Financial Glossary

PEG Ratio

The PEG ratio (Price/Earnings To Growth ratio) illustrates the relationship between stock price, earning per share, and the company's growth rate. The PEG ratio consists of the PE ratio divided by the company's growth rate. Using just the PE ratio makes high-growth companies look overvalued relative to others. By dividing the PE ratio by the earnings growth rate, the PEG ratio allows investors to accurately compare companies with different PE ratios and growth rates.

A company with a PEG ratio below 1 is considered undervalued. A company with a PEG ratio around 1 is considered fairly valued. A company with a PEG ratio greater than 1 is considered overvalued.

Formula

PEG Ratio = PE Ratio / TTM Earnings Growth Rate
Notes:
- A growth rate of 15% would be in the denominator as 15
- Though some sources use a forward PE Ratio, YCharts uses at trailing 12 months PE Ratio.
- For growth rates, YCharts uses the growth rate comparing TTM earnings per share to those in the previous four quarters. Some sources use analyst consensus numbers or different historical growth rates in the denominator.

To illustrate a company's PEG Ratio, let's describe a hypothetical company called Widgets trading at 142.43 dollars.

Widget's EPS TTM for the following quarters are ...
6/30/2008 - 5.12
9/30/2008 - 6.79
12/31/2008 - 7.53
3/31/2009 - 8.16
6/30/2009 - 8.98

The EPS TTM Growth is EPS on 6/30/2008 and 6/30/2009.
EPS TTM Growth as of 6/30/2009 is (8.98/5.12)-1 = .7539

Related Terms

Earnings per Share

EPS Growth

Price to Earnings Ratio (PE Ratio)

EPS TTM Growth in % = .75 * 100 = 75.39

PEG = Price / TTM EPS / TTM EPS Growth %

PEG = 142.43 / 8.98 / 75.39 = .21038