ASE start publishing a new financial ratio

The CEO of Amman Stock Exchange said that the ASE will start publishing a new financial ratio called Price to Operating Cash Flow (P/OCF) through its Monthly Statistical Bulletin by the beginning of 2008. This ratio is mainly used in evaluation the quality of profits for the listed companies at the ASE. It basically depends on the operational cash flow, which comes from the main activities of the company. It is also important in determining the profits quality and liquidity of the companies.

The importance of this ratio comes from the fact that the companies' income statement contains unrealized gains and losses mainly the fair value adjustments that effect the company's net profit. Whereas these items are excluded when calculating the company's operating cash flow. This gives the investor a clear image about the company.

This ratio is calculated by dividing the market capitalization of the company by the operational cash flow, and it is compared with the (P/E) Ratio. A significant difference between the two ratios is a signal for investors to study the components of the companies' income statement before taking the investment decision.

It is worth mentioning that the investor should consider this ratio with other financial ratios in analyzing the companies' performance and the investor shouldn't take the investment decision without comparing it with the other ratios.

This ratio could be negative but it does not necessary mean a bad signal, in this case the investor should go and study the components of the cash flow statement to know the reason for this negative value of the operating cash flow.

Mr. Tarif illustrates that publishing this ratio comes as a result of the efforts of the ASE to make the data available for investors and those who are interested in Jordan capital market which help them in analyzing the companies situation.