Twitter Thread by Techno Funda Investing

Techno Funda Investing
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Thread Threadexplaining #PE Ratio & #PEG Ratio & its use in #FundamentalAnalysis

(Must read for #FA learners)

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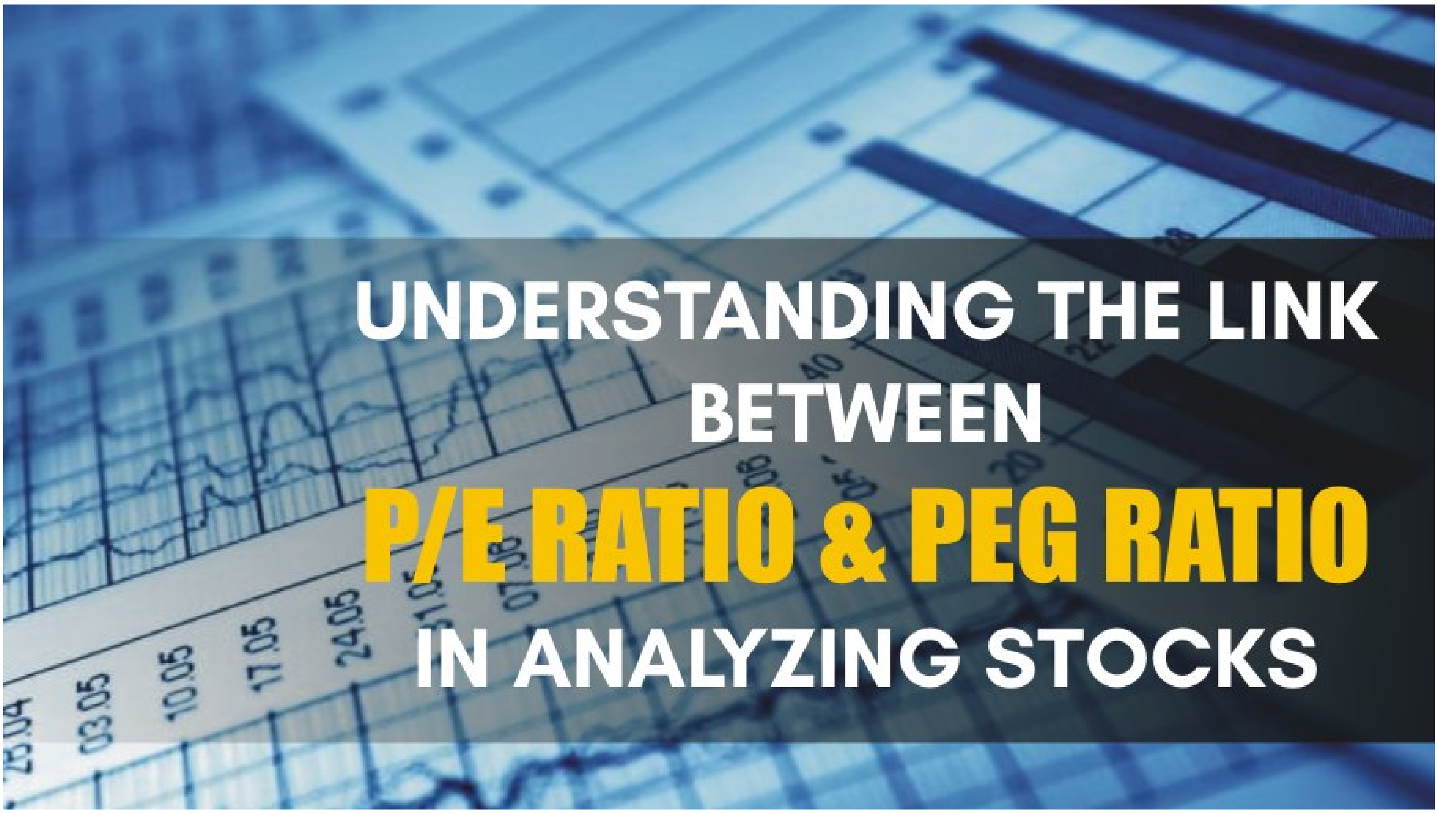
Views Welcome■@dmuthuk @Vivek_Investor @datta_arvind @caniravkaria @FI_InvestIndia

#FundamentalAnalysis #StockMarket



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Price to Earnings (#PE) ratio, also known as price multiple or earnings multiple is the ratio obtained by dividing the current share price by earnings per share (#EPS).

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P/E ratio is a reflection of the market's opinion of the earnings capacity & future business prospects of a company.

Companies which enjoy high investor confidence & have a higher market standing usually command high P/E ratio.

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On the face, it would seem that companies with low P/E ratios would offer most attractive investment opportunities. This is not always true.

Companies with high current earnings but dim future prospects often have low P/E ratio.

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As an #investor your primary concern is with future prospects of a company & not so much with its present performance.

This is why companies with low current earnings but bright future prospects usually command high P/E ratio.

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Better to invest in a stock with P/E ratio of 30 having good future growth prospects rather than investing in a stock having low P/E ratio of 5 or 6 but has an uncertain or bleak future growth prospects.

But at the same time never buy companies with too high valuations.

6■

Hence its always advisable to judge #PE ratio in conjunction with prospects of future earnings & growth of the company. This can be done using P/E ratio in conjunction with #PEG ratio.

@caniravkaria @Arpit1223 @FI_InvestIndia

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Price/Earnings to Growth (#PEG) ratio is calculated dividing company’s P/E ratio by growth rate of its earnings for a specified time period.

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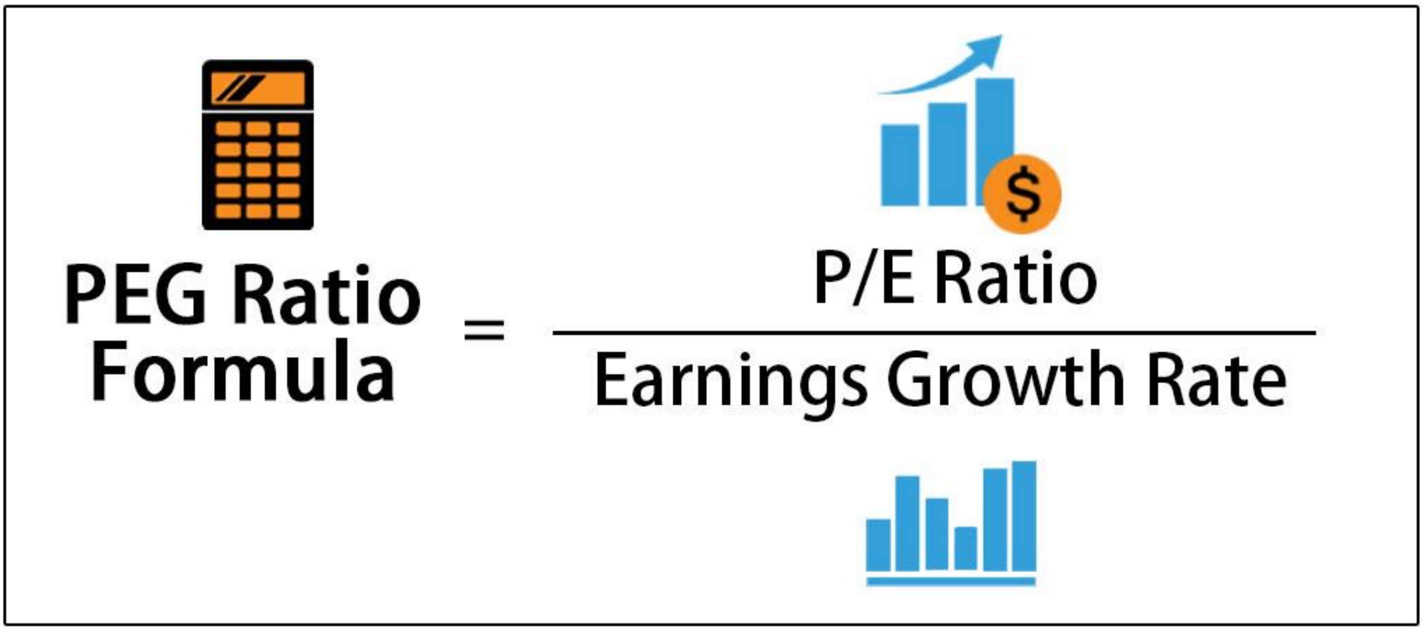

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PEG ratio gives a better picture about valuation of a company as compared to P/E ratio since it takes into consideration the company's earnings growth.

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In case of companies having high growth rates, their P/E ratio might be high & in such cases using just P/E ratio these high-growth companies would appear overvalued relative to others & in such cases better to use PEG ratio to get clear picture about company's valuation.

■

#investor can use PEG ratio to know if a stock is overvalued or undervalued.

■PEG ratio greater than 1 means stock is relatively expensive.

■PEG ratio lower than 1 means stock is below its fair value.

■PEG ratio will be negative when there is de-growth in earnings.

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Theory of #PEG Ratio gained it's popularity when #PeterLynch started using it as one of his valuation metrics.

Peter Lynch would always prefer to invest in stocks whose PEG Ratio was less than 1.20.

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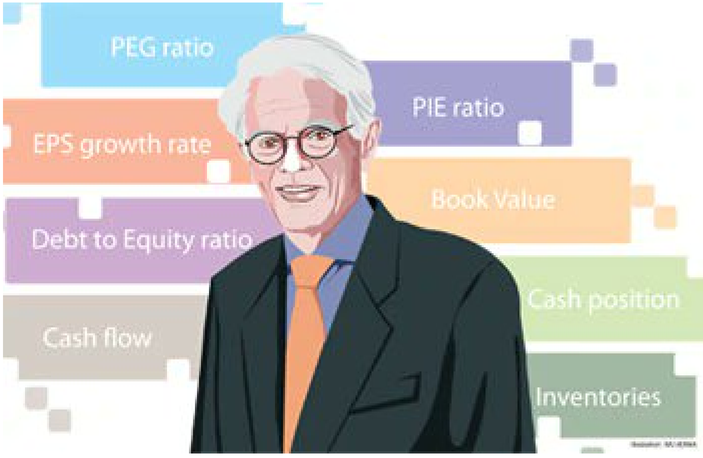

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#PEG ratio actually factors-in both price valuation & stock's future growth prospects.

If handled correctly, PEG can prove to be a reliable intrinsic value pointer.

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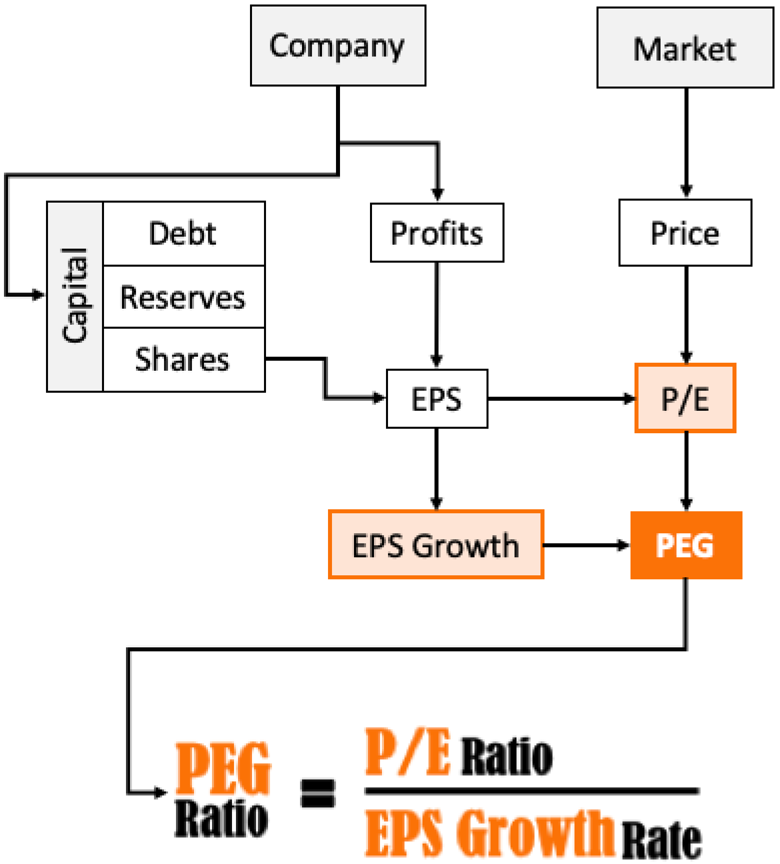
Company
Market
Capital
Debt
Reserves
Shares
Profits
Price
EPS
P/E
EPS Growth
PEG
PEG Ratio = P/E Ratio / EPS Growth Rate