

**Report Date: 29-Mar-25**

# SAFWA ISLAMIC BANK

**ASE: SIBK**
**Annual Earnings: 31/12/2024**
**Price as of 26-Mar-25**
**JD 2.20 Share**

## RATING:


*Initiated Coverage 22/12/2024*

We recommend **Holding** SIBK with caution as it is considered fairly valued at its current stock price. 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 2.25**

| Previous Rating     |   |   |   |   | 30/12/2024 | 52- Week Price Range       | Market Capitalization | Current P/E         | P/BV  |
|---------------------|---|---|---|---|------------|----------------------------|-----------------------|---------------------|-------|
| 1                   | 2 | 3 | 4 | 5 |            | JD 1.67 - JD 2.25          | JD 224.4 M            | 13.05x              | 1.26x |
| Founded: 1963       |   |   |   |   |            | Shares Outstanding: 120 M  | Employees: 780        | Public Float: 15.0M |       |
| Stock Dividend: 25% |   |   |   |   |            | Volatility(annual): 21.45% | Volume(3m): 9.03 K    | Sector: Banking     |       |

**Safwa Islamic Bank** ("SIBK" or the "Bank"), formerly known as Jordan Dubai Islamic Bank, is a publicly listed financial institution headquartered in Amman, Jordan. Established in 1963 and rebranded in 2017, the Bank operates as a subsidiary of Etihad Islamic Investment Company. SIBK provides a diverse range of Sharia-compliant financial services, including personal and corporate finance, as well as investment solutions, catering to individuals and businesses across Jordan. The Bank is committed to integrating modern financial practices with Islamic principles, promoting ethical and sustainable banking. **The Company's Board of Directors approved the distribution of 25% stock dividends on January 30, 2025, to increase the paid-up capital to JD 150.0 million.**

## Recommendation Summary

UFICO recommends **HOLDING** SIBK's stock with caution due to its overvaluation relative to peers based on P/E and P/BV ratios. While the Bank demonstrates strong revenue and profit growth, its moderate profitability ratios and low net interest margin remain concerns. Furthermore, the CASA ratio needs improvement to enhance profitability, and the stock's 14-week RSI indicates it is in overbought territory, suggesting limited upside potential in the short term. Maintaining a cautious stance is advisable, especially given the mixed signals from its valuation and technical indicators.

### Relative Valuation

SIBK's pricing appears to be **overvalued** in terms of both its P/E, and P/BV ratios with respect to its peers and the sector. The Bank did not distribute any cash dividends for 2024.

### Earnings Strength

The Bank is showing good growth in revenue and profit, but profitability ratios are moderate. The net interest margin has reached 1.90%, a level typically viewed as low compared to the industry.

### Financial Stability

The bank's overall performance is strong, with adequate capital buffers, careful risk management, and effective cost control. The only area needing improvement is the CASA ratio, which could help reduce the cost of funds and enhance profitability.

### Price Movement

At its current 14-week RSI the stock is in the **overbought** territory, and is rated a **Buy** at its 200-Day Moving Average,.

## Major Risks & Rewards

- **Regulatory Oversight:** SIBK operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Diversification:** Including SIBK stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **Ethical and Responsible Investing:** Islamic banks adhere to the principles of Sharia law, which prohibit activities involving excessive risk, uncertainty, or unethical business practices.
- **Growing Market and Increasing Demand:** The Islamic finance sector is one of the fastest-growing segments of the global financial industry, with increasing demand from both Muslim and non-Muslim investors.
- **Profit Sharing Risk:** Islamic banking structures like Mudarabah expose the Bank to the risk of reduced or no profits if the business ventures underperform, resulting in a potential loss of investment or reduced profitability due to the Bank's role as a partner rather than a creditor.
- **Credit Quality Risks** SIBK 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.
- **Regulatory Risks:** SIBK faces risks associated with changes in banking and Sharia regulations and compliance requirements, influencing its operations and financial performance.
- **Interest Rate Risks:** Fluctuations in interest rates can impact the profitability of SIBK, influencing stock prices.
- **Market Risk:** Exposure to fluctuations in asset prices, commodity prices, or foreign exchange rates in financing might result in volatility in earnings and capital.

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## Peers Group Comparison

| Ticker                                   | Peer Name           | Price     | Mkt Cap*  | EPS      | P/E       | P/BV  | Yield | ROE    | NIM    | Credit/<br>Deposits |
|--|---------------------|-----------|-----------|----------|-----------|-------|-------|--------|--------|---------------------|
|  |                     | 26/3/2025 | 26/3/2025 | (2024)   | (Current) | (MRQ) | (TTM) | (2024) | (2024) | (MRQ)               |
| SIBK                                     | Safwa Islamic Bank  | JD 2.20   | 264,000   | JD 0.169 | 13.05x    | 1.26x | -     | 10.14% | 1.90%  | 59.44%              |
| JOIB                                     | Jordan Islamic Bank | JD 4.26   | 852,000   | JD 0.331 | 12.89x    | 1.52x | 5.87% | 12.06% | 1.91%  | 80.70%              |
| AHLI                                     | Jordan Ahli Bank    | JD 1.06   | 212,694   | JD 0.089 | 11.95x    | 0.64x | 7.55% | 5.33%  | 2.83%  | 74.62%              |
| CABK                                     | Cairo Amman Bank    | JD 1.04   | 208,000   | JD 0.083 | 12.56x    | 0.44x | 5.77% | 3.64%  | 3.43%  | 90.55%              |
| BOJX                                     | Bank Of Jordan      | JD 1.68   | 336,000   | JD 0.217 | 7.76x     | 0.68x | 5.95% | 8.09%  | 3.00%  | 71.22%              |
| Peer Group Weighted Average              |                     |           |           |          | 11.65x    | 1.09x | 6.28% | 9.25%  | 2.46%  | 79.19%              |
| Sector Weighted Average (excluding SIBK) |                     |           |           |          | 7.58x     | 0.70x | 6.79% | 10.17% | 3.11%  | 71.50%              |
| Sector Median                            |                     |           |           |          | 10.24x    | 0.69x | 6.92% | 8.09%  | 2.86%  | 74.62%              |

\* In JD thousands

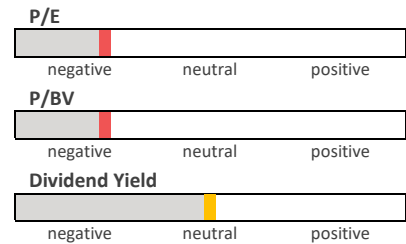
## Past Performance

|                     | 2020  | 2021  | 2022  | 2023  | 2024   |
|---------------------|-------|-------|-------|-------|--------|
| Dividend/Share (JD) | 0.06  | 0.06  | -     | -     | -      |
| Earnings/Share (JD) | 0.082 | 0.119 | 0.127 | 0.148 | 0.169  |
| Return on Equity    | 6.58% | 8.64% | 8.80% | 9.25% | 10.14% |

## Relative Valuation is **NEGATIVE**

| Last Price | Market Cap     | EPS      | P/E       | BV/Share | P/BV  |
|------------|----------------|----------|-----------|----------|-------|
| 26/3/2025  | 26/3/2025      | (2024)   | (Current) | (2024)   | (MRQ) |
| JD 2.20    | JD 264,000,000 | JD 0.169 | 13.05x    | JD 1.75  | 1.26x |

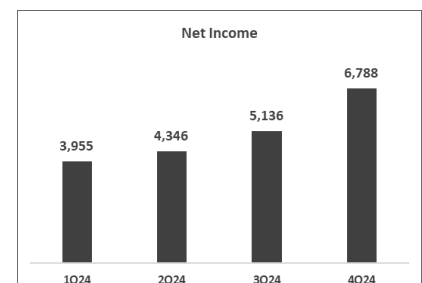
- P/E vs Industry:** suggests that SIBK is potentially overvalued compared to its peer group and the banking sector's weighted average P/E.
- P/BV vs. Industry:** suggests that SIBK is potentially overvalued compared to its peer group and the banking sector's weighted average P/BV.
- Dividend Yield:** The Bank did not distribute any cash dividends for the year 2024, but distributed a 25% stock dividend.



## Earning Strength is **NEUTRAL**

| FY24 Results | Net Interest Income | Net Income         | NIM   | ROE    | ROA   |
|--------------|---------------------|--------------------|-------|--------|-------|
|              | JD 61.3 M (+21.2%)  | JD 20.2 M (+15.5%) | 1.90% | 10.14% | 0.63% |

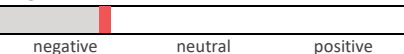
- Return on Equity** indicates acceptable profitability for shareholders and is within the sector's weighted average.
- Return on Assets:** of 0.63% is below the industry norm of about 1.0%, implying that the Bank might be operating less efficiently in utilizing its assets to generate earnings relative to its peers, possibly due to the nature of Islamic financing which requires holding significant tangible assets.
- Net Interest Margin (NIM)** of 1.90% is modest for a bank but relatively typical for Islamic banks due to their profit-sharing models rather than interest-based lending.



ROE



ROA



NIM

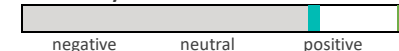


## Operations Indicators is **POSITIVE**

| FY24 Results | Efficiency | Credit/Deposits | CASA   | Coverage | CAR    | Leverage |
|--------------|------------|-----------------|--------|----------|--------|----------|
|              | 22.44%     | 59.44%          | 20.05% | 79.09%   | 16.10% | 5.62%    |

- Efficiency Ratio** of 22.44% is relatively good, indicating effective cost management, as an efficiency ratio of 50% or lower is considered ideal.
- Credit/Deposit Ratio:** of 59.44%, is moderate, indicating that the Bank is utilizing a reasonable portion of its deposits for financing activities. Typically, the ideal loan-to-deposit ratio ranges between 75% to 90%.
- CASA Ratio** of 20.05% is low implying a heavy reliance on term deposits rather than low-cost current or savings accounts. Typically, a CASA ratio above 45-50% is viewed favorably for banks.
- Coverage Ratio:** of 79.09% is relatively high, indicating that the Bank has adequate provisions against NPLs. A ratio near or above 80% is considered strong for Islamic banks.

Efficiency Ratio



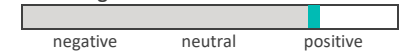
Credit/Deposit Ratio



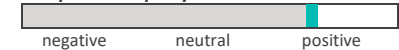
CASA Ratio



Coverage Ratio



Capital Adequacy Ratio



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## SAFWA ISLAMIC BANK

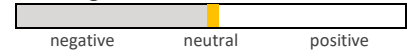
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JD 2.20 Share

- **Capital Adequacy Ratio:** of 16.10%, is a healthy ratio, well above the regulatory requirement of 12% for Islamic banks. It indicates that the Bank has a strong capital buffer to absorb potential losses and support growth.
- **Leverage Ratio** of 5.62% suggests that SIBK operates with a higher level of financial risk compared to the industry norm, as its ratio falls below the typical average. Generally, a lower leverage ratio reflects a stronger capital base and indicates lower financial risk, while a higher ratio suggests a reduced capacity to absorb losses and greater vulnerability to economic fluctuations.

Leverage Ratio



Price Movement is **NEUTRAL**

Annual Volatility: +/- 21.45%

14-Weeks RSI: 78.412

200-Day MA: 1.946

- **Volatility** of 21.0% suggests that SIBK's stock price has exhibited moderate fluctuations indicating moderate level of risk.
- **14-Weeks RSI:** is 78.412, observed over a 14-week period, indicates the stock is in the **overbought** territory, suggesting a potential for a price pullback or consolidation. Traditionally, an RSI exceeding 70 signifies overbought conditions, while a value below 30 suggests oversold conditions.
- **200-Day Moving Averages:** is 1.946. The stock currently trades above the 200-Day MA which indicates a **Buy** signal.

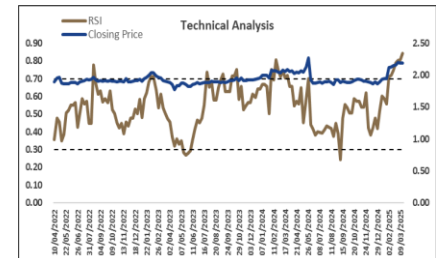
The stock is currently exhibiting a strong upward trend, trading above its 200-day MA, which confirms a long-term bullish outlook. The recent rise in price has pushed the 14-Weeks RSI to 78.412, indicating the stock is in the overbought territory. While this may suggest potential for a pullback or consolidation in the near term, strong stocks can remain overbought for extended periods during bullish trends.

The immediate resistance at JD 2.25 is crucial. A break above this level, particularly with strong volume, would indicate continued bullish momentum, potentially leading to a test of the next resistance at JD 2.30.

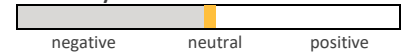
On the downside, support at JD 2.10 is likely to provide immediate relief, but a breach of this level would suggest weakness and could trigger a decline towards the 200-day MA at JD 1.95.

- **Short-Term Traders:** Consider taking partial profits near **JD 2.25** or upon signs of weakness. Avoid fresh buying unless the stock retraces to support levels around JD 2.10 or JD 1.95.
- **Long-Term Investors:** Hold positions as the stock remains above the 200-day MA. Accumulate more shares on dips towards the support levels.
- **Aggressive Buyers:** Consider entering if the stock breaks and sustains above **JD 2.25** with high volume, aiming for a target of **JD 2.30** or higher.

Stock Price Up 5.77% over the past year



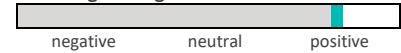
Volatility



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 |                    |                              |
|---|---|---|---|---|--------------------|------------------------------|
| 1 | 2 | 3 | 4 | 5 | <b>Strong Buy</b>  | Significantly Satisfactory   |
| 1 | 2 | 3 | 4 | 5 | <b>Buy</b>         | Satisfactory                 |
| 1 | 2 | 3 | 4 | 5 | <b>Hold</b>        | Average                      |
| 1 | 2 | 3 | 4 | 5 | <b>Sell</b>        | Unsatisfactory               |
| 1 | 2 | 3 | 4 | 5 | <b>Strong Sell</b> | 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 price 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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