

AlphaScreens: the might of momentum

18 January 2021

Royal Mail expected to deliver

Momentum strategies show persistent outperformance. We run our Alpha momentum screen across three indices: FTSE All-Share, All Small, and Aim

Comment by Alpha editor:

- Despite some recent delivery set-backs due to Covid-related staffing issues, investors seem to be buying into the longer-term story for **Royal Mail (RMG)**. The share price has been on a tear since agreement on pay, hours and job security was reached with the Communication Workers Union (CWU) and earnings upgrade momentum is also positive, making Royal Mail the only FTSE All Share company to pass all our tests.
- Investors may still have some questions about how rapidly Royal Mail can modernise but over on Aim, the companies topping our junior market momentum screen aren't as constrained by legacy issues. **Impax Asset Management Group (IPX)** tops the Aim screen with investors continuing to be impressed by the trend to green investing, which benefits its funds. Perhaps there are cheaper ways to play the trend right now, but this is a mega theme and the earnings upgrade momentum tests show the market has confidence.
- The other Aim company getting top marks is **Frontier Developments (FDEV)**. Strong Christmas trading has buoyed the internet game manufacturer but there have been delays to releasing a flagship new game. Still, wanting to make sure things are right for the loyal and growing gaming fanbase is a good sign and, as our screen shows, analysts and investors remain positive.

Great expectations

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.

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:** earnings per share (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.

Stock screen and methodology 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
Royal Mail	RMG	£3,865m	386p	15	64%	1.9%	12.1%	20.7%	62.9%	1,025m	GBP	8	na
McBride	MCB	£149m	83p	7	37%	1.3%	17.3%	5.1%	38.0%	102m	GBP	7	/>10% EPSgrth FY+2/
AO World	AO	£1,862m	389p	42	327%	0.0%	-	17.4%	28.6%	21m	GBP	7	/>10% EPSgrth FY+1/
BHP	BHP	£45,093m	2,135p	11	40%	4.4%	45.3%	-8.9%	30.9%	10,995m	USD	7	/>10% EPSgrth FY+2/
Rio Tinto	RIO	£74,141m	5,946p	9	56%	5.0%	9.1%	24.2%	27.7%	6,352m	USD	7	/>10% EPSgrth FY+1/
Luceco	LUCE	£435m	270p	18	51%	1.2%	88.4%	5.3%	27.6%	22m	GBP	7	/>10% EPSgrth FY+2/
CMC Markets	CMCX	£1,243m	427p	15	264%	5.0%	77.4%	-56.2%	25.7%	-156m	GBP	7	/>10% EPSgrth FY+2/
Gamesys	GYS	£1,445m	1,322p	8	14%	0.0%	33.8%	15.2%	1.2%	393m	GBP	7	/3mthMom/
Ferrexpo	FXPO	£1,946m	331p	5	207%	7.6%	9.2%	7.4%	90.9%	141m	USD	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
888	888	£1,126m	305p	19	60%	2.3%	79.9%	-17.9%	14.7%	-87m	USD	6	/>10% EPSgrth FY+2/3mthMom/
Games Workshop	GAW	£3,510m	10,710p	30	42%	1.3%	58.2%	8.3%	1.4%	-51m	GBP	6	/>10% EPSgrth FY+2/3mthMom/
Computacenter	CCC	£2,678m	2,346p	20	29%	0.5%	28.0%	0.1%	-5.3%	-24m	GBP	6	/>10% EPSgrth FY+2/3mthMom/

Source: FactSet, 18 January 2021

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
McBride	MCB	£149m	83p	7	37%	1.3%	17.3%	5.1%	38.0%	102m	GBP	7	/>10% EPSgrth FY+2/
Luceco	LUCE	£435m	270p	18	51%	1.2%	88.4%	5.3%	27.6%	22m	GBP	7	/>10% EPSgrth FY+2/

Source: FactSet, 18 January 2021

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
Impax Asset Mgmt	IPX	£1,082m	830p	38	47%	1.0%	40.3%	20.6%	59.6%	-32m	GBP	8	na
Frontier Devs	FDEV	£1,297m	3,300p	52	14%	0.0%	15.6%	63.1%	24.8%	-22m	GBP	8	na
Sylvania Platinum	SLP	£283m	104p	6	91%	1.5%	65.9%	-12.0%	67.7%	-45m	USD	7	/>10% EPSgrth FY+2/
Gear4music	G4M	£184m	880p	32	201%	0.0%	258.1%	-46.0%	30.4%	16m	GBP	7	/>10% EPSgrth FY+2/
Team17	TM17	£1,144m	870p	45	40%	0.0%	28.4%	11.5%	24.3%	-49m	GBP	7	/1mthMom/
Ergomed	ERGO	£487m	1,000p	35	35%	0.0%	115.1%	13.4%	22.7%	-8m	GBP	7	/1mthMom/
ITMPower	ITM	£3,453m	627p	-	164%	0.0%	-	-	130.6%	-34m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Sensyne Health	SENS	£189m	144p	-	350%	0.0%	-	-	65.4%	-30m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Science	SAG	£132m	320p	18	26%	2.1%	60.5%	0.5%	28.0%	-6m	GBP	6	/>10% EPSgrth FY+2/1yrMom/
boohoo	BOO	£4,266m	338p	32	24%	0.0%	46.3%	25.6%	7.9%	-331m	GBP	6	/1yrMom/3mthMom/

Source: FactSet, 18 January 2021

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