Friday Favorites: Screening For GARP

Screening for GARP ? Growth At a Reasonable Price

As part of last week?s Friday Favorites, we compared Amazon and Walmart on their P/E multiples. We wrote:

Currently, AMZN has a P/E of 45 and a P/S of 3.40. Walmart has lower valuations with a P/E of 33 and a P/S of 0.96. However, AMZN has a PEG ratio of 1.75 compared to 5.17 for Walmart.

The distinction in the PEG ratio is important because Amazon appears relatively overpriced without considering future growth prospects. Both companies trade at P/E ratios more akin to growth companies than value, but AMZN is reasonably priced when factoring in expected growth. Hence, this week?s Friday Favorites features a screen for established growth companies whose high valuations are justified by expected growth.

Screen Criteria

- Market Cap > $15b
- P/E > 25 (S&P 500 P/E is 24.15)
- PEG ratio < 1.5
- Positive sales growth over the past five years
- Expectations for positive earnings growth this year and next year

Our screen seeks to find established companies displaying consistent earnings and sales growth. It hinges on a P/E higher than the market, which is justified by expected growth. The screen returned four stocks: Amazon (AMZN), NVIDIA (NVDA), T-Mobile US (TMUS), and Booking Holdings (BKNG). Since last week?s article focused on AMZN, we will skip it and focus on the other three stocks.

Ticker	Sector	Market Cap ($B)	P/E	Forward P/E	Expected 5y EPS Growth	PEG	EPS Growth Past 5y
AMZN	Cons. Discretionary	$1,941.1	44.3	31.5	31.8%	1.40	23.6%
BKNG	Cons. Discretionary	$140.5	29.3	20.81	22.1%	1.33	7.1%
NVDA	Technology	$2,957.6	56.6	29.64	52.5%	1.08	48.4%
TMUS	Communications	$240.9	25.9	18.79	20.9%	1.24	15.6%

Technical Summaries

BKNG: The price of BKNG has more than doubled since the beginning of 2023, as shown below. However, it?s not necessarily overbought on a weekly basis. What?s slightly concerning is the divergence forming this year between its price, MACD, and RSI. The price has trended higher throughout 2024, while its MACD and RSI have formed a series of lower highs. It could signal that the strong momentum on display since 2023 is losing steam.

NVDA: NVDA is forming a pennant continuation pattern following its massive run YTD. Neither MACD nor RSI are overbought, which gives the stock plenty of leeway to make a run for resistance around $125. A breakout above resistance would likely result in the stock running to set a new high. However, if support breaks near $115, NVDA would have another chance to find its footing around $110. That?s roughly 7% below the current price. We increased our model allocation to NVDA last Thursday, September 26th.

TMUS: This stock differs from the other two in that it?s considerably overbought from a weekly point of view. While its RSI has been overbought for most of this year, its MACD is significantly higher than in the past 5-years. The good news is that it isn?t showing signs of turning over. If a larger correction were to materialize, the first line of support would likely be the prior resistance near $165. Below that, the stock would likely find stability at the longer-term uptrend near $155. Investors looking for an entry point would be better served to wait for a pullback near the 50-dma around $195. If the stock doesn?t catch support at the 50-dma, exercise caution for a larger correction, as mentioned above.

Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures] carefully and do your own research before investing.