.0%	5.3%	22.5%	-0.5%	4m	USD	5	/Hi RoE or Marg/Cash Conv/
Randall & Quilter	AIM:RQIH	£227m	181p	14	0.37	4.9%	22.4%	57.7%	1.5%	70m	GBP	5	/Hi RoE or Marg/Cash Conv/
1pm	AIM:OPM	£41m	47p	7	0.64	1.2%	8.8%	12.7%	4.6%	-3m	GBP	5	/Hi RoE or Marg/Cash Conv/
PCF	AIM:PCF	£80m	38p	12	0.51	0.8%	47.3%	18.9%	5.1%	-28m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pan African Resources	AIM:PAF	£194m	10p	6	0.34	-	47.9%	31.6%	9.7%	-90m	GBP	5	/Cash Conv/Debt/
Ashley House	AIM:ASH	£8m	14p	4	0.14	-	41.0%	12.2%	11.8%	-2m	GBP	5	/Cash Conv/Mkt Cap/
Summit Germany	AIM:SMTG	£542m	119p	12	0.26	3.4%	54.8%	-7.7%	14.2%	-348m	EUR	5	/Fwd EPS grth/Debt/
EKF Diagnostics	AIM:EKF	£144m	32p	25	0.57	-	251.7%	-16.6%	19.8%	9m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Eland Oil & Gas	AIM:ELA	£282m	129p	4	0.17	-	504.4%	-13.9%	29.9%	4m	USD	5	/Fwd EPS grth/Cash Conv/
Amerisur Resources	AIM:AMER	£210m	17p	15	0.12	-	786.4%	-46.7%	50.8%	38m	USD	5	/Fwd EPS grth/Hi RoE or Marg/

Source: S&P CapitalIQ, as at 28 January 2019

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