Industry Expert Lectures in Finance

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Summary 1

Topic : Lecture1 - How investors evaluate company performance

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Before investors make investment decisions, it is necessary to evaluate the company performance at first. However, as a financial problem, it is quite complex and it is not enough to only evaluate a particular indice.

Tesco has a profit of 3.835 billion in the last year, ranking 16th of all the companies listed in FTSE 100. In the Food and Drug Retailer industry, Tesco earns the most profit (3.835 bn) while Morrison and Sainsbury earn much less than Tesco (0.947 bn and 0.799 bn, respectively). However, this does not necessarily mean that Tesco is more valuable and Morrison or Sainsbury does not deserve investment before deep analysis is implemented.

Earnings per Share (EPS) is a measurement to evaluate a company's profit by dividing the total profit into each common share of its stock. It is a good indicator because it can compare the profitability of different companies on each share. In terms of EPS, Tesco has a reported EPS of 36.6 and Norm EPS of 32.5 based on 8.04k million shares, while Sainsbury has 31.5 Reported EPS and 26.9 Norm EPS based on 1.89k million shares and Morrison has 26.0 Reported EPS and 26.1 Norm EPS based on 2.35k million shares. It can be found that Tesco remains to perform better than the other two. However, the conclusion is possible to change if further analysis is implemented.

Price/Earnings Ratio divides the price by EPS, which measures the profitability by combining stock price and its EPS. The reasonably lower P/E means the better performance, however, it should not be too low because the stock price is also a measurement of a company's performance. In the retailer case, Morrison has the lowest P/E (9.54) while Sainsbury and Tesco have P/E of 11.03 and 11.43, respectively. This means that with the same amount of money, investment in Morrison will make the most profit.

PE/Earnings Growth (PEG) measures the growth potential of a particular company. Usually we look for a PEG<1 and the lower PE and higher EPS Growth the better. In the table we can see that Morrison has a PEG of 6.41 and Sainsbury has a PEG of 1.17. However, the PEG of Tesco is negative. A possible explanation is that both Morrison and Sainsbury are UK based supermarkets but Tesco is an international supermarket. Because of the slow growth of UK's economy, Morrison and Sainsbury have a relatively low growth potential which makes their PEGS higher than 1. However, Tesco may suffer from failures in its foreign market.

Dividends, Operating Margin, Debt, Returns, Cash Flow & Liquidity are also important measurements to evaluate companies' performance.

By using these metrics, it is possible for investors to rank the companies. Stock Screening includes searching the stock market, using understanding of financial metrics to find attractive investment opportunities and criteria to use depend on the type of investor you are.