Twitter Thread by Microcap Investor ■

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Here are all the Financial Ratios you will need to evaluate a company -

Financial Ratios Covered ■■
- P/E
- P/B
- Current Ratio
- Quick Ratio
- ROCE
- ROE
- D/E
- P/S
- PEG
- Price-to-Cash Flow (P/CF)
■ & many more ■

Here is the Thread■■■

1. Price-To-Earnings (P/E)

■■Most Widely Used Metric
■■High P/E ratio means either the company is overvalued or is on a trajectory to growth
■■Low P/E ratio indicates either the company is undervalued or soon the profits will disappear.

2. Price-To-Book (P/B) -

Book Value = Total Assets - Total Liabilities

■■It's useful to evaluate companies with large tangible assets in their balance sheets.
■■It's a good Metric to Evaluate Bank Stocks but less useful for Service & IT Stocks.

3. Current Ratio
= Current Assets/Current Liabilities

■■A higher ratio often indicates greater liquidity and more stability.
■■It helps us gauge the short-term financial strength of a company.
■■The current ratio gives an idea of a company’s operating cycle.

4. Quick Ratio -

■■A Liquidity crisis can arive even at healthy companies that's why I prefer Quick Ratio over Current Ratio because it's more conservative.
■■It excludes inventory & other current assets, which are generally more difficult to turn into cash.

5. ROCE (Return On Capital Employed) -

■■ROCE tells you the amount of profit a company is generating per $1 of capital employed.
■■Capital Employed = Total Assets - Current Liabilities or Equity+long-term debts
■■ROCE should be equal to at least twice current interest rate

6. Return On Equity (ROE) -

■■ROE tells you how efficient a company using its shareholders equity to generate profits.

It can be manipulated by having excessive debt on the balance sheet that's why it becomes extremely important to check a Company's ROCE & ROE simultaneously.

7. Debt-To-Equity (D/E) -

■■A high D/E ratio is often associated with high risk; it means that a company has been aggressive in financing its growth with debt.
■■ Note, In the banking and financial services sector, a relatively high D/E ratio is commonplace.

8. Price-To-Sales (P/S) -

■■The Ratio is effective in valuing growth stock that have yet to make a profit.
■■If the P/S ratio is lower than comparable companies in the same industry that is profitable, investors might consider buying the stock due to the low valuation.

9. Diluted EPS (Earnings Per Share)-

■■Diluted EPS is more effective than basic EPS because it includes the impact of all potential equity diluters.
■■Convertible securities are all outstanding convertible preferred shares, convertible debentures, stock options, & warrants.

10. Dividend Yield -

■■Dividend Yield depends on the stock price & payout ratio.

■■It gives you an idea about company’s growth stage.
■■Higher Dividend Yield could be a result of declining stock price that shows Investors or market is not sure about company’s future.

11. Price/Earnings-to-Growth (PEG) Ratio -

■■The PEG ratio enhances the P/E ratio by adding in expected earnings growth into the calculation.
■■It's extremely useful to evaluate growth companies that usually trades at Higher P/E ratio.

12. Operating Profit Margin -

■■Companies which have higher operating profit margins are more well-equipped for paying for fixed costs & interest on obligations, thus they have better chances for surviving an economic slowdown.
■■Also it tells about the competitive landscape

13. Asset Turnover Ratio -

■■The asset turnover ratio measures the efficiency of a company's assets in generating revenue or sales.
■■Comparisons are only meaningful when they are made for different companies within the same sector.

14. Price-to-Cash Flow (P/CF)

■■P/CF is especially useful for valuing stocks that have positive cash flow but are not profitable because of large non-cash charges.

- The greatest example is Amazon.
Company didn't earn profit for many years but still was a Cash Cow.

15. Interest Coverage Ratio -

■■It measures the ability of a company to pay the interest on its outstanding debt.
■■When a company's interest coverage ratio is only 1.5 or lower, its ability to meet interest expenses may be questionable.

Thanks for reading!!■

I have tried to make this thread as Simple, Specific & Informative as possible.

Ratios Covered -

- Liquidity ratios
- Leverage ratios
- Efficiency ratios
- Profitability ratios
- Market value ratios

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