FINPARITY LEARN · FUNDAMENTAL ANALYSIS



Topic 2 · Part 2 | 12-minute lesson | Beginner

Key ratios

Seven simple numbers that tell you if a share is cheap, expensive, healthy or risky

Educational content, not investment advice

QUICK RECAP

Remember Part 1?

Income statement

Sales minus costs equals net profit

Balance sheet

Assets = liabilities + equity

Cash flow

Profit isn't cash: check where the money really went

Today we use the **same Ali Foods numbers**: net profit Rs 140m, 100m shares, equity Rs 1,200m. And its share price is **Rs 14**.

WHY RATIOS?

Is Rs 1 billion of profit a lot?

Company A

Profit Rs 1 bn, from Rs 5 bn of owners' money

20% return

Company B

Profit Rs 1 bn, from Rs 50 bn of owners' money

2% return

Same profit, very different stories. Like cricket: total runs matter, but a batting **average** lets you compare players fairly.

RATIO 1 · PROFIT PER SHARE

EPS: earnings per share

FORMULA

Net profit ÷ number of shares

How much profit belongs to **each single share**. It’s the starting point for most other ratios.

ALI FOODS LTD

Rs 140m ÷ 100m shares

Rs 1.40

Look for EPS that grows steadily over several years.

RATIO 2 · PRICE TAG

P/E: price-to-earnings

FORMULA

Share price ÷ EPS

How many rupees you pay for **Rs 1 of yearly profit**. Roughly, how many years of today's profit you're paying for.

ALI FOODS LTD

Rs 14 ÷ Rs 1.40

10 times

Always compare P/E with similar companies in the same sector.

RATIO 2 · PRICE TAG

High P/E or low P/E: which is better?

High P/E

- Investors expect strong growth ahead
- Or the share is simply overpriced

Low P/E

- Could be a bargain the market has missed
- Or investors expect profits to fall

7.3×

The whole **KSE-100** traded at a P/E of about 7.3 in early November 2026. That's a handy yardstick for PSX shares.

Source: PkRevenue weekly market review, 7 Nov 2026

RATIO 3 · PRICE VS BOOK

P/B: price-to-book

FORMULA

Share price ÷ book value per share

Compares the price with what the company's net assets are worth **on paper**. Book value per share = equity ÷ shares.

ALI FOODS LTD

Book value: Rs 1,200m ÷ 100m = Rs 12

Rs 14 ÷ Rs 12

1.17 times

Especially useful for banks, whose assets are mostly money.

RATIO 4 · YOUR CASH RETURN

Dividend yield

FORMULA

Dividend per share ÷ share price

The yearly cash you get back as a **percentage of the price** you pay.

ALI FOODS LTD

Ali Foods pays Rs 0.70 per share

Rs 0.70 ÷ Rs 14

5%

The KSE-100's dividend yield was about 6.8% in Nov 2026.

RATIO 5 · EFFICIENCY

ROE: return on equity

FORMULA

Net profit ÷ shareholders' equity

How hard the **owners' money** is working. Higher means more profit from every rupee shareholders have put in.

ALI FOODS LTD

Rs 140m ÷ Rs 1,200m

11.7%

Above about 15% is usually strong, but check how it's achieved.

RATIO 6 · SAFETY

Debt-to-equity

FORMULA

Borrowings ÷ shareholders' equity

How much the company relies on **borrowed money** compared with owners' money.

ALI FOODS LTD

Bank loan Rs 500m ÷ equity Rs 1,200m

0.42

Lower is safer. More debt means bigger interest bills when rates rise.

RATIO 7 · SHORT-TERM HEALTH

Current ratio

FORMULA

Current assets ÷ current liabilities

Can the company pay the bills **due in the next 12 months**?

ALI FOODS LTD

Rs 750m ÷ Rs 300m

2.5 times

Above 1 means it can cover its short-term bills. Below 1 needs a closer look.

REAL EXAMPLE

Engro Fertilizers (EFERT) on FinParity

Rs 210.88 Share price	**Rs 18.42** EPS (last 12 months)	**11.45×** P/E
52.9% ROE	**6.28%** Dividend yield	**1.64** Debt-to-equity

P/E 11.45 vs KSE-100's 7.3

Investors are paying more for each rupee of EFERT's profit than for the average PSX share.

ROE 52.9%, but D/E 1.64

A very high ROE, helped by heavy borrowing. Great returns, with more risk.

FinParity EFERT model, PSX close 11 Nov 2026 · consolidated

CHEAT SHEET

All 7 ratios on one page

Ratio	Formula	Rough guide
EPS	Net profit ÷ shares	Growing over time
P/E	Price ÷ EPS	Compare with sector and KSE-100
P/B	Price ÷ book value per share	Below 1 can be cheap, or troubled
Dividend yield	Dividend ÷ price	Compare with bank rates
ROE	Net profit ÷ equity	Above ~15% is strong
Debt-to-equity	Borrowings ÷ equity	Lower is safer
Current ratio	Current assets ÷ current liabilities	Above 1

RATIO TRAPS

4 mistakes to avoid

Compare like with like

A bank's P/E or debt can't be compared with a cement company's

One year isn't a trend

Look at 3 to 5 years of ratios, not just the latest

Watch for one-off gains

A one-time gain can make EPS look much better than the real business

Cheap can stay cheap

A low P/E may be low for a good reason

Real case: Engro Holdings' 2025 EPS was Rs 46.20, but only Rs 24.13 without a one-time accounting gain.

QUICK QUIZ

4 questions. Grab a calculator!

Q1. Price is Rs 50 and EPS is Rs 5. What's the P/E?

A) 5 B) 10 C) 250

Q2. Dividend is Rs 3 and price is Rs 60. What's the dividend yield?

A) 5% B) 20% C) 3%

Q3. Which ratio shows how hard shareholders' money is working?

A) ROE B) P/B C) Current ratio

Q4. A current ratio of 0.6 means the company...

A) Is very safe B) May struggle with bills C) Is very profitable

Answers: 1-B · 2-A · 3-A · 4-B. Flip your screen to check!

PART 2 COMPLETE

Great job! Up next: sector-specific metrics

In Part 3: the special numbers analysts check for banks, oil and gas, cement and fertilizer companies

Banks | Oil & gas | Cement | Fertilizer

For education only, not investment advice. Speak to a licensed adviser before investing.