

Report Date: 02-Jan-24

ARAB BANKING CORPORATION /(JORDAN)

ASE: ABCO

Price as of 22-Dec-24

JD 0.62 Share

End of Day Share Price: 22/12/2024

Earnings: 30/09/2024

RATING:



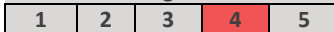
Initiated Coverage 02/03/2023

We recommend maintaining a **Hold** rating on ABCO, as it is considered **fairly valued**. 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 0.64

Previous Rating



02/03/2024

52- Week Price Range

JD 0.61- JD 0.76

Market Capitalization

JD 68.2 M

Dividend Yield

4.84%

Last Dividend

JD 0.03

Founded: 1990

Shares Outstanding: 110.0 M

Employees: 550

Volume(3m): 75.4 K

Ex-DIV Date: Apr 27, 24

P/BV: 0.41x

Forward P/E: 17.11x

Volatility(annual): 22.5%

Public Float: 10.5 M

Sector: Banking

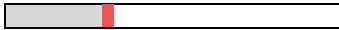
Arab Banking Corporation- Jordan (“**ABCO**” or the “**Bank**”), is a publicly listed subsidiary of Arab Banking Corporation (B.S.C.), established in 1990. ABCO offers a wide range of retail banking services, including credit cards, personal loans, car financing, and mortgages, alongside wholesale banking services such as overdrafts, syndicated loans, and project financing.

In October 2022, its parent company, Bank ABC, launched ILA Bank, a mobile-only digital banking platform designed to provide seamless, technology-driven services. This initiative reflects Bank ABC's commitment to innovation and aligns with ABCO's mission to address evolving customer needs and modernize banking across Jordan and the MENA region.

Recommendation Summary

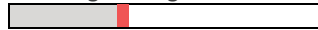
UFICO issues a **Hold** recommendation on ABCO, supported by a detailed evaluation of four key performance factors mentioned earlier. While the stock demonstrates modest earnings growth and relatively low metrics for Return on Assets (ROA) and Return on Equity (ROE), its current valuation aligns with its intrinsic value, justifying the Hold position. Investors are encouraged to closely track the upcoming quarterly results, which could offer critical insights and guide future investment strategies..

Relative Valuation



negative neutral positive
 ABCO's pricing appears to be **overvalued** in terms of its P/E ratio and **undervalued** in terms of its P/BV ratio. The Bank's dividend yield of 4.23% is **below** the sector average.

Earnings Strength



negative neutral positive
 Net income has shown a short fall of 25% during Q3 2024 in comparison with last year's earning. ROA and ROE fall below investor expectations and industry standards.

Financial Stability



negative neutral positive
 ABCO recorded a CAR of 17.20% by the end of 2023, signaling a strong capital buffer in compliance with regulatory standards.

Price Movement



negative neutral positive
 At its current 14-week RSI, the stock is rated as a **BUY**, while indicating a **Sell** signal based on its 200-Day Moving Average.

Major Risks & Rewards

- **Dividend Income:** ABCO has a good track record of distributing dividends, making it an attractive stock for income-focused investors.
- **Regulatory Oversight:** ABCO operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Diversification:** Including ABCO stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **Credit Quality Risks** ABCO could face 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 exacerbate these risks. ABCO NPL equates to 10.354% of the total direct credit facilities as of December 31, 2023.
- **Regulatory Risks:** ABCO faces risks associated with changes in banking regulations and compliance requirements, influencing its operations and financial performance.
- **Interest Rate Risks:** Fluctuations in interest rates can impact the profitability of ABCO, influencing stock prices.
- **Liquidity Risks:** Due to lower trading volumes and limited liquidity, investors may encounter challenges in buying or selling ABCO shares without impacting the stock's price, and may face higher transaction costs as a result.

Report Date: 03-Mar-24

ARAB BANKING CORPORATION /(JORDAN)

ASE: ABCO

Price as of 29-Feb-24

JD 0.62/Share
Peers Group Comparison

Ticker	Peer Name	Price	Mkt Cap*	EPS (JD)	P/E	P/BV	Yield	ROE	NIM	Credit/ Deposits
		22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(TTM)	(Forward)	(Forward)	(TTM)
ABCO	Arab Banking Corporation	JD 0.62	68,200	0.04	17.11x	0.41x	4.84%	2.41%	2.61%	86.43%
JCBK	Jordan Commercial Bank	JD 0.98	117,600	0.09	11.19x	0.69x	6.12%	6.20%	3.27%	77.13%
AJIB	Arab Jordan Investment Bank	JD 1.29	193,500	0.10	13.10x	0.89x	7.75%	6.78%	2.13%	48.51%
INVB	Invest Bank	JD 1.49	186,250	0.23	6.61x	0.86x	5.37%	13.24%	2.93%	87.37%
CABK	Cairo Amman Bank	JD 1.04	208,000	0.07	15.54x	0.47x	9.62%	3.03%	3.36%	87.38%
AHLI	Jordan Ahli Bank	JD 1.01	202,662	0.08	11.97x	0.61x	7.92%	5.10%	2.82%	72.69%
Peer Group Weighted Average					11.83x	0.70x	7.36%	6.80%	2.88%	74.49%
Sector Weighted Average (excluding ABCO)					7.09x	0.68x	6.81%	7.09x	0.69x	6.81%
Sector Median					11.04x	0.72x	7.26%	9.29%	2.94%	72.32%

* In JD thousands

Past Performance

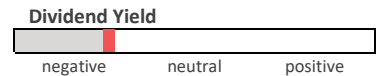
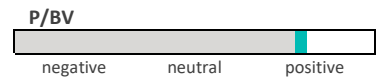
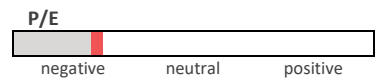
	2020	2021	2022	2023	2024*
Net Interest Margin (NIM)	2.91%	3.05%	2.81%	2.86%	2.61%
Dividend/Share (DPS)-JD	-	0.06	0.04	0.03	NA
Earnings/Share (EPS)-JD	0.011	0.087	0.061	0.045	0.036
Return on Equity (ROE)	0.8%	5.9%	4.0%	3.0%	2.41%

* annualized Q3 2024 results

Relative Valuation is NEGATIVE

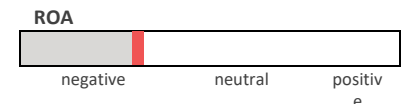
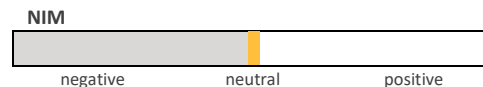
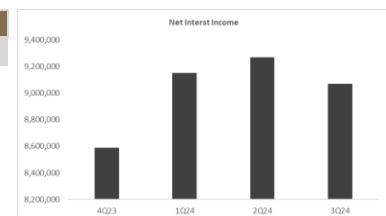
Last Price	Market Cap	EPS	P/E	BV/Share	P/B	DPS	Div. Yield
22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(MRQ)	(2023)	(TTM)
JD 0.62	JD 68,200,000	JD 0.04	17.11x	JD 1.50	0.41x	JD 0.03	4.84%

- **P/E vs Industry:** of 17.11x suggests that ABCO is overvalued compared to the weighted average and median P/E for the banking sector in Jordan.
- **P/BV vs. Industry:** of 0.41x suggests that ABCO is undervalued compared to the weighted average and median P/BV of the banking sector in Jordan.
- **Dividend Yield** of 4.84% is below the the banking sector's average dividend yield of 6.81%..


Earning Strength is NEGATIVE

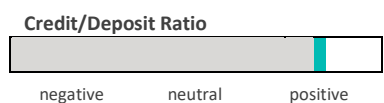
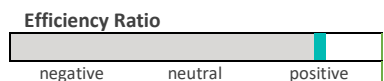
3Q24 Results	Net Interest Income	Net Income	NIM	ROE	ROA
	JD 27.4 M (-10.75%)	JD 2.9 M (-40.4%)	2.61%	2.41%	0.28%

- **Return on Equity** of 2.41% is lower than the required rate of return that investors demand.
- **Return on Assets:** of 0.28% is lower than the industry norm of about 1.0%, implying that the Bank is ineffectively in utilizing its assets to generate profit.
- **Net Interest Margin (NIM)** of 2.61% is considered healthy for banks. 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 POSITIVE

3Q24 Results (MRQ)	Efficiency	Credit/Deposit	CASA	CAR	Leverage
	34.57%	86.43%	11.39%	16.73%	11.13%

- **Efficiency Ratio** of 34.57% demonstrates optimal operational efficiency, as an efficiency ratio of 55% or lower is considered ideal.
- **Credit/Deposit Ratio:** of 86.43%, indicates that a significant portion of the Bank's deposits are being utilized for lending efficiently. Typically, the ideal loan-to-deposit ratio ranges between 75% to 90%.
- **CASA Ratio** of 11.39% represents the portion of low-cost and stable funds compared to the Bank's total deposits base. This suggests that a only a small 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.



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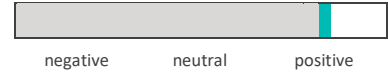
ASE: ABCO

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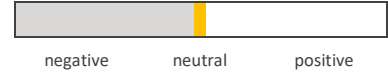
JD 0.62/Share

- **Capital Adequacy Ratio:** ABCO reported a CAR of 16.73% by the end of 2023, showcasing a robust capital buffer that surpasses the requirements set forth by the Central Bank of Jordan (CBJ).
- **Leverage Ratio** of 11.13% indicates that ABCO operates with acceptable level of risk evident by its leverage ratio that is in line with the banking sector average. A higher leverage ratio implies a lower level of financial risk.

Capital Adequacy Ratio



Leverage Ratio

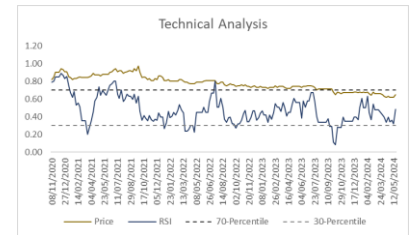


Price Movement is **NEGATIVE**

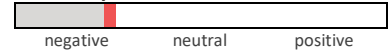
Annual Volatility: +/- 22.5% **14-Weeks RSI: 48.1** **200-Day MA: 0.69**

- **Volatility** of 22.5% suggests that ABCO's stock price has exhibited high fluctuations. Indicating high level of risk.
- **14-Weeks RSI:** is 48.1, observed over a 14-week period, indicates that the price is entering the oversold area which may cause a reversal in the short run, which may indicate a buy signal. Traditionally, an RSI exceeding 70 signifies overbought conditions, while a value below 30 suggests oversold conditions.
- **200-Day Moving Averages:** The stock broke through the 200-Day MA which indicates a **Sell** signal.

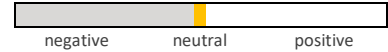
Price down 13.8% over the past year



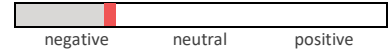
Volatility



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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