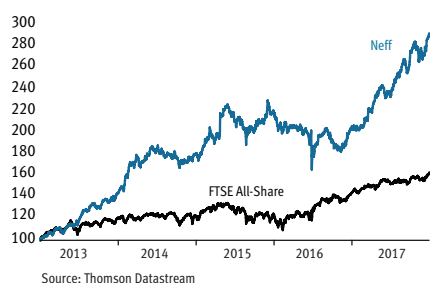




AlphaScreens: The market according to GARP

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 can sometimes suggest when a company is fair value, based on the present data, rather than a screaming buy. This seems to be the case with **Unilever (ULVR)**, which passes all our tests designed for larger companies except the five-year revenue growth rate. Unilever has a bit of a problem in the longer term with the rising quality of own-label products that undercut its branded goods on price. Arguably, its good ranking in our screen shows profit growth is treading water for now and the shares aren't overly expensive thanks to the muted picture for revenue growth after it reported last Thursday.
- Building supply business **Marshalls (MSLH)** only fails one test, which is that companies' earnings per share growth must be within a sustainable range of 7.5 to 20 per cent. This business has grown profits at a faster rate, which while clearly positive is a sign to assess whether the rate of earnings growth is due to slow.
- Some of the companies that have scored well on the screen are due to report results imminently. This will affect many of the figures, the forecasts and the share prices these screens are based on, so investors should pay special attention to newsflow for companies on their watch list. *JN*

Analyst: Algy Hall
algy.hall@ft.com

Alpha Production Editor: Sameera Hai Baig

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	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
Macfarlane	LSE:MACF	£151m	96p	12	0.9	2.4%	39.9%	1.8%	-6.2%	-13m	GBP	8	na
The Unite Group	LSE:UTG	£3,063m	1,055p	25	0.7	2.7%	27.0%	-3.1%	11.9%	-592m	GBP	7	/HY EPS grth/
Unilever	LSE:ULVR	£123,907m	5,013p	21	1.2	2.7%	6.0%	9.1%	8.4%	-24,161m	EUR	7	/5yr Rev grth/
S&U	LSE:SUS	£279m	2,310p	9	0.6	5.1%	7.0%	9.0%	5.5%	-109m	GBP	7	/FCF/
MJ Gleeson	LSE:GLE	£469m	860p	14	0.8	3.7%	8.8%	9.7%	0.7%	28m	GBP	7	/5yr EPS grth/
Marshalls	LSE:MSLH	£1,283m	647p	23	1.2	1.9%	8.9%	6.4%	1.0%	-37m	GBP	7	/5yr EPS grth/
Bovis Homes	LSE:BVS	£1,452m	1,080p	10	0.6	5.3%	6.3%	10.5%	-3.3%	127m	GBP	7	/Fwd EPS/
SThree	LSE:STHR	£362m	286p	8	0.4	5.1%	10.1%	7.0%	-5.6%	-8m	GBP	7	/5yr EPS grth/
Polypipe	LSE:PLP	£839m	421p	14	1.1	2.8%	8.5%	6.3%	-4.8%	-165m	GBP	7	/Fwd EPS/
RHI Magnesita N.V.	LSE:RHIM	£2,251m	4,550p	8	0.9	3.0%	16.0%	3.7%	-8.9%	-646m	EUR	7	/HY EPS grth/
Robert Walters	LSE:RWA	£364m	508p	10	0.4	2.9%	12.3%	5.4%	-13.6%	-28m	GBP	7	/5yr EPS grth/
PageGroup	LSE:PAGE	£1,434m	452p	13	0.7	5.7%	10.6%	9.4%	-14.9%	98m	GBP	7	/Fwd EPS/
Segro	LSE:SGRO	£8,623m	789p	31	0.6	2.4%	9.0%	8.8%	16.0%	-1,897m	GBP	6	/mid PE/HY EPS grth/
Games Workshop	LSE:GAW	£1,526m	4,694p	23	0.7	2.8%	8.0%	4.7%	14.9%	29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Barratt Devs	LSE:BDEV	£6,736m	663p	9	0.4	6.8%	6.7%	-0.5%	10.1%	379m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Ashtead	LSE:HT	£10,637m	2,304p	11	0.6	1.7%	18.6%	8.0%	8.3%	-3,745m	GBP	6	/5yr EPS grth/HY EPS grth/
Sirius Real Estate	LSE:SRE	£691m	68p	15	0.4	4.7%	5.1%	12.9%	6.3%	-296m	EUR	6	/mid PE/Fwd EPS/
SSP	LSE:SSPG	£3,133m	709p	24	0.3	6.3%	9.1%	9.5%	2.6%	-438m	GBP	6	/mid PE/5yr EPS grth/
JD Sports Fashion	LSE:JD	£6,205m	638p	20	1.0	0.3%	14.5%	9.8%	3.2%	125m	GBP	6	/5yr EPS grth/FCF/
Shaftesbury	LSE:SHB	£2,511m	819p	42	-2.8	2.1%	7.3%	9.6%	-4.9%	-838m	GBP	6	/5yr EPS grth/HY EPS grth/
Speedy Hire	LSE:SDY	£274m	53p	10	0.4	3.8%	12.9%	9.7%	-10.5%	-90m	GBP	6	/5yr EPS grth/5yr Rev grth/
Imperial Brands	LSE:IMB	£20,753m	2,191p	8	0.8	8.6%	3.9%	3.9%	-10.4%	-12,807m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%5yr Rev grth/
Card Factory	LSE:CARD	£585m	171p	10	0.7	8.3%	-1.9%	1.4%	-17.4%	-140m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Grafton	LSE:GFTU	£1,807m	760p	11	1.0	2.4%	-5.4%	8.0%	-14.3%	-53m	GBP	6	/Av FY2 Fwd EPS growth > 7.5%Fwd EPS/
FDM	LSE:FDM	£907m	831p	21	1.1	3.9%	5.2%	7.1%	-14.5%	4m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%/

Source: S&P CapitalIQ, as at 30 Jul 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
Macfarlane	LSE:MACF	£151m	96p	12	0.81	2.4%	39.9%	1.8%	-6.2%	-13m	GBP	7	na
GCP Student Living	LSE:DIGS	£683m	165p	32	0.42	3.7%	29.7%	15.4%	2.3%	-212m	GBP	7	na
Ten Entertainment	LSE:TEG	£160m	246p	12	0.96	4.5%	25.2%	12.5%	4.3%	-11m	GBP	7	na
SOCO International	LSE:SIA	£260m	66p	16	0.49	8.4%	36.2%	9.1%	-13.7%	145m	USD	6	/Mom or Upgrade/
TClarke	LSE:CTO	£50m	118p	7	0.71	3.4%	16.8%	5.1%	-9.3%	12m	GBP	6	/Cash Conv/
Civitas Social Housing	LSE:CSH	£532m	85p	16	0.75	5.9%	44.6%	6.6%	-2.3%	-151m	GBP	6	/Cash Conv/
Target Healthcare REIT	LSE:THRL	£437m	114p	19	0.87	5.8%	5.5%	20.2%	-2.1%	-41m	GBP	6	/Cash Conv/
Residential Secure Income	LSE:RESI	£159m	93p	25	0.11	5.4%	233.3%	-2.5%	-1.2%	-67m	GBP	6	/Fwd EPS grth/
Kenmare Resources	LSE:KMR	£238m	217p	5	0.60	-	20.2%	-0.1%	9.4%	14m	USD	6	/Fwd EPS grth/
Capital Drilling	LSE:CAPD	£75m	55p	10	0.75	3.1%	22.4%	8.4%	13.2%	17m	USD	6	/Hi RoE or Marg/
Empiric Student Property	LSE:ESP	£555m	92p	21	0.56	5.4%	36.9%	9.1%	-2.1%	-301m	GBP	5	/Mom or Upgrade/Debt/
UP Global Sourcing	LSE:UPGS	£68m	86p	11	0.70	3.2%	46.3%	0.6%	4.1%	-14m	GBP	5	/Cash Conv/Debt/
Sirius Real Estate	LSE:SRE	£691m	68p	15	0.66	4.7%	5.1%	12.9%	6.3%	-296m	EUR	5	/Fwd EPS grth/Debt/
EnQuest	LSE:ENQ	£381m	23p	3	0.53	-	-2.8%	14.2%	8.2%	-2,505m	USD	5	/Fwd EPS grth/Debt/
Huntsworth	LSE:HNT	£374m	102p	11	0.99	2.3%	22.4%	9.1%	14.6%	-132m	GBP	5	/Hi RoE or Marg/Debt/

Source: S&P CapitalIQ, as at 30 Jul 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	£299m	218p	8	0.23	-	8.4%	71.1%	-0.7%	24m	EUR	7	na
EKF Diagnostics	AIM:EKF	£155m	34p	24	0.65	-	38.8%	6.3%	0.3%	9m	GBP	7	na
Elektron Technology	AIM:EKT	£91m	51p	18	0.73	-	43.2%	18.9%	9.4%	10m	GBP	7	na
Highland Gold Mining	AIM:HGM	£787m	216p	12	0.81	6.2%	39.5%	3.6%	31.7%	-211m	USD	7	na
Hydrogen	AIM:HYDG	£18m	56p	7	0.50	3.6%	25.0%	7.6%	-21.9%	5m	GBP	6	/Hi RoE or Marg/
Concurrent Technologies	AIM:CNC	£52m	71p	11	0.69	3.2%	56.9%	-4.1%	-13.8%	8m	GBP	6	/Fwd EPS grth/
MP Evans	AIM:MPE	£370m	677p	34	0.85	2.6%	146.8%	24.7%	-1.2%	-8m	USD	6	/Fwd EPS grth/
Rosenblatt	AIM:RBGP	£82m	103p	14	0.72	4.1%	46.0%	2.4%	-1.3%	13m	GBP	6	/Cash Conv/
Tekmar	AIM:TGP	£68m	135p	14	0.80	-	60.7%	7.5%	6.5%	3m	GBP	6	/Cash Conv/
Arcontech	AIM:ARC	£22m	165p	25	0.77	0.8%	54.8%	3.4%	21.5%	3m	GBP	6	/Cash Conv/
Caledonia Mining Corp	AIM:CMCL	£86m	494p	-	0.00	-	-42.7%	19.1%	15.8%	8m	USD	6	/Fwd EPS grth/
Sylvania Platinum	AIM:SLP	£97m	34p	6	0.20	1.0%	85.6%	17.2%	18.0%	20m	USD	6	/Fwd EPS grth/
Augean	AIM:AUG	£122m	118p	10	0.67	-	42.8%	-0.1%	32.6%	23m	GBP	6	/Fwd EPS grth/
Crimson Tide	AIM:TIDE	£10m	2p	23	0.65	-	900.0%	-20.6%	-26.3%	0m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Universe	AIM:UNG	£11m	4p	11	0.58	-	21.2%	20.6%	-17.2%	2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Ashley House	AIM:ASH	£5m	8p	-	0.68	-	-	-	-13.6%	-2m	GBP	5	/Fwd EPS grth/Mkt Cap/
PCF	AIM:PCF	£73m	29p	9	0.48	1.0%	34.6%	20.3%	-12.1%	-22m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pelatro	AIM:PTRO	£25m	76p	6	0.41	-	60.0%	-0.8%	-12.1%	2m	USD	5	/Fwd EPS grth/Cash Conv/
Springfield Properties	AIM:SPR	£108m	112p	8	0.60	3.5%	22.7%	12.2%	-4.3%	-25m	GBP	5	/Cash Conv/Debt/
Eland Oil & Gas	AIM:ELA	£264m	122p	4	0.22	-	54.0%	0.1%	-3.2%	-4m	USD	5	/Mom or Upgrade/Cash Conv/
Cerillion	AIM:CER	£48m	164p	14	0.72	2.7%	71.9%	-0.2%	-1.5%	3m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
H&T	AIM:HAT	£130m	327p	10	0.83	3.4%	14.5%	10.9%	1.8%	-13m	GBP	5	/Hi RoE or Marg/Cash Conv/
Bushveld Minerals	AIM:BMN	£285m	26p	6	0.41	-	69.7%	-8.5%	1.8%	44m	USD	5	/Fwd EPS grth/Cash Conv/
Tricorn	AIM:TCN	£7m	19p	6	0.72	1.1%	8.7%	12.2%	9.3%	-3m	GBP	5	/Debt/Mkt Cap/
Synectics	AIM:SNX	£34m	201p	10	0.59	2.3%	42.1%	23.5%	9.1%	5m	GBP	5	/Hi RoE or Marg/Cash Conv/
Good Energy	AIM:GOOD	£26m	161p	18	0.38	2.2%	36.4%	34.5%	9.6%	-45m	GBP	5	/Hi RoE or Marg/Debt/
Pan African Resources	AIM:PAF	£218m	11p	6	0.37	-	34.3%	47.3%	30.1%	-105m	GBP	5	/Cash Conv/Debt/
Amerisur Resources	AIM:AMER	£218m	18p	11	0.53	-	1466.0%	-51.3%	38.9%	35m	USD	5	/Fwd EPS grth/Hi RoE or Marg/

Source: S&P CapitalIQ, as at 30 Jul 2019

© The Financial Times Limited 2019. Investors Chronicle is a trademark of The Financial Times Limited. "Financial Times" and "FT" are registered trademarks and service marks of The Financial Times Limited. All rights reserved. No part of this publication or information contained within it may be commercially exploited in any way without prior permission in writing from the editor.

Permitted Use: By purchasing this magazine, you agree that the intellectual property rights (including copyright and database rights) in its content belong to The Financial Times Limited and/or its licensors. This magazine is for your own personal, non-commercial use. You must not use any of the content as part of any commercial product or service, including without limitation any which reduces the need for third parties to use the Investors Chronicle magazine and/or website, or which creates revenue from the content, or which is to the detriment of our own ability to generate revenues from that content. For example, you must not use any of our content in any syndication, content aggregation, news aggregation, tips aggregation, library, archive or similar service, and you must not capture any such content, whether systematically, regularly or otherwise, in any form of database without our prior written permission. These contractual rights are without prejudice to our rights to protect our intellectual property rights under law.

Investors Chronicle adheres to a self-regulation regime under the FT Editorial Code of Practice: A link to the FT Editorial Code of Practice can be found at www.ft.com/editorialcode. Many of the charts in the magazine are based on material supplied by Thomson Datastream and S&P Capital IQ.

Material (including tips) contained in this magazine is for general information only and is not intended to be relied upon by individual readers in making (or refraining from making) any specific investment decision. Appropriate independent advice should be obtained before making any such decisions. The Financial Times Limited does not accept any liability for any loss suffered by any reader as a result of any such decision.

ISSN 0261-3115.