

# Value Ratios

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## Sky high stock prices & market

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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 <b>Growth</b>	Pays <b>Dividends</b> to shareholders
<b>PEG</b>	<b>PEGY</b>
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)**



**STOCK**  
< 1.0  
UNDervalued



**STOCK**  
1.0 – 2.0  
FAIRly Valued



**STOCK**  
> 2.0  
OVERValued

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# PEGY

- Stock that pay dividends don't necessarily see the same growth as stocks that re-invest all their earnings.

$$\text{PEGY} = \frac{\text{P/E Ratio}}{\text{Forecasted Earnings Growth} + \text{Dividend Yield (proj. growth rate)}}$$

- **Dividend Yield** = % of stock price paid in annual dividends.

$$\text{Low PEGY} = \frac{\text{P/E ratio} = 14}{15\% + 2.5\%} = \mathbf{0.8}$$

- 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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