

Price Earnings (P/E) Ratio

- This relates to the market share value of a share to the earnings per share. It indicates that the market value of the share is X times higher than its current level of earnings. The ratio is a measure of market confidence in the future of a business.
- The higher the P/E ratio, the greater confidence in the future earning power of the business and more likely the investors are prepared to pay in relation to the earnings stream of the business.
- It also provide a useful guide to market confidence concerning the future and they can, therefore, be helpful when comparing different businesses.
- Different accounting policies between businesses can lead to different profit and earnings per share figure though.

Price per Share / Earnings per Share

Dividend Pay-out Ratio

- This ratio measures the proportion of earnings that a business pay outs to shareholders in the form of dividends.
- A reduction in dividends paid is looked poorly upon by investors, and the stock price usually depreciates as investors seek other dividend-paying stocks.
- A stable dividend pay-out ratio indicates a solid dividend policy by the company's board of directors.
- The pay-out ratio provides an idea of how well earnings support the dividend payments. More mature companies tend to have a higher pay-out ratio.

Dividends / Net Income x 100%

Dividend Cover Ratio

- States the number of times an organisation is capable of paying dividends to shareholders from the profits earned during an accounting period.
- A dividend cover of 3 implies that a company has sufficient earnings to pay dividends amounting to 3 times of the present dividend pay-out during the period.
- Generally, companies would aim to sustain a dividend cover of at least 2 times in order to avail adequate financing through retained earnings while providing a reasonable cash return on shareholder's investment.

Net Income / Dividends

Dividend Yield Ratio

- This ratio relates the cash return from a share to its current market value which can help investors to assess the cash return on their investment in the business.
- Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable dividend yields.

Dividend per Share / Price per Shares x 100%