

AlphaScreens: the market according to GARP

8 July 2025

Does the future look cleaner for water stocks?

Growth at a reasonable price, or GARP, has proved a reliable strategy that has previously generated market-beating returns. Our GARP screen looks at both past rates of growth and analysts' forecasts, which can smooth out expectations. We're also checking revenue growth expectations as the system is likely to work better when companies are expanding sales.

Given uncertainty around the long-term future of the publicly listed UK utilities and widespread criticism of polluting water companies, it might come as a surprise to find that utilities stocks have been outperforming the wider market. In the six months to 30 June this year, the MSCI UK Utilities index delivered a net return of 15 per cent compared to 9 per cent for the MSCI UK index.

These energy and water stocks - the MSCI utilities basket contains **National Grid (NG)**, **SSE (SSE)**, **Centrica (CNA)**, **United Utilities (UU)** and **Severn Trent (SVT)** - are considered by some investors as "bond proxies" for their reliable income characteristics. Dividends are backed up by monopolistic business models and inelastic demand, although there is a risk to payouts from significant capital spending commitments (given the pressures of the energy transition and creaking UK infrastructure), regulatory pressures and elevated debt levels.

Our latest growth at a reasonable price (GARP) screen for UK large-caps is led by United Utilities, the water utility focused on the North West of England. As the screen highlights, analysts expect earnings per share (EPS) to more than double this year before the growth rate falls back to low double-digits next year. The shares trade on just 11 times forward consensus earnings.

Fellow water utility **Severn Trent (SVT)**, which operates across the Midlands and Wales, has maintained a spot on the screen and is also expected to post robust earnings growth. It is more expensive than its peer, as it trades on 15 times forward consensus earnings. It also passed one fewer test, as it failed both our year-on-year EPS growth and five-year historic revenue growth tests.

Underlying profits for these water stocks are set to be maintained at higher levels as they move through the 2025-30 regulatory period. However, chunky growth rates come with a caveat. Profits have been volatile at both companies in recent periods and analysts don't expect a completely straight line upwards in the coming years.

Sticking with the water theme, **Royal Caribbean (US:RCL)** maintained its position on our US screen, which was once again headed by the healthcare trio of **Eli Lilly (US:LLY)**, **Molina Healthcare (US:MOH)** and **Universal Health Services (US:UHS)**. Cruise line giant Royal Caribbean has seen record demand after the pandemic, it became investment-grade again earlier this year and debt is falling. Yet, its valuation of 20 times forward consensus earnings is a notable premium to peers.

July 2025 GARP results

UK large-cap GARP screen (passing at least 7 out of 9 tests)

Name	Ticker	Share price (p)	Mkt cap (£mn)	Fwd 12-mth PE	2-yr fwd PEG	PEG Neff	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (£mn)	Tests passed	Tests failed
United Utilities	UU	1117	7644	10.8	0.2	0.6	4.6%	104%	12%	6%	596.7	8	/5-yr sales grwth/
NatWest	NWG	483	39606	7.8	0.7	0.5	4.4%	7%	14%	17%	-	7	/Y-o-Y EPS grwth/EPS grwth next 2 yrs/
Barclays	BARC	330	47092	7.2	0.3	0.3	2.5%	15%	23%	32%	-	7	/5-yr EPS grwth/Y-o-Y EPS grwth/
Severn Trent	SVT	2690	8109	15.2	0.4	1.4	4.5%	46%	23%	3%	-396.8	7	/5-yr EPS grwth/Y-o-Y EPS grwth/
Airtel Africa	AAF	178	6657	15.1	0.3	1.5	2.8%	86%	23%	19%	-2058.5	7	/5-yr EPS grwth/Y-o-Y EPS grwth/
Antofagasta	ANTO	1897	19066	25.5	0.9	1.2	1.3%	44%	10%	34%	1230.3	7	/Y-o-Y EPS grwth/No fc sales downgrade/

Source: Investors' Chronicle and FactSet

UK small-cap GARP screen (passing at least 7 out of 9 tests)

Name	Ticker	Share price (last close)	Mkt cap (£mn)	NTM PE	2-yr PEG	PEG (Neff)	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (£mn)	Tests passed	Tests failed
Integrated Diagnostics	IDHC	25	144	6.5	0.2	0.3	0.0%	29.1%	26.0%	-14.1%	-6.5	9	n/a
ASA International	ASAI	150	150	4.8	0.2	0.4	3.6%	17.6%	27.2%	85.8%	-90.1	8	/Net debt to Ebitda/
Secure Trust Bank	STB	870	166	3.2	0.0	0.0	3.9%	132.6%	32.5%	58.2%	-	7	/EPS grwth/NI or Asset TO/

Source: Investors' Chronicle and FactSet

UK mid-cap GARP screen (passing at least 7 out of 9 tests)

Name	Ticker	Share price (p)	Mkt cap (£mn)	Fwd 12-mth PE	2-yr fwd PEG	PEG Neff	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (£mn)	Tests passed	Tests failed
easyJet plc	EZJ	523	4030	6.8	0.5	1.1	2.3%	16%	13%	21%	-1922.0	8	/5-yr EPS grwth/
Atalaya Mining S.A.	ATYM	449	652	10.0	0.2	0.3	1.2%	105%	22%	49%	-41.9	7	/5-yr EPS grwth/Y-o-Y EPS grwth/
Hollywood Bowl	BOWL	235	398	10.0	0.8	1.2	5.2%	16%	11%	-6%	-22.6	7	/5-yr EPS grwth/Y-o-Y EPS grwth/
Spire Healthcare	SPI	228	914	18.3	0.4	1.1	1.0%	6%	68%	26%	-298.0	7	/5-yr EPS grwth/EPS grwth next 2 yrs/

Source: Investors' Chronicle and FactSet

UK Aim GARP screen (passing at least 7 out of 9 tests tests)

Name	Ticker	Share price (last close)	Mkt cap (£mn)	NTM PE	2-yr PEG	PEG (Neff)	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (£mn)	Tests passed	Tests failed
GlobalData	DATA	142	1161	14.3	0.7	1.3	1.8%	28.4%	10.5%	4.4%	-116.0	8	/3-mth price or EPS mom/
Serabi Gold	SRB	169	126	3.0	0.1	0.0	0.0%	97.7%	14.8%	25.2%	6.1	8	/EPS grwth/
Gaming Realms	GMR	52	153	14.4	1.1	1.1	0.0%	4.8%	21.7%	48.9%	9.4	7	/2-yr fwd PEG/EPS grwth/
Skillcast	SKL	47	42	28.5	0.3	0.6	1.1%	136.8%	43.7%	34.3%	1.0	7	/EPS grwth/NI or Asset TO/
Sylvania Platinum	SLP	70	182	9.1	0.1	0.2	2.5%	129.7%	35.7%	52.2%	49.7	7	/EPS grwth/NI or Asset TO/
Manoleta Partners	MANO	84	38	16.0	0.1	0.3	0.0%	135.3%	43.3%	2.4%	17.6	7	/EPS grwth/NI or Asset TO/
Pan African Resources	PAF	49	994	3.9	0.0	0.2	2.0%	84.1%	125.0%	24.3%	-55.9	7	/EPS grwth/Net debt to Ebitda/
Calnex Solutions	CLX	47	39	34.8	0.1	0.8	2.0%	172.2%	145.9%	11.1%	5.2	7	/EPS grwth/NI or Asset TO/

Source: Investors' Chronicle and FactSet

US GARP screen (passing at least 8 out of 9 tests)

Name	Ticker	Share price (\$)	Mkt cap (\$mn)	Fwd 12-mth PE	2-yr fwd PEG	PEG Neff	LTM DY	fc EPS grwth FY	fc EPS grwth FY+1	3-mth share price mom.	Net cash (\$mn)	Tests passed	Tests failed
Eli Lilly and Company	LLY	781	739869	30.3	0.5	1.9	0.7%	67%	35%	-1%	-26847.4	9	/
Molina Healthcare	MOH	240	12985	9.2	0.8	1.4	0.0%	8%	14%	-32%	-	9	/
Universal Health Services	UHS	185	10553	9.0	0.6	0.8	0.4%	18%	10%	-2%	-2203.5	9	/
NVIDIA	NVDA	159	3887896	32.5	0.7	0.6	0.0%	43%	33%	57%	27149.0	8	/5-yr EPS grwth/
Centene	CNC	33	16575	4.4	0.7	0.9	0.0%	2%	10%	20%	-	8	/EPS grwth next 2 yrs/
Capital One Financial	COF	221	141413	12.9	0.6	1.4	1.1%	8%	28%	35%	-	8	/5-yr EPS grwth/
Amphenol	APH	99	120307	35.5	1.3	1.5	0.6%	41%	11%	59%	-2919.3	8	/2-yr fwd PEG/
Huntington Bancshares	HBAN	18	25552	11.6	0.8	1.1	3.5%	17%	12%	30%	-	8	/5-yr EPS grwth/
Citizens Financial	CFG	48	20694	11.0	0.3	0.9	3.5%	24%	32%	32%	-	8	/5-yr EPS grwth/
Microsoft	MSFT	499	3707650	32.9	2.5	1.9	0.6%	13%	13%	34%	-34588.0	8	/2-yr fwd PEG/
Royal Caribbean	RCL	334	90832	20.1	0.8	1.2	0.5%	31%	16%	77%	-9914.0	8	/5-yr EPS grwth/
T-Mobile US	TMUS	241	273358	20.5	1.3	1.4	1.3%	10%	19%	-10%	-11363.0	8	/2-yr fwd PEG/
Trane Technologies	TT	437	97546	31.9	2.2	1.9	0.8%	15%	13%	32%	-5506.7	8	/2-yr fwd PEG/
Charles Schwab	SCHW	91	166216	19.3	0.7	1.6	1.1%	32%	19%	22%	-86342.0	8	/5-yr EPS grwth/
ResMed	RMD	257	37677	24.2	1.5	1.8	0.8%	23%	10%	20%	-7.8	8	/2-yr fwd PEG/
Bank of America	BAC	49	368535	12.4	0.8	1.1	2.1%	14%	16%	31%	-	8	/5-yr EPS grwth/
Adobe	ADBE	379	160903	17.2	1.3	1.9	0.0%	12%	13%	3%	-3326.0	8	/2-yr fwd PEG/
American Express	AXP	328	229884	20.1	1.6	1.5	0.9%	9%	14%	32%	37385.0	8	/2-yr fwd PEG/
Fiserv	FI	176	97331	15.9	0.9	1.9	0.0%	16%	17%	-19%	-22116.0	8	/5-yr EPS grwth/
PNC Financial Services	PNC	197	77757	12.2	1.0	1.1	3.2%	10%	14%	22%	-	8	/5-yr EPS grwth/
Marsh & McLennan	MMC	215	105976	21.5	2.4	1.9	1.5%	9%	8%	-12%	-18171.0	8	/2-yr fwd PEG/
Fifth Third Bancorp	FITB	43	28969	11.5	0.8	1.4	3.4%	12%	14%	22%	-	8	/5-yr EPS grwth/

Source: Investors' Chronicle and FactSet

GARP criteria for US mega/large-caps, UK large-caps, UK mid-caps

Blended PEG ratio: historic price/earnings (PE) ratio divided by a combination of the blended past/expected 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.

Fwd PEG: The PE in the numerator is the ratio of current share price to expected earnings per share one year ahead of the current unreported year. The growth rate in the denominator is the compound annual growth rate between last reported earnings and the expected earnings at the end of the period. A figure below one suggests that a company is cheaply valued relative to its expected earnings growth.

Screening criteria (US, UK large and mid-cap):

- **Compulsory test:** PEG ratio below the median average of the respective universe (see below).
- **Compulsory test:** past five-year compound annual growth rate (CAGR) for sales averaged with two-year forecast sales CAGR to be above 5 per cent and the forward sales CAGR to be above 5 per cent on its own.
- A two-year forward PEG below one.
- A five-year historic EPS compound annual growth rate above 7.5 per cent, but below 20 per cent (i.e. high, but sustainably so).
- A five-year historic revenue compound annual growth rate above 5 per cent (i.e. sales growth underpinning earnings growth).
- Year-on-year EPS growth in each of the past two half-year periods. (**Quarterly periods for the US stocks.**)
- Average forecast EPS growth of more than 7.5 per cent for the next two financial years.
- No downgrade to forecast sales growth over the past three months.
- No downgrade to forecast EPS over the past three months.

All stocks must pass the historic 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.

GARP criteria for UK small-cap and Aim-listed stocks

The small-cap 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 half of all stocks screened. **Compulsory test.**
- **Compulsory test:** past five year compound annual growth rate (CAGR) for sales averaged with two-year forecast sales CAGR to be above 7.5 per cent and the forward sales CAGR to be above 7.6 per cent on its own.
- **Compulsory test:** No downgrade to forecast sales growth over the past three months.
- A two-year forward PEG below one.
- EPS growth forecast above at least 7.5 per cent 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 (i.e. high, but sustainably so).
- Either a net income margin above 10 per cent or a net income margin above 7.5 per cent and asset turnover of at least two. (i.e. we're looking for indicators 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 (i.e. recent reasons to feel positive).
- Net debt of less than 1.5 times cash profits.
- No downgrade to forecast EPS over the past three months.

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 sales growth forecasts.

Universe:

For the **US** we screen from the S&P 500 index.

For the **UK main market** we start with all companies with a market cap of over £35mn and then split them as follows:

UK large-cap: The top 85 per cent of our list of main market companies by market cap.

UK mid-cap: Companies not in the top 85 per cent by size, but above £250mn in market cap.

UK small-cap: Companies between £35mn and £250mn market cap.

For **Aim-listed** shares we screen from companies bigger than £35mn market cap.

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