

Investor ratio analysis

[Business](#), [Company](#)



Investor Ratios There are various ratios that are designed to help investors who hold shares in a company to assess the returns on their investment.

These are: Dividend per Share The dividend per share ratio relates the dividends pertaining to an accounting period to the amount of shares in issue during the period. The ratio is given as follows:
$$\text{Dividend per share} = \frac{\text{Dividends pertaining to a period}}{\text{Number of shares in issue}}$$
 The ratio provides an indication of the cash return a shareholder receives from holding shares in a company.

Although it is a useful measure, it must be remembered that the dividend received will usually only represent a partial measure of the return to an investor. Dividends are usually only a portion of the earnings generated by the firm and available to shareholders. A business may decide to plough back some of its earnings back into the business in order to achieve future growth. These ploughed back profits belong to the shareholders and should in principle increase the value of the shares. Thus when assessing the total return to an investor we must look at both the dividends received and any movement in the share price.

The dividend per share for Alexis Ltd is given as follows: Page 1 of 5
Dividends per share can vary considerably between companies. A number of factors will influence the amount that a company is willing or able to issue in the form of dividends to shareholders. These factors include: • • • • The profit available for distribution to investors The future expenditure commitments of the company The expectations of shareholders concerning the level of dividend payment The cash available for dividend distribution

Comparing the dividends per share between companies is not always useful as there may be differences between the nominal value of the shares issued. It may be more useful to monitor the trend in dividends per share over a period of time. Dividend Yield Ratio This ratio relates the cash return from a share to its current market value and is given as follows: $\text{Dividend Yield Ratio} = \frac{\text{Dividend per Share}}{\text{Market Value of a Share}} \times 100$ 1 The ratio for Alexis pic is given as follows: Page 2 of 5 In essence this ratio measures the real rate of return on a share.

Investors can compare the returns from a company's shares to the returns that could be earned by investing either in another company or by investing in another form of investment. Dividend Cover Dividend cover (for ordinary shares) looks at how many times a firm's profits (after interest, tax and preference dividends) cover the ordinary dividends. $\text{Dividend Cover} = \frac{\text{Profit after interest, tax and Pref Share Dividends}}{\text{Ordinary Share Dividends}}$ For Alexis plc this ratio is calculated as follows: Interpretation: Alexis plc profits covers ordinary dividends 3.96 times.

Dividend cover is calculated using the profit after interest and tax figure because banks, government and preference shareholders have a preferential claim on the profits of the firm. This ratio is of particular interest to ordinary shareholders. Earnings per share The earnings per share relate's the earnings generated by the company during a period and available to shareholders to the number of shares in issue. For ordinary shareholders the amount available will be net profit after interest, tax and preference dividends because banks, the government and preference shareholders have a preferential claim on the profits of the firm.

Page 3 of 5 Earnings per share = Earnings available to ordinary shareholders
Number of ordinary- shares in issue For Alexis plc this ratio is calculated as follows: The EPS is regarded by many investment analysts as a fundamental measure of share performance. Tracking the EPS over time can help assess the investment potential of the company's shares. Care must be taken when comparing EPS from different firms as capital structures differ from one firm to the next. Price Earnings (P/E) R a t i o The price earnings ratio relates the market value of a share to the earnings per share.

It is calculated a s follows: $P/E \text{ Ratio} = \frac{\text{Market value per share}}{\text{Earnings per Share}}$
The P/E Ratio for Alexis is calculated as follows: Page 4 of 5 The ratio reveals that the capital value of the share is 9.4 times higher than its current level of earnings. The ratio in essence is a measure of market confidence in the future of the company. A high P/E ratio means that relative to profits the price of the share is quite high. Why would this be the case? The higher the P/E ratio the greater the confidence in the future earning power of the company i. e. lthough current earnings are low investors expect them to increase in the future and therefore investors are prepared to pay a high price for the share in relation to the current earnings of the share. A low P/E ratio means that the share price is quite low compared to earnings - this implies a pessimistic view of the future. Nobody will be willing to pay a high price for a share in a company that has unexciting trading prospects. Because the P/E ratio gives a guide as to market confidence in a share it can therefore be helpful when comparing different companies although P/E ratios per sector will vary. Page 5 of 5