

## 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 on the portion of a company's earnings that described as Earnings Per Share (EPS).

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 to cash flow P/CF by dividing the stock's current pricing on the current cash flow per share.

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 on 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.

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