How to read financial statement

What are the most important financial ratios used in the capital markets?

A- **Price-Earnings Ratio (P/E):** the most commonly used in the assessment of company's value is Price-Earnings Ratio (P/E), which always appears in the financial daily bulletins, this percentage is calculated by dividing the stock's current pricing by the company's earnings .

Financial analysts classify shares with high P/E ratio as Growth Stock, generally, companies that are expected to have higher growth in the future profit will have higher P/E, and this explains why shares with a high proportion of P/E called Growth Stock.

While the low P/E ratio stock called Value Stocks, the reason is that the price of those stocks is "Cheap" in comparing to their current profit, which means that these shares could be a good investment opportunity as it is inexpensive.

B- **Price-To-Cash-Flow Ratio (P/CF):** many financial analysts consider the ratio of price to cash flows rather than a price to the profit ratio, where (P/CF) measured by dividing the price of a company's stock by the company's cash flow Financial analysts usually use the share price to its profit ratio and Price-To-Cash-Flow Ratio (P/CF) together, if earnings per share do not differ significantly to its portion from the cash flows, this would consider as an indicator to the good quality for company's profits.

C- **Price-To-Book Ratio:** This proportion is called in some cases the market to Book Ratio that is calculated by dividing the market value of the company's shares by its book value, the underlined importance of this percentage is because of the book value that set out on the basis of the historical cost and price which is an indicator for the current value, hence, P/B ratio measure the current property value to costs, if the P/B value is more than one as Integer Number it's an indicator that the company succeeded in generating a value for its respective owners. But if the value is less than one as integer number, it's an indicator that the company failed as its value is less than its costs.

Investment Ratios:

- Earnings per share EPS (JD) = Net Income/ Shares Outstanding
- Return on Paid-in Capital (%) = Net Income / Paid-in Capital
- Return on Equity ROE (%) = Net Income / Shareholders’ Equity
- Return on Assets ROA (%)= Net Income / Total Assets
- Dividend Yield (%) = Cash Dividends / Market value
- Share price multiplier (Time) = Market value per share / Earning per share
- Market value to book value (Time) = Market value / Total Shareholders’ Equity

- Dividend Per Share (JD) = Cash Dividends / Shares Outstanding
- Share turnover ratio (%) = Number of shares traded during the period / Number of listed shares
- Book Value Per Share (JD) = Total Shareholders’ Equity / Shares Outstanding

Source URl:

http://www.ase.com.jo/en/print/pdf/node/7208