Metric Explanantion

Price to Earnings (PE Ratio)

What is it?

It is a measure of a company’s stock price relative to its earnings.

Price to Earnings = Stock Price / Earnings

Why is it important?

It is a good measure to get a gauge as to how a company is valued relative to its peers. A high Price to Earnings ratio may indicate that either a company is overvalued or has strong growth prospects.

Asset Turnover

What is it?

It is a ratio of a company’s sales to their average assets. Asset Turnover = Revenue / Total Assets

Why is it important?

It is a good measure of how efficient a company uses their assets. A high asset turnover indicates a company who is more efficient with the use of its assets. A low asset turnover indicates a company who does not use assets as efficiently.

Debt to Equity

This ratio indicates how a company finances its projects and operations. A higher debt to equity indicates that the company has a tendency to use debt. A lower debt to equity indicates that the company tends to rely more on equity financing.

A high debt to equity ratio indicates that a company may be at risk or vulnerable to a negative event. It also shows that debt payments may be hampering a company’s ability to generate income.