

Value Ratios

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Sky high stock prices & market

The image shows a man in a light blue shirt and dark trousers standing on a silver step ladder. He is reaching up to touch the tip of a thick red arrow. The arrow starts at a low point on a line graph with a vertical y-axis and a horizontal x-axis, and trends upwards with some minor fluctuations before rising sharply. The background is a bright blue sky with scattered white clouds. The entire scene is set against a white background that looks like a wall or a screen.

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P/E RATIO

- Price-to-Earnings ratio = used to compare performance of stock A to stocks of similar companies.
- Yet, the P/E ratio is limited, since companies with different corporate objectives may treat earnings differently.

<u>Earnings</u>	<u>Dividend Yield</u>
All earnings re-invested for future Growth	Pays Dividends to shareholders
PEG	PEGY
Extensions of the P/E ratio	


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PEG & PEGY ratios could make it easier to assess the value of a stock and help investors find undervalued stocks.


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PEG


- $PEG = \frac{P/E \text{ Ratio}}{\text{Forecasted Earnings Growth}}$
- Looks at how a stock is valued compared to its **growth rate** for the next year, or 5 years out.
- Low PEG = $\frac{\text{Low P/E} = 20}{\text{Higher Growth Projection} = 23\%} = .87$
- **Undervalued stock < 1 (Low PEG)**



< 1.0



1.0 – 2.0



> 2.0

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PEGY

- Stock that pay dividends don't necessarily see the same growth as stocks that re-invest all their earnings.
- $$PEGY = \frac{P/E \text{ Ratio}}{\text{Forecasted Earnings Growth} + \text{Dividend Yield (proj. growth rate)}}$$
- **Dividend Yield** = % of stock price paid in annual dividends.
- Low PEGY =
$$\frac{P/E \text{ ratio} = 14}{15\% + 2.5\%} = 0.8$$
- Undervalued stock < 1 (Low PEGY)



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While there are other important factors and risks to consider when evaluating a stock.
PEG & PEGY may help investors find undervalued stocks.

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Questions or Comments?



Thank you & happy stock-hunting!

–Annie Devieux

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