

How to Analyze a Company's Stock based on Financial Ratios

Step-by-Step Guide

Profit and Loss

.....
.....
EBIT xxx^k
.....
Net income xxx^a
.....
.....

$$ROE = \frac{\text{Net income}^a}{\text{Shareholder equity}^b}$$

$$ROA = \frac{\text{Net income}^a}{\text{Total assets}^c}$$

$$\text{Current ratio} = \frac{\text{Current assets}^d}{\text{Current liabilities}^e}$$

$$\text{Quick ratio} = \frac{(\text{Current assets}^d - \text{inventories}^f)}{\text{Current liabilities}^e}$$

$$P/E = \frac{\text{Share price}}{\text{Earnings/share}^g}$$

$$P/B = \frac{\text{Share price}}{\text{Shareholder equity/share}^h}$$

$$\text{Debt/Equity} = \frac{\text{Total debt}^{i+j}}{\text{Shareholder equity}^b}$$

$$\text{Interest coverage} = \frac{\text{EBIT}^k}{\text{Interest expense}^l}$$

Cash Flow

.....
.....
Interest expense. . xxx^l
.....

Consolidated ...

.....
.....
Earnings/share. . xxx^g
Total shares . . . xxx^h

Balance Sheet

.....
.....
Inventories. . . . xxx^f
.....
Current assets . . xxx^d
.....
Total assets xxx^c
.....
Debt (short-term) . xxxⁱ
.....
Current liabilities . xxx^e
.....
Debt (long-term) . . xxx^j
.....
Shareholder equity . xxx^b

Financial
Ratios vs
Benchmarks

Investment
Opportunity?
or
Red Flag?