Price/Earnings To Growth - PEG Ratio

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Definition of 'Price/Earnings To Growth - PEG Ratio'

A stock's price-to-earnings ratio divided by the growth rate of its earnings for a specified time period. The price/earnings to growth (PEG) ratio is used to determine a stock's value while taking the company's earnings growth into account, and is considered to provide a more complete picture than the P/E ratio. While a high P/E ratio may make a stock look like a good buy, factoring in the company's growth rate to get the stock's PEG ratio can tell a different story. The lower the PEG ratio, the more the stock may be undervalued given its earnings performance. The calculation is as follows:

P/E ratio ÷ Annual EPS Growth

Investopedia explains 'Price/Earnings To Growth - PEG Ratio'

The PEG ratio that indicates an over or underpriced stock varies by industry and by company type, though a broad rule of thumb is that a PEG ratio below one is desirable. Also, the accuracy of the PEG ratio depends on the inputs used. Using historical growth rates, for example, may provide an inaccurate PEG ratio if future growth rates are expected to deviate from historical growth rates. To distinguish between calculation methods using future growth and historical growth, the terms "forward PEG" and "trailing PEG" are sometimes used.

Get more acquainted with the PEG ratio by reading PEG Ratio Nails Down Value Stocks and How To Find P/E And PEG Ratios.

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