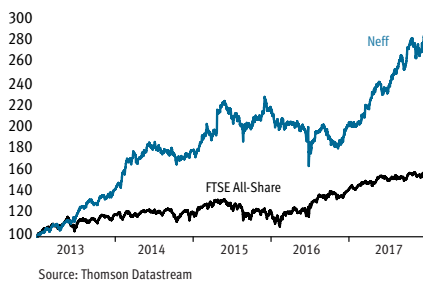




## AlphaScreens: The market according to GARP

*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 large-cap GARP screen sees three companies boasting a perfect record of passing all eight tests. Recruiter **Page-Group (PAGE)** retains its perfect score for another month and is joined by property company **Shaftesbury (SHB)** and packaging specialist **RPC (RPC)** – both passing all eight tests.
- Among the FTSE small-cap GARP selection there is no change at the top, as **Air Partner (AIR)**, **Bonmarche (BON)** and **Haynes Publishing (HYNS)** retain their 7/7 scores and there is little change among those companies passing six of the seven tests. **Target Healthcare Reit (THRL)** has moved up to this strata and passes all bar the cash conversion test.
- There has been more movement at the Aim screen level where **Warpaint (W7L)** and **SCISYS (SSY)** retain their top rankings having passed all seven tests, while **Atalaya Mining (ATYM)** drops down a level, but fellow Aim miners **Sylvania Platinum (SLP)** and **Caledonia Mining Corp (CMCL)** move up the rankings with perfect 7/7 scores.

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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.

**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
Shaftesbury	LSE:SHB	£2,944m	960p	51	0.6	1.7%	8.8%	11.8%	-0.8%	-767m	GBP	8	na
PageGroup	LSE:PAGE	£1,688m	540p	17	1.0	4.7%	17.3%	6.7%	-1.1%	96m	GBP	8	na
RPC	LSE:RPC	£3,219m	795p	11	1.3	3.1%	15.2%	6.8%	-4.0%	-1,097m	GBP	8	na
Bovis Homes	LSE:BVS	£1,743m	1,298p	14	0.7	3.7%	40.2%	10.2%	22.4%	145m	GBP	7	/HY EPS grth/
S&U	LSE:SUS	£326m	2,715p	11	0.6	3.9%	19.5%	13.4%	17.7%	-105m	GBP	7	/FCF/
Morgan Sindall	LSE:MGNS	£656m	1,484p	11	1.0	3.0%	20.1%	0.7%	19.6%	193m	GBP	7	/FCF/
Babcock International	LSE:BAB	£4,170m	826p	10	1.3	3.6%	1.7%	3.4%	24.2%	-1,238m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Big Yellow	LSE:BYG	£1,480m	940p	22	0.5	3.3%	8.5%	7.1%	12.8%	-345m	GBP	7	/5yr EPS grth/
Howden Joinery	LSE:HWDN	£3,091m	510p	16	1.2	2.2%	7.6%	7.8%	14.0%	241m	GBP	7	/HY EPS grth/
Electrocomponents	LSE:ECM	£3,150m	712p	21	1.2	1.9%	22.2%	2.1%	12.5%	-66m	GBP	7	/5yr EPS grth/
XP Power Limited	LSE:XPP	£661m	3,460p	19	1.4	2.3%	21.9%	8.2%	13.4%	-9m	GBP	7	/mid PE/
Vp	LSE:VP	£355m	900p	11	0.8	2.4%	16.4%	16.3%	6.2%	-115m	GBP	7	/FCF/
Inchcape	LSE:INCH	£3,065m	740p	11	1.3	3.6%	-2.7%	3.1%	8.0%	-344m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Communis plc	LSE:CMS	£136m	65p	10	0.8	4.1%	7.2%	6.6%	3.5%	-24m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Paragon Banking	LSE:PAG	£1,325m	512p	11	0.9	3.1%	10.4%	5.5%	2.2%	-6,072m	GBP	7	/FCF/
Savills	LSE:SVS	£1,309m	959p	13	1.4	3.1%	-0.2%	6.0%	-0.4%	99m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
MJ Gleeson	LSE:GLE	£411m	756p	14	0.5	3.2%	10.9%	9.1%	-3.6%	27m	GBP	7	/5yr EPS grth/
SThree	LSE:STHR	£416m	331p	12	1.0	4.2%	10.5%	14.3%	-4.2%	6m	GBP	7	/HY EPS grth/
WPP	LSE:WPP	£16,143m	1,278p	11	0.6	4.7%	-2.6%	4.2%	-9.1%	-4,483m	GBP	7	/Av FY2 Fwd EPS growth > 7.5%
Hays	LSE:HAS	£2,717m	187p	16	1.2	1.7%	17.2%	8.7%	-4.6%	35m	GBP	7	/HY EPS grth/
Ted Baker	LSE:TED	£1,120m	2,518p	18	1.2	2.4%	11.8%	10.2%	-18.2%	-112m	GBP	7	/FCF/
Dignity	LSE:DTY	£623m	1,246p	16	-1.6	2.0%	-40.0%	-19.7%	49.9%	-516m	GBP	6	/HY EPS grth/Av FY2 Fwd EPS growth > 7.5%
Games Workshop	LSE:GAW	£924m	2,855p	17	1.1	3.5%	94.0%	-24.5%	19.2%	29m	GBP	6	/mid PE/5yr EPS grth/
National Express	LSE:NEX	£2,157m	422p	13	1.2	3.2%	10.9%	3.7%	19.2%	-919m	GBP	6	/Av FY2 Fwd EPS growth > 7.5% 5yr Rev grth/
The Berkeley Group	LSE:BKG	£5,709m	4,269p	10	0.7	2.5%	15.5%	-31.7%	10.1%	633m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Ashtead	LSE:AHT	£11,404m	2,334p	15	0.6	1.2%	26.0%	16.7%	9.1%	-2,629m	GBP	6	/mid PE/5yr EPS grth/
Persimmon	LSE:PSN	£8,843m	2,841p	11	0.4	8.3%	8.4%	2.8%	8.6%	1,303m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Bellway	LSE:BWY	£4,108m	3,344p	8	0.3	3.6%	13.9%	5.4%	6.2%	-131m	GBP	6	/5yr EPS grth/FCF/
Redrow	LSE:RDW	£2,234m	620p	8	0.3	3.6%	14.7%	8.1%	4.5%	-35m	GBP	6	/5yr EPS grth/FCF/
Barratt Developments	LSE:BDEV	£5,672m	561p	8	0.3	7.7%	5.9%	5.1%	3.3%	166m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Playtech	LSE:PTEC	£2,577m	819p	13	0.6	3.9%	10.6%	16.6%	3.0%	107m	EUR	6	/5yr EPS grth/Fwd EPS/
Carnival	LSE:CCL	£35,247m	4,935p	14	1.0	3.0%	16.7%	12.9%	2.7%	-9,130m	USD	6	/HY EPS grth/5yr Rev grth/
Morgan Adv. Materials	LSE:MGAM	£976m	342p	14	0.6	3.2%	10.8%	7.1%	0.2%	-181m	GBP	6	/5yr Rev grth/Fwd EPS/
Grafton	LSE:GFTU	£1,822m	768p	13	0.7	2.0%	8.4%	7.2%	0.2%	-63m	GBP	6	/5yr EPS grth/Fwd EPS/
JD Sports Fashion	LSE:JD	£3,749m	385p	15	0.6	0.4%	3.9%	9.4%	-0.9%	310m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Robert Walters	LSE:RWA	£458m	660p	15	0.6	1.8%	15.1%	7.2%	-1.4%	31m	GBP	6	/5yr EPS grth/FCF/
Henry Boot	LSE:BOOT	£395m	298p	11	0.5	2.7%	-11.3%	-0.9%	-2.3%	-29m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Vedanta Resources	LSE:VED	£2,037m	728p	9	0.3	6.7%	93.0%	29.1%	-4.3%	-9,636m	USD	6	/5yr EPS grth/5yr Rev grth/
MedicX Fund Limited	LSE:MXF	£342m	80p	21	0.2	7.6%	6.5%	6.5%	-4.8%	-362m	GBP	6	/5yr EPS grth/Av FY2 Fwd EPS growth > 7.5%
Assura	LSE:AGR	£1,351m	57p	21	1.2	4.6%	9.7%	6.1%	-3.1%	-460m	GBP	6	/HY EPS grth/Fwd EPS/

Source: S&amp;P CapitalIQ, as at 29 May 2018

**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
Air Partner	LSE:AIR	£52m	100p	-	0.96	5.2%	37.6%	1.3%	-30.5%	15m	GBP	7	na
Bonmarché	LSE:BON	£49m	101p	7	0.48	7.1%	24.7%	17.2%	-1.0%	15m	GBP	7	na
Haynes Publishing	LSE:HYNS	£35m	232p	20	0.97	3.2%	25.5%	21.6%	8.4%	0m	GBP	7	na
Target Healthcare REIT	LSE:THRL	£370m	109p	19	1.02	5.9%	19.0%	7.7%	2.8%	-65m	GBP	6	/Cash Conv/
Vp	LSE:VP	£355m	900p	11	0.87	2.4%	16.4%	16.3%	6.2%	-115m	GBP	6	/Debt/
Gocompare.com	LSE:GOCO	£537m	128p	16	1.16	1.1%	27.7%	8.8%	9.1%	-39m	GBP	6	/Hi RoE or Marg/
TClarke	LSE:CTO	£37m	88p	7	0.84	4.0%	8.7%	6.7%	12.7%	12m	GBP	6	/Fwd EPS grth/
Macfarlane	LSE:MACF	£158m	100p	14	1.06	2.1%	33.0%	2.3%	20.7%	-15m	GBP	6	/Cash Conv/
Gem Diamonds	LSE:GEMD	£154m	111p	6	1.08	-	272.9%	-54.0%	35.8%	1m	USD	6	/Fwd EPS grth/
PayPoint	LSE:PAY	£666m	977p	16	0.00	8.5%	-0.4%	7.0%	23.8%	46m	GBP	6	/Fwd EPS grth/
Hansteen	LSE:HSTN	£436m	106p	21	0.70	5.8%	22.0%	7.4%	-21.5%	-225m	GBP	5	/Mom or Upgrade/Debt/
Luceco	LSE:LUCE	£96m	60p	9	0.29	-	7.2%	55.0%	-23.1%	-37m	GBP	5	/Mom or Upgrade/Debt/
Arrow Global	LSE:ARW	£488m	279p	7	0.64	4.1%	18.5%	17.7%	-18.7%	-939m	GBP	5	/Hi RoE or Marg/Cash Conv/
Pendragon	LSE:PDG	£381m	27p	8	1.01	5.9%	1.7%	12.5%	-0.9%	-124m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Empiric Student Property	LSE:ESP	£528m	88p	25	0.36	6.3%	86.9%	21.7%	5.0%	-246m	GBP	5	/Fwd EPS grth/Debt/
Carr's	LSE:CARR	£131m	143p	11	0.92	2.8%	41.6%	-0.6%	7.9%	-16m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Reach	LSE:RCH	£244m	83p	2	0.57	7.0%	1.0%	11.4%	7.7%	-9m	GBP	5	/Fwd EPS grth/Cash Conv/
S&U	LSE:SUS	£326m	2,715p	11	0.75	3.9%	19.5%	13.4%	17.7%	-105m	GBP	5	/Hi RoE or Marg/Cash Conv/
Sirius Real Estate	LSE:SRE	£654m	66p	15	1.02	4.1%	24.9%	-4.5%	23.9%	-259m	EUR	5	/Fwd EPS grth/Debt/

Source: S&P CapitalIQ, as at 29 May 2018

**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
Warpaint London	Aim:W7L	£165m	215p	16	0.77	2.4%	45.3%	14.9%	-3.4%	2m	GBP	7	na
Sylvania Platinum	Aim:SLP	£53m	19p	8	0.53	-	2.6%	26.7%	15.9%	12m	USD	7	na
SCISYS	Aim:SSY	£47m	162p	14	0.87	1.3%	20.9%	10.0%	27.2%	-6m	GBP	7	na
Caledonia Mining Corp.	Aim:CMCL	£127m	690p	-	0.00	-	26.6%	10.6%	28.3%	12m	USD	7	na
Servoca	Aim:SVCA	£17m	14p	5	0.27	2.9%	54.4%	4.0%	-30.2%	-2m	GBP	6	/Cash Conv/
James Cropper	Aim:CRPR	£133m	1,405p	29	0.80	0.8%	53.6%	11.1%	-18.0%	-5m	GBP	6	/Mom or Upgrade/
Trakm8	Aim:TRAK	£33m	91p	12	0.89	-	29.1%	13.8%	-9.0%	-2m	GBP	6	/Hi RoE or Marg/
Swallowfield	Aim:SWL	£56m	325p	14	0.72	1.6%	44.7%	11.4%	-1.5%	-1m	GBP	6	/Mom or Upgrade/
Petards	Aim:PEG	£14m	25p	13	0.34	-	43.9%	14.5%	4.7%	1m	GBP	6	/Cash Conv/
Base Resources	Aim:BSE	£321m	15p	-	0.00	-	128.1%	-23.0%	5.1%	-117m	AUD	6	/Fwd EPS grth/
Secure Income REIT	Aim:SIR	£1,251m	389p	25	0.75	3.2%	13.6%	3.7%	8.4%	-878m	GBP	6	/Fwd EPS grth/
Goals Soccer Centres	Aim:GOAL	£64m	86p	13	0.28	-	42.3%	16.7%	13.2%	-30m	GBP	6	/Debt/
ProPhotonix	Aim:PPIX	£14m	11p	-	0.00	-	29.3%	70.0%	16.2%	1m	USD	6	/Fwd EPS grth/
Atalaya Mining	Aim:ATYM	£332m	243p	11	0.38	-	43.2%	36.3%	21.4%	53m	EUR	6	/Hi RoE or Marg/
K3 Capital	Aim:K3C	£135m	320p	24	0.61	1.8%	62.2%	-14.2%	31.9%	5m	GBP	6	/Fwd EPS grth/
SDX Energy Inc.	Aim:SDX	£227m	62p	-	0.00	-	110.3%	-2.9%	33.4%	29m	USD	6	/Fwd EPS grth/
Universe	Aim:UNG	£13m	6p	8	0.52	-	75.0%	4.5%	-10.2%	2m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Vianet	Aim:VNET	£33m	123p	15	0.63	4.7%	110.1%	-2.8%	-8.3%	3m	GBP	5	/Fwd EPS grth/Mom or Upgrade/
Impellam	Aim:IPEL	£278m	553p	7	0.59	3.7%	23.2%	6.3%	-5.2%	-76m	GBP	5	/Hi RoE or Marg/Mom or Upgrade/
Ramsdens	Aim:RFX	£59m	190p	12	0.91	1.2%	60.2%	-3.3%	-2.8%	13m	GBP	5	/Fwd EPS grth/Cash Conv/
Summit Germany Ltd	Aim:SMTG	£538m	116p	12	0.30	3.5%	46.8%	-7.9%	-0.9%	-392m	EUR	5	/Fwd EPS grth/Debt/
Pelatro	Aim:PTRO	£19m	79p	13	0.92	-	9.0%	62.8%	2.6%	3m	USD	5	/Fwd EPS grth/Cash Conv/
Pan African Resources	Aim:PAF	£124m	7p	5	0.39	6.5%	20.7%	3.0%	2.1%	-37m	GBP	5	/Hi RoE or Marg/Debt/
Diversified Gas & Oil	Aim:DGOC	£296m	95p	27	0.93	4.3%	-33.7%	110.5%	4.6%	-57m	USD	5	/Fwd EPS grth/Debt/
Real Estate Investors	Aim:RLE	£101m	54p	14	0.74	6.5%	15.2%	8.2%	5.6%	-84m	GBP	5	/Cash Conv/Debt/
RedstoneConnect	Aim:REDS	£18m	87p	8	0.64	-	8.2%	24.8%	6.7%	1m	GBP	5	/Hi RoE or Marg/Cash Conv/
Defenx	Aim:DFX	£5m	19p	1	0.07	-	1.7%	37.8%	10.0%	-1m	EUR	5	/Hi RoE or Marg/Mkt Cap/
Sigma Capital	Aim:SGM	£114m	128p	10	0.31	-	221.6%	-6.0%	11.3%	6m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
FairFX Group	Aim:FFX	£152m	98p	20	0.91	-	753.7%	-18.4%	17.8%	52m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Randall & Quilter Invest.	Aim:RQIH	£217m	173p	13	0.63	5.2%	27.6%	19.3%	17.9%	139m	GBP	5	/Hi RoE or Marg/Cash Conv/
Telford Homes	Aim:TEF	£350m	466p	10	0.54	3.4%	30.7%	12.4%	18.1%	-63m	GBP	5	/Cash Conv/Debt/
Amerisur Resources	Aim:AMER	£225m	19p	14	0.13	-	814.3%	-46.6%	16.9%	30m	USD	5	/Fwd EPS grth/Hi RoE or Marg/
EKF Diagnostics	Aim:EKF	£144m	32p	27	0.62	-	229.4%	-16.4%	22.3%	7m	GBP	5	/Fwd EPS grth/Hi RoE or Marg/
Plus500	Aim:PLUS	£1,868m	1,640p	10	0.93	7.7%	23.2%	3.3%	34.8%	242m	USD	5	/Hi RoE or Marg/Cash Conv/

Source: S&P CapitalIQ, as at 29 May 2018

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