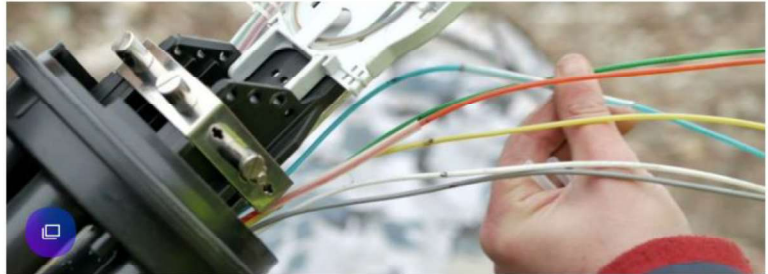


<b>YAHOO!</b> <b>Testata:</b> FINANCE	<b>Data:</b> 10 giugno 2019
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Link: <https://finance.yahoo.com/news/impressed-intred-p-bit-itd-121952891.html?guccounter=1>

## Should You Be Impressed By Intred S.p.A.'s (BIT:ITD) ROE?

Simply Wall St  
 Simply Wall St. June 10, 2019



One of the best investments we can make is in our own knowledge and skill set. With that in mind, this article will work through how we can use Return On Equity (ROE) to better understand a business. We'll use ROE to examine Intred S.p.A. (BIT:ITD), by way of a worked example.

Our data shows Intred has a return on equity of 14% for the last year. Another way to think of that is that for every €1 worth of equity in the company, it was able to earn €0.14.

[See our latest analysis for Intred](#)

### How Do I Calculate Return On Equity?

The formula for return on equity is:

Return on Equity = Net Profit ÷ Shareholders' Equity

Or for Intred:

14% = €3.2m ÷ €23m (Based on the trailing twelve months to December 2018.)

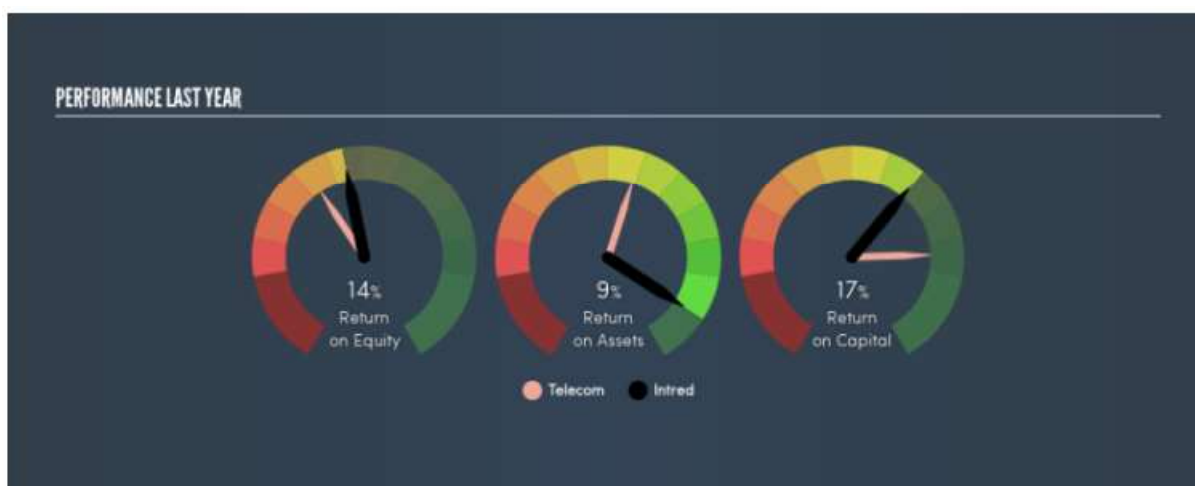
It's easy to understand the 'net profit' part of that equation, but 'shareholders' equity' requires further explanation. It is the capital paid in by shareholders, plus any retained earnings. Shareholders' equity can be calculated by subtracting the total liabilities of the company from the total assets of the company.

### What Does Return On Equity Signify?

Return on Equity measures a company's profitability against the profit it has kept for the business (plus any capital injections). The 'return' is the yearly profit. A higher profit will lead to a higher ROE. So, all else being equal, **a high ROE is better than a low one**. That means ROE can be used to compare two businesses.

### Does Intred Have A Good Return On Equity?

By comparing a company's ROE with its industry average, we can get a quick measure of how good it is. However, this method is only useful as a rough check, because companies do differ quite a bit within the same industry classification. As is clear from the image below, Intred has a better ROE than the average (11%) in the Telecom industry.



BIT:ITD Past Revenue and Net Income, June 10th 2019

That's clearly a positive. I usually take a closer look when a company has a better ROE than industry peers. For example, [I often check if insiders have been buying shares](#).

## How Does Debt Impact Return On Equity?

Companies usually need to invest money to grow their profits. That cash can come from issuing shares, retained earnings, or debt. In the first two cases, the ROE will capture this use of capital to grow. In the latter case, the debt used for growth will improve returns, but won't affect the total equity. In this manner the use of debt will boost ROE, even though the core economics of the business stay the same.

## Intred's Debt And Its 14% ROE

While Intred does have some debt, with debt to equity of just 0.14, we wouldn't say debt is excessive. The combination of modest debt and a very respectable ROE suggests this is a business worth watching. Conservative use of debt to boost returns is usually a good move for shareholders, though it does leave the company more exposed to interest rate rises.

## But It's Just One Metric

Return on equity is a useful indicator of the ability of a business to generate profits and return them to shareholders. A company that can achieve a high return on equity without debt could be considered a high quality business. All else being equal, a higher ROE is better.

But ROE is just one piece of a bigger puzzle, since high quality businesses often trade on high multiples of earnings. Profit growth rates, versus the expectations reflected in the price of the stock, are a particularly important to consider. So you might want to check this [FREE visualization of analyst forecasts for the company](#).