



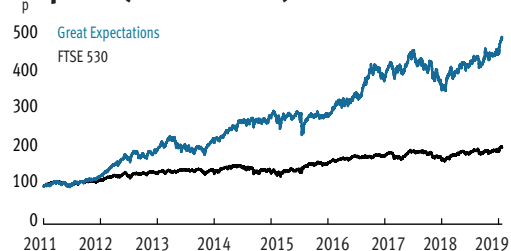
AlphaScreens: The might of momentum

Momentum strategies show persistent outperformance.

We run our Alpha momentum screen across three indices:

FTSE All-Share, All Small, and Aim

Great Expectations: Total returns since inception (19 Dec 2011) to end 2019



Source: Thomson Datastream from Refinitiv

Great Expectation criteria:

The Alpha momentum screens apply the idea of momentum not only to share price performance, but also to expected profit growth. The screen looks for strong forecast earnings per share (EPS) growth, but more importantly it looks for an improving trend in broker expectations. Indeed, EPS forecast upgrades can be considered the screen's primary focus.

- Miner **BHP Group (BHP)** is the highest ranking large company on our FTSE All-Share Screen. The only test it comes up short against is the requirement to have had a 10 per cent earnings upgrade for the next financial year in the past 12 months. Given the innate cyclicity of mining, and the markets for several minerals the company is exposed to, this is perhaps unsurprising.
- Joint top of the rankings is gambling and entertainments business **888 Holdings (888)** and **Royal Mail (RMG)**. In the case of 888, the only test failed is the upgrade momentum test for the next financial year, possibly because it already surprised to the upside with its lockdown trading figures and the return of sports betting will be priced in already.
- Royal Mail is an interesting business and investors should ask plenty of questions given its structural challenges. In the past share price momentum has been partially attributable to short sellers abandoning positions and, while analysts may amend profit forecasts to the upside from time to time, calling Royal Mail's long-term prospects is very tough.

Analyst: Algy Hall
algy.hall@ft.com

Alpha Production Editor: Sameera Hai Baig

Alpha momentum criteria

The Alpha momentum screen is conducted separately on constituents of the FTSE All-Share, FTSE All Small and FTSE Aim All-Share indices, with the results from each screen reported in separate tables. The screen looks for stocks displaying three characteristics, each of which are tested using a few different criteria.

- Earnings upgrade momentum: EPS upgrades over the past 12 months of at least 10 per cent for both the current financial year and next financial year.
- Earnings momentum: Forecast EPS growth of at least 10 per cent in the current financial year and next financial year.
- Price momentum: Studies have found that the longer price momentum has persisted the more likely it is to be 'stale' and set to reverse. The Alpha momentum screen tests for strong share price performance over four different periods, which helps check price momentum remains fresh.

The screen looks for share price performance among the top quarter of shares screened over one year, and share price performance above the median (mid-ranking) average over six months, three months and one month.

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, followed by those failing one test, then those failing two tests as detailed in the 'Tests passed' column. All stocks must pass the EPS upgrade tests to feature in the tables. 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 earnings upgrades over the past 12 months and three-month share price momentum.

Stock screen methodology formulated and explained by Algy Hall

Large-cap momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
888 Holdings	888	£1,013m	275p	17	52%	2.6%	78.2%	-14.8%	42.2%	-87m	USD	7	/>10% EPSgrth FY+2/
Royal Mail	RMG	£3,349m	335p	15	46%	2.2%	-8.0%	30.3%	43.3%	1,025m	GBP	7	/>10% EPSgrth FY+1/
Frasers	FRAS	£2,239m	431p	15	22%	0.0%	63.6%	15.5%	19.4%	966m	GBP	7	/1mthMom/
BHP	BHP	£42,009m	1,989p	12	18%	4.7%	29.8%	-11.6%	14.1%	10,995m	USD	7	/>10% EPSgrth FY+2/
Fresnillo	FRES	£8,297m	1,126p	16	79%	1.0%	66.3%	101.1%	-16.7%	243m	USD	7	/3mthMom/
AO World	AO	£1,713m	358p	40	313%	0.0%	-	17.1%	95.6%	21m	GBP	6	/>10% EPSgrth FY+1/1mthMom/
Ferrexpo	FXPO	£1,616m	275p	5	120%	5.7%	2.8%	-2.7%	45.9%	141m	USD	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
McBride	MCB	£138m	76p	7	19%	1.4%	17.3%	5.1%	23.4%	102m	GBP	6	/>10% EPSgrth FY+2/1yrMom/
Kainos	KNOS	£1,461m	1,194p	40	48%	0.5%	87.8%	-5.2%	18.9%	-59m	GBP	6	/>10% EPSgrth FY+2/1mthMom/
Luceco	LUCE	£363m	226p	15	64%	1.4%	88.4%	5.3%	14.3%	22m	GBP	6	/>10% EPSgrth FY+2/1mthMom/
Polymetal International	POLY	£8,040m	1,704p	8	73%	3.8%	75.7%	20.1%	-15.2%	1,398m	USD	6	/6mthMom/3mthMom/
Petropavlovsk	POG	£1,211m	31p	7	57%	0.0%	209.7%	85.1%	-17.2%	439m	USD	6	/6mthMom/3mthMom/

Source: FactSet, 14 December 2020

Small-cap momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Lamprell	LAM	£155m	45p	-	96%	0.0%	-	-	90.3%	-12m	USD	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
McBride	MCB	£138m	76p	7	19%	1.4%	17.3%	5.1%	23.4%	102m	GBP	6	/>10% EPSgrth FY+2/1yrMom/
Luceco	LUCE	£363m	226p	15	64%	1.4%	88.4%	5.3%	14.3%	22m	GBP	6	/>10% EPSgrth FY+2/1mthMom//

Source: FactSet, 14 December 2020

Aim momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Ergomed	ERGO	£471m	966p	35	40%	0.0%	111.3%	13.1%	37.0%	-8m	GBP	8	na
Codemasters	CDM	£814m	534p	28	30%	0.0%	58.7%	4.9%	40.5%	-50m	GBP	7	/>10% EPSgrth FY+2/
Xpediator	XPD	£46m	33p	8	26%	1.4%	25.2%	19.2%	23.8%	22m	GBP	7	/1yrMom/
Sylvania Platinum	SLP	£204m	75p	4	139%	2.1%	69.3%	-10.9%	19.0%	-45m	USD	7	/>10% EPSgrth FY+2/
Team17	TM17	£1,060m	806p	43	55%	0.0%	26.0%	9.1%	11.9%	-49m	GBP	7	/>10% EPSgrth FY+2/
Sensyne Health	SENS	£154m	120p	-	699%	0.0%	-	-	65.5%	-30m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
ITM Power	ITM	£2,070m	376p	-	158%	0.0%	-	-	47.8%	-34m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Gear4music	G4M	£144m	685p	26	143%	0.0%	164.6%	-28.4%	26.9%	16m	GBP	6	/>10% EPSgrth FY+2/1mthMom/
EKF Diagnostics	EKF	£276m	61p	31	75%	0.0%	194.4%	-46.7%	6.6%	-15m	GBP	6	/>10% EPSgrth FY+2/1mthMom/
Science	SAG	£115m	280p	16	20%	2.4%	52.3%	1.7%	8.5%	-6m	GBP	6	/>10% EPSgrth FY+2/1yrMom/

Source: FactSet, 14 December 2020

© The Financial Times Limited 2020. 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.