

Report Date: 29-Dec-24

Arab Jordan Investment Bank

ASE: AJIB

Price as of 22-Dec-24

JD 1.29/Share

End of Day Share Price: 22/12/2024 | Earnings: 30/09/2024

RATING:



Initiated Coverage 13/03/2024

Previous Rating


08/09/2024

We recommend **HOLDING** AJIB's stock as there may be more appealing stocks within the industry that, in our view, offer higher risk-adjusted returns. This assessment is grounded in our analysis of four critical factors influencing common stock performance: (1) relative valuation, (2) earnings strength, (3) financial stability, and (4) price movement.

Target Price

JD 1.28

52- Week Price Range	Market Capitalization	Dividend Yield	Last Dividend
JD 1.23- JD 1.34	JD 193.5 M	7.75%	JD 0.10 / share

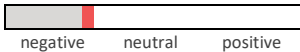
Founded: 1978	Shares Outstanding: 150.0 M	Employees: 858	Volume(3m): 38.1 K	Ex-DIV Date: Apr 25, 24
P/BV: 0.89x	Forward P/E: 13.10x	Volatility(annual): 18.2%	Public Float: 30.0 M	Sector: Banking

Arab Jordan Investment Bank ("AJIB" or the "Bank"), a publicly listed Jordanian financial institution headquartered in Amman, Jordan, offers a wide range of banking services to individuals, small and medium-sized enterprises (SMEs), and corporations. Established in 1978, AJIB operates through various segments, including individual accounts, institutions and corporate, treasury, and institutional financing. The Bank provides diverse financial products and services such as deposit accounts, lending facilities, online banking, wealth management, trade finance, investment banking, and more.

Recommendation Summary

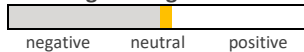
UFICO maintains a **HOLD** recommendation on AJIB, based on a systematic analysis of four key characteristics mentioned above. While AJIB's earnings growth and ROE remain moderate relative to industry benchmarks, its acquisition of Standard Chartered Bank's operations and branches in Jordan reflects strategic efforts to support expansion. However, UFICO adopts a neutral stance on the Bank's future outlook, emphasizing the need for market participants to closely monitor upcoming quarterly results for further insights to guide investment decisions.

Relative Valuation



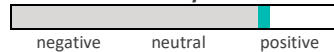
AJIB's stock seems to be **overvalued** with respect to the banking industry in terms of both its P/BV and P/E ratios. Its dividend yield of 7.75% **exceeded** the banking industry average.

Earnings Strength



The net interest margin has reached 2.13%, which is typically seen as healthy, but is tempered by the slower income growth compared to the industry counterparts.

Financial Stability



AJIB recorded a CAR of 16.97%, signaling a robust capital buffer in compliance with regulatory standards.

Price Movement



The stock is rated **Neutral** at its current 14-week RSI and 200-Day Moving Average.

Major Risks & Rewards

- **Dividend Income:** AJIB has a strong track record of consistently distributing dividends, making it an attractive option for income-focused investors.
- **Regulatory Oversight:** AJIB operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Diversification:** Including AJIB's stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **SC Acquisition:** AJIB's acquisition of Standard Chartered Bank's operations holds promise for potential performance improvements, presenting an attractive prospect for investors.
- **Credit Quality Risks** AJIB faces potential challenges regarding credit quality, stemming from the risk of borrowers defaulting on loans or failing to meet credit obligations. Economic downturns and changes in market conditions could increase these risks.
- **Regulatory Risks:** AJIB faces risks associated with changes in banking regulations and compliance requirements, influencing its operations and financial performance.
- **Interest Rate Risk:** fluctuations in interest rates can impact the profitability of AJIB and its stock price.
- **Liquidity Risk:** Due to lower trading volumes and limited liquidity, investors may encounter challenges in buying or selling AJIB's shares without impacting the stock's price and may face higher transaction costs as a result.

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Peers Group Comparison

Ticker	Peer Name	Price	Mkt Cap*	EPS	P/E	P/BV	Yield	ROE	NIM	Credit/Deposits
		22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(TTM)	(Forward)	(Forward)	(TTM)
AJIB	Arab Jordan Investment Bank	JD 1.29	193,500	JD 0.098	13.10x	0.89x	7.75%	6.78%	2.13%	48.51%
ABCO	Arab Banking Corporation	JD 0.62	68,200	JD 0.031	17.11x	0.41x	4.84%	2.41%	2.61%	86.43%
JCBK	JORDAN COMMERCIAL BANK	JD 0.98	117,600	JD 0.088	11.19x	0.69x	6.12%	6.20%	3.27%	77.13%
INVB	INVEST BANK	JD 1.49	186,250	JD 0.225	6.61x	0.86x	5.37%	13.24%	2.93%	87.37%
CABK	CAIRO AMMAN BANK	JD 1.04	208,000	JD 0.067	15.54x	0.47x	9.62%	3.03%	3.36%	87.38%
AHLI	JORDAN AHLI BANK	JD 1.01	202,662	JD 0.084	11.97x	0.61x	7.92%	5.10%	2.82%	72.69%
Peer Group Weighted Average					11.97x	0.63x	6.77%	6.42%	3.04%	81.95%
Sector Weighted Average (excluding AJIB)					7.01x	0.68x	6.57%	10.44%	3.22%	70.86%
Sector Median					11.04x	0.70x	6.53%	9.29%	2.94%	72.69%

* In JD thousands

Past Performance

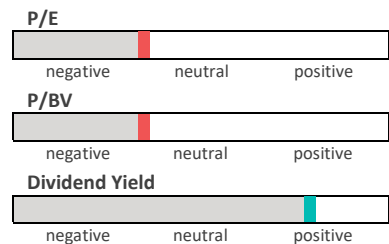
	2020	2021	2022	2023	2024*
Net Interest Margin	2.06%	1.86%	1.93%	2.17%	2.13%
Dividend/Share (JD)	0.09	0.10	0.10	0.10	NA
Earnings/Share (JD)	0.070	0.110	0.120	0.120	0.098
Return on Equity	5.2%	8.1%	8.6%	8.6%	6.8%

* Values are based on annualized Q3 2024 results

Relative Valuation is **NEGATIVE**

Last Price	Market Cap	EPS	P/E	BV/Share	P/BV	DPS	Div. Yield
22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(MRQ)	(2023)	(TTM)
JD 1.29	JD 193,500,000	JD 0.074	13.1x	JD 1.5	0.89x	JD 0.10	7.75%

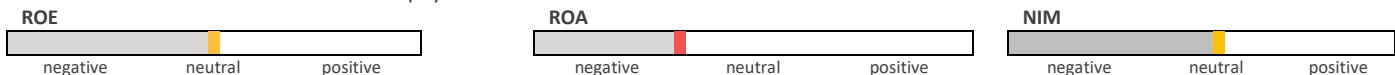
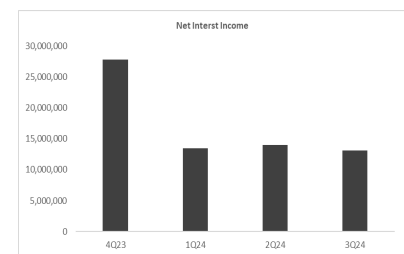
- **P/E vs Industry:** of 13.1x suggests that AJIB is overvalued compared to the weighted average and median P/E for the banking sector in Jordan.
- **P/BV vs. Industry:** of 0.89x suggests that AJIB is overvalued compared to the weighted average and median P/BV for the banking sector in Jordan.
- **Dividend Yield** of 7.75% is above the industry average of 6.57%.



Earning Strength is **NEUTRAL**

3Q24 Results	Net Interest Income (YoY)	Net Income (YoY)	NIM	ROE	ROA
	JD 39.7 (+0.5%)	JD 11.1 M (-18.3%)	2.13%	6.78%	0.59%

- **Return on Equity** of 6.78% indicates acceptable profitability for shareholders, but it's below the industry average of 10.44%.
- **Return on Assets** of 0.59%, falling below the industry average of approximately 1%, indicates inefficiencies in how the Bank utilizes its assets to generate profits.
- **Net Interest Margin (NIM)** of 2.13% is generally considered good. It suggests that the Bank is effectively managing its interest-bearing assets and liabilities, resulting in a positive spread between what it earns and what it pays in interest.

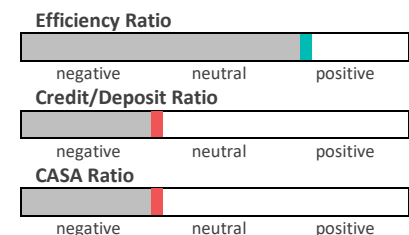


Operations Indicators is **NEUTRAL**

3Q24 Results	Efficiency	Credit/Deposit	CASA	CAR*	Leverage*
(MRQ)	30.31%	48.51%	29.78%	16.97%	8.10%

* annualized Q2 2024 results as Q3 results are not disclosed.

- **Efficiency Ratio** of 30.31% demonstrates optimal operational efficiency, as an efficiency ratio of 55% or lower is considered ideal.
- **Credit/Deposit Ratio:** A low Credit/Deposit Ratio (Below 60.0%) indicates that a significant portion of the Bank's deposits are not being utilized for lending efficiently. This may potentially lead to lower profitability during the covered period.



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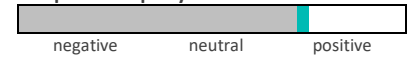
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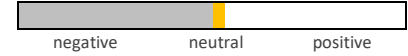
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- **CASA Ratio** of 29.78% represents the portion of low-cost and stable funds compared to the Bank's total deposits base. This suggests that a relatively smaller proportion of the Bank's deposits are in the form of current and savings accounts. Typically, a CASA ratio above 45-50% is viewed favorably for banks.
- **Capital Adequacy Ratio:** AJIB reported a CAR of 16.97%, demonstrating a robust capital cushion that aligns with the regulatory requirements set forth by the Central Bank of Jordan.
- **Leverage Ratio** of 8.1% indicates that AJIB operates with higher risk evident by its lower leverage ratio compared to the sector. A higher leverage ratio implies a lower level of financial risk.

Capital Adequacy Ratio



Leverage Ratio



Price Movement is **NEUTRAL**

Annual Volatility: +/- 18.2%

14-Weeks RSI: 58.5

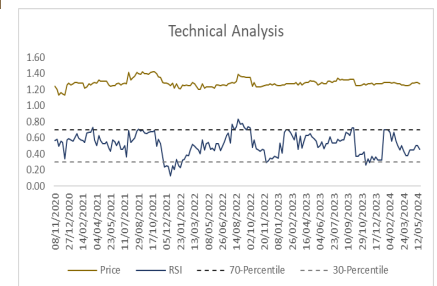
200-Day MA: 1.28

- **Volatility** of 18.2% indicates that AJIB's stock price has historically experienced swings, leaning more on the high end.
- **14-Weeks RSI:** of 58.5, observed over a 14-week period, indicates a **neutral** stance for the stock, neither oversold nor overbought. Traditionally, an RSI exceeding 70 signifies overbought conditions, while a value below 30 suggests oversold conditions.
- **200-Day Moving Averages:** is 1.28. The stock is currently trading above its 200-Day MA, which indicates a **Buy** signal.

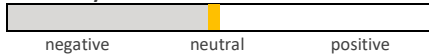
The stock is hovering around a key support level at JD 1.26, a price level that has been tested several times in recent months. The immediate resistance is around JD 1.30, where the stock faced selling pressure earlier this year, causing it to pull back multiple times.

The stock has been trading in a narrow range between JD 1.24 and JD 1.30 since mid-2024, reflecting indecision among traders and a lack of strong directional momentum.

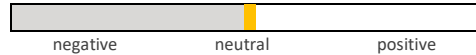
Stock Price Up 1.5% over the past year



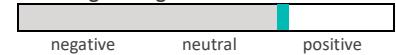
Volatility



14-Weeks RSI



Moving Averages



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UFICO Stock Ratings: UFICO's coverage of stocks uses a quantitative model that evaluates a company's relative valuation, earnings strength, financial stability, and its recent price movement. UFICO's five recommendation ratings include strong buy, buy, hold, sell, strong sell. For all stocks in our coverage universe, ratings are generated each week and reflect the fundamental and price data as of the last trading day of the week.

1	2	3	4	5	Strong Buy	Significantly Satisfactory
1	2	3	4	5	Buy	Satisfactory
1	2	3	4	5	Hold	Average
1	2	3	4	5	Sell	Unsatisfactory
1	2	3	4	5	Strong Sell	Significantly Unsatisfactory

Relative Valuation: Relative valuation is a weighted combination of factors that measure a company's current stock price valuation vs industry. These include the company's price-to-earnings vs. industry, and its price-to-book vs. industry. UFICO also measures the rank of a company's dividend yield among dividend payers on the Amman Stock Exchange. A stock may stay undervalued or overvalued for a long period of time. For this reason, it is important to combine dividend yield rank factor with shorter-term predictive factors such as earnings momentum or price momentum to identify more imminent valuation adjustments. In addition, UFICO also measure a company's dividend payments growth over the past 10 years and the degree its dividend payments are covered by earnings.

Earnings Strength: Over 20 years of research have shown that the change in the growth of earnings per share is an important factor that drives stock performance. UFICO measures earnings momentum to get an early indication of changing earnings patterns. Earnings strength is a weighted combination of factors that measure a company's earnings growth performance. These include the company's 5-year average earnings growth rate, its 1-year earnings growth rate vs its 5-year average earnings growth rate, its 1-year earnings growth rate vs. industry, its relative strength of ROE, and its y-o-y profit margin growth rate.

Financial Stability: Financial stability is a weighted combination of factors that measure a company's ability to pay its debts in the short and long terms. UFICO looks for a company's capital structure where its total liabilities do not exceed 40% of its equity. For a company's solvency strength, we look for an interest coverage of at least 3x, indicating a company's ability to cover its interest payments through its operating income, and a debt coverage of at least 200%, indicating a company's ability to cover its loans and interest payments through its operating income. For liquidity strength, we look for a company's current ratio of at least 1.25x, indicating current liabilities are sufficiently covered by current assets. Companies in the banking sector are analyzed using assets/equity ratio, loans/deposits ratio, loans/assets ratio, and level of bad loans. For assets/equity ratio, we look for a ratio below 10x, indicating adequate reliance on debt to fund the bank's operations. For loans/deposits ratio, we look for a ratio below 125%, indicating high liquidity and low exposure risk to cover unexpected funding requirements. For loans/asset ratio, we look for a ratio below 110%, indicating high liquidity and low exposure risk to defaults. For the level of bad loans, we look for a ratio below 5.00%, indicating lower provisions are required and, hence, increases bank profitability.

Recent Price Movement: Historical price action of a company's stock is an especially helpful measure used to identify intermediate and short term performance potential. Long term historical performance is a good predictor of future price performance, but much more importantly, large price movements over the intermediate and short term tend to reverse themselves. UFICO's price momentum measure integrates historical long, intermediate and short term price changes, creating ratings that are highest for stocks with strong twelve-month price performance that have had a price consolidation in the past quarter and month. Price movement is an evaluation based on a company's relative share price strength in the past 1-quarter, 14-day and 1-year period. In UFICO's analysis, positive price strength in the past 200-day period is a favorable indication of near-term price gain. Conversely, positive price changes in the past quarter or 14-day period can indicate a short-term overbought condition resulting in negative near-term price change.

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