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WHAT MARKET VALUE RATIOS CAN TELL YOU ABOUT A COMPANY

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Abstract. Market value ratios are used to evaluate the current share price of a publicly-held company's stock. These ratios are employed by current and potential investors to determine whether a company's shares are over-priced or under-priced. The most common market value ratios are as follows: *book value per share, dividend yield, earnings per share, market value per share, price/earnings ratio.*

Keywords: market value ratios, company's stock, *book value per share, dividend yield, earnings per share, market value per share, price/earnings ratio.*

When a stock analyst wants to understand how other investors value a company, they look at market ratios. These measures all have one factor in common; they're evaluating the current market price of a share of common stock versus an indicator of the company's ability to generate profits or assets held by the company.

Since each of these market ratios contains the price per share of common stock, they provide the analyst with a sense of investor sentiment towards a particular company.

For example, when Facebook first launched its IPO, they were targeting a price of nearly $40 per share. With earnings per share in the $0.39 range, the price to earnings ratio (P/E) target was close to 100. In that same timeframe, Google's P/E ratio was 17.6. Clearly, investors valued Facebook stock, since they were willing to pay such a large premium to own it [1].

That's how these market ratios help the analyst. They'll provide insights into the «premiums» investors are willing to pay; likely with the expectation the company is going to grow earnings at a rate that justifies this premium.

Market value ratios help evaluate the economic status of publicly traded companies and can play a role in identifying stocks that may be overvalued, undervalued, or priced fairly.

Market value ratios are used to evaluate the current share price of a publicly-held company's stock. These ratios are employed by current and potential investors to determine whether a company's shares are over-priced or under-priced.

The market value ratios are important for investors, management, etc as these ratios are used to decide whether the valuation of the shares are overvalued, undervalued or at par with the market. These ratios are used for making investment decisions in stocks of companies.

In investment of stocks, there are various financial metrics which are used to properly evaluate the prices of the shares so that the investment doesn't go in vain.

One of the majorly used financial metrics are the market value ratios which measure and analyze the prices of the stocks and compare the market prices for the peer industries and against other facts and figures.

These ratios check the financials of the public companies which are traded in the secondary market to understand their financial position, whether the stocks are rightly valued or not and at what price shares should be bought or sold. The decision of buying and selling shares is very important and if not done at the right price then the money invested can be wasted.

So, market value ratios analysis is very crucial to share market investments as well as in other investments and for company management as well.

The market value ratios are the financial metrics which are used to evaluate the stocks of publicly traded companies. These ratios are mainly used by investors to check whether the share's prices are valued correctly in the market or they are trading at a higher price or lower.

The overvaluation or undervaluation of shares helps investors decide whether they should go long or short on the shares they are going to invest in.

If a share is overpriced, the price will fall for sure in the future and thus an investor should short the shares for a while and if the stock is underpriced then one should go long on it.

Although a wide variety of market value ratios are available, the most popular present in table [2].

Table – Types of market value ratios

Types of market value ratios	Formula	Meaning and example
Earnings per share	Divide the company's net income by the number of outstanding shares (the stock currently held by all shareholders)	Measure a company's net income per share of outstanding stock, indicating a company's profitability to investors. For example, if a company has $10 million in net income and 4 million outstanding shares, the earnings per share would be $10 million divided by 4 million, which amounts to $2.50.
The book value	Company's equity (not including preferred stock) divided by the shares outstanding in the market	For example, if a company's total assets equal $15 million and its total liabilities equal $5 million, the total equity would be $10 million. If the company has $2 million in preferred stock, deduct that to get $8 million, the amount available to common shareholders. If there are 1 million outstanding shares, the book value per

		share would be $8, or $8 million divided by 1 million
Market value per share	Market value of a company divided by the total number of outstanding shares.	The market value of the company can be determined by multiplying the price of its common stock by the number of outstanding shares.
Market/book ratio	Divide the market value per share by the book value per share.	For example, if a company has a book value per share of $8 and the stock currently is valued at $10 per share, the M/B ratio would be calculated by dividing $10 (stock price) by $8 (book value per share). This would give you a ratio of 1.25. In other words, the market value of a share of stock is 25% greater than its book value.
Price-to-book ratio (P/B ratio)	The calculation can be performed in two ways, but the result should be the same either way: 1. Market Capitalization / Total Book Value 2. Share price / Book value per share	Financial ratio used to compare a company's current market price to its book value.
Price to earnings ratio	The price-earnings ratio is the current price of the stock divided by the earnings per share	The P/E ratio is a widely used valuation multiple used as a guide to the relative values of companies; for example, a higher P/E ratio means that investors are paying more for each unit of current net income, so the stock is more expensive than one with a lower P/E ratio. For example, if a stock is trading at $25 per share and its earnings per share are $2.50, the P/E ratio would be $25 divided by $2.50, which equals a ratio of 10-to-1.
The price/cash ratio	Divide the market value of a share by the amount of cash flow per share.	For example, if the price of a company's stock is $20 per share and the company has cash flow of $10 per share, the price/cash ratio would be $20 divided by $10, which equals 2. Typically, a lower number here is better because that means greater cash flow.
Dividend yield ratio	Divide the total dividend payments paid per year by the market price of the stock	For example, if a company pays out dividends quarterly in the amounts of $2.25, $2.50, $2.50, and $2.75, the total dividend payments for the year would be $10. If the price of the stock is $100, you would di-

		vide \$10 (dividend payments) by \$100 (stock price). The answer is 0.10, or 10%. Knowing this ratio helps you understand the return on your investment.
Price to earnings growth ratio (PEG ratio)	PEG Ratio = Price to Earnings / Annual EPS Growth	The calculation of a PEG ratio is such that a stock with a P/E of 15 and an earnings growth rate of 15% would have a PEG of 1.00. In the weeks after the launch of Facebook's shares, its stock traded with a P/E of around 70. At that same time, its PEG ratio was 1.35. This implies an annual EPS growth rate of 70 / 1.35 or around 50%. When comparing the value of two companies, the one with the lower PEG ratio is considered the better value.

Each of these measures is used in a different way, but when combined, they offer a financial portrait of publicly traded companies. In addition, market value ratios give management an idea of what a firm's investors think of its performance and future prospects.

Market value ratios are also used to analyze stock trends. For example, a company's low price-earnings ratio may indicate the stock is an undervalued bargain in a stable industry, but it also could indicate the company's earnings prospects are relatively uncertain, and the stock may be a risky bet.

You should always consider various factors, including a range of market value ratios, when making a decision about an investment.

A stock with one great-looking measure could be an undiscovered gem, or it could be a dud that's underpriced for a reason.

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