

Report Date: 09-May-25

ARAB BANKING CORPORATION /(JORDAN)

ASE: ABCO

Quarter: 31/03/2025

Annual Earnings: 31/12/2024



Price as of 08-May-25

JD 0.69 Share

RATING:



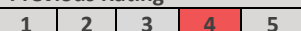
Initiated Coverage 02/03/2023

We recommend **Selling** ABCO, as its risk-reward profile remains **unfavorable**. 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 0.60

Previous Rating



06/04/2025

52- Week Price Range

JD 0.59- JD 0.70

Market Capitalization

JD 75.9 M

Shares Outstanding

110.0 M

Volume(3m)

41.394 K

Founded: 1990

Employees: 550

Sector: Banking

P/BV: 0.45x

Forward P/E: 29.07x

Volatility(annual): 27.0%

Public Float: 10.5 M

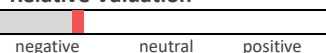
Arab Banking Corporation- Jordan ("ABCO" or the "Bank"), is a publicly listed subsidiary of Arab Banking Corporation (B.S.C.), established in 1990. ABCO offers a wide range of retail banking services, including credit cards, personal loans, car financing, and mortgages, alongside wholesale banking services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

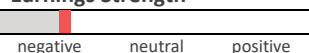
Based on a comprehensive analysis of ABCO, we recommend **Selling** the stock as its fundamentals remain weak, characterized by declining profitability, deteriorating margins, high valuation multiples, decreasing dividends, and poor liquidity, all of which suggest limited upside potential. Despite short-term positive momentum and low valuation on a book basis, ABCO's high earnings multiple, declining profitability trend, and lack of dividend support undermine its investment case. The technical setup suggests the stock may be near a short-term top, especially with RSI nearing overbought levels and limited room for upward breakout without a fundamental catalyst. Investors are encouraged to closely track the upcoming quarterly results, which could offer critical insights and guide future investment strategies.

Relative Valuation



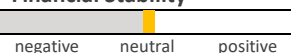
ABCO's pricing appears to be **overvalued** in terms of its P/E ratio and **undervalued** in terms of its P/BV ratio. The Bank did not distribute any dividends for 2024, which underscores management's focus on capital preservation amid deteriorating earnings.

Earnings Strength



ABCO's profitability showed a marked improvement in Q1 2025, indicating a rebound from near-flat earnings. However, this uptick was primarily driven by a JD 3.3 million provision reversal, suggesting that the underlying profitability from core operations remains weak. Additionally, the NIM declined slightly, reflecting continued pressure on interest income generation.

Financial Stability



ABCO demonstrates adequate capital adequacy and leverage ratios, suggesting resilience against financial shocks. However, its low CASA ratio highlights a weak deposit structure, which, combined with a high Credit/Deposit ratio, could expose the Bank to liquidity and profitability challenges.

Price Movement



At its current 14-week RSI, the stock is rated a **Hold**, while indicating a **Buy** signal based on its 200-Day Moving Average.

Major Risks & Rewards

- **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.

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Peers Group Comparison

| Ticker | Peer Name | Price 8/5/2025 | Mkt Cap* 8/5/2025 | EPS (TTM) | P/E** (Forward) | P/BV (MRQ) | Yield (TTM) | ROE** (TTM) | NIM (TTM) | Credit/ Deposits (MRQ) |
|--|-----------------------------|-------------------|----------------------|--------------|--------------------|---------------|----------------|----------------|--------------|---------------------------|
| ABCO | Arab Banking Corporation | JD 0.69 | 75,900 | JD 0.028 | 29.07x | 0.45x | - | 1.57% | 2.48% | 84.77% |
| JCBK | Jordan Commercial Bank | JD 0.95 | 114,000 | JD 0.005 | 51.77x | 0.65x | 6.32% | 1.27% | 3.29% | 73.03% |
| AJIB | Arab Jordan Investment Bank | JD 1.27 | 190,500 | JD 0.030 | 10.59x | 0.89x | 7.87% | 8.23% | 2.32% | 47.36% |
| INVB | Invest Bank | JD 1.56 | 195,000 | JD 0.059 | 6.60x | 0.78x | 6.41% | 11.88% | 2.65% | 87.71% |
| CABK | Cairo Amman Bank | JD 1.09 | 218,000 | JD 0.037 | 7.42x | 0.45x | 5.50% | 6.15% | 3.19% | 89.69% |
| AHLI | Jordan Ahli Bank | JD 0.99 | 198,648 | JD 0.030 | 8.26x | 0.61x | 8.08% | 7.32% | 2.91% | 75.32% |
| Peer Group Weighted Average | | | | | 13.61x | 0.67x | 6.84% | 7.45% | 2.85% | 75.28% |
| Sector Weighted Average (excluding ABCO) | | | | | 7.36x | 0.70x | 6.93% | 10.61% | 3.06% | 70.20% |
| Sector Median | | | | | 8.14x | 0.67x | 7.12% | 9.74% | 2.89% | 69.84% |

* In JD thousands, ** ABCO figures adjusted for provision reversal

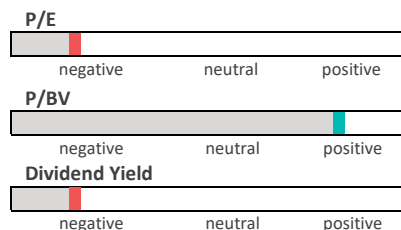
Past Performance

| | 2021 | 2022 | 2023 | 2024 | 1Q24 | 1Q25 |
|---------------------------|-------|-------|-------|-------|--------|-------|
| Net Interest Margin (NIM) | 3.05% | 2.81% | 2.86% | 2.61% | 2.62% | 2.48% |
| Dividend/Share (DPS)-JD | 0.06 | 0.04 | 0.03 | - | - | - |
| Earnings/Share (EPS)-JD | 0.087 | 0.061 | 0.045 | 0.017 | 0.0004 | 0.028 |
| Return on Equity (ROE) | 5.9% | 4.0% | 3.0% | 1.1% | 0.11% | 1.57% |

Relative Valuation is **NEGATIVE**

| Last Price 8/5/2025 | Market Cap 8/5/2025 | EPS (TTM) | P/E (Forward) | BV/Share (MRQ) | P/B (MRQ) |
|------------------------|------------------------|--------------|------------------|-------------------|--------------|
| JD 0.69 | JD 75.9 M | JD 0.03 | 29.07x | JD 1.52 | 0.45x |

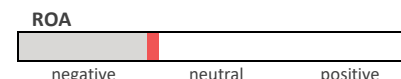
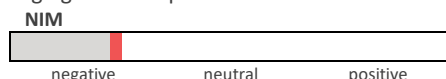
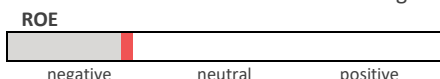
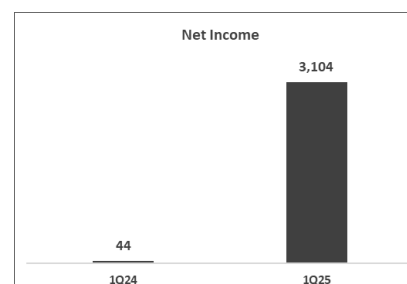
- **P/E vs Industry:** suggests that ABCO is overvalued compared to its peers and the weighted average and median P/E for the banking sector in Jordan.
- **P/BV vs. Industry:** suggests that ABCO is undervalued compared to its peers and the weighted average and median P/BV of the banking sector in Jordan.
- **Dividend Yield:** ABCO did not distribute any dividends for the year, and might not be a suitable stock for income focused investors.



Earning Strength is **NEGATIVE**

| 1Q25 Results (TTM) | Net Interest Income 8/5/2025 | Net Income 8/5/2025 | NIM | ROE | ROA |
|-----------------------|---------------------------------|------------------------|-------|-------|-------|
| | JD 8.58 M (-6.19%) | JD 3.10 M (+7,000%) | 2.48% | 1.57% | 0.19% |

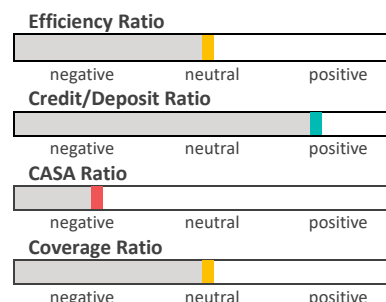
- **Return on Equity** has increased from a mere 0.11% in Q1 2024 to 1.57% during Q1 2025, reflecting improved profitability. However, the main reason behind the increase in net income is **the reversal of JD 3.3 million in provisions**, which was not annualized when calculating ROE and other income related ratios.
- **Return on Assets:** is lower than the industry norm of about 1.0%, implying that the Bank is ineffective in utilizing its assets to generate profit.
- **Net Interest Margin (NIM)** is the **second lowest** in the banking sector. This decline in NIM is a continuation of a downward trend observed over the past five years, suggesting structural inefficiencies or challenges in managing interest spreads.



Operations Indicators is **NEUTRAL**

| 1Q25 Results (MRQ) | Efficiency | Credit/Deposit | CASA | Coverage | CAR | Leverage |
|-----------------------|------------|----------------|--------|----------|--------|----------|
| | 21.36% | 84.77% | 11.73% | 89.60% | 17.78% | 11.53% |

- **Efficiency Ratio** demonstrates reasonable and moderately effective cost management, although there may still be room for improvement, as an efficiency ratio of 50% or lower is considered ideal.
- **Credit/Deposit Ratio:** suggests an aggressive lending approach, indicating that a substantial portion of deposits is being utilized for credit activities. Typically, the ideal loan-to-deposit ratio ranges between 75% to 90%.



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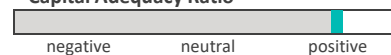
ASE: ABCO

Price as of 08-May-25

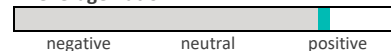
JD 0.69 Share

- **CASA Ratio** is very low, indicates heavy reliance on more expensive, interest-bearing deposits, which could adversely affect profitability, especially if interest rates continue to rise. Typically, a CASA ratio above 45-50% is viewed favorably for banks.
- **Coverage Ratio** indicates a strong buffer against potential credit losses. This figure represents the provisions set aside as a percentage of stage 3 loans, which is considered conservative.
- **Capital Adequacy Ratio:** ABCO reported a CAR of 17.78% by the end of Q1 2025, showcasing a strong capital buffer that surpasses the requirements set forth by the Central Bank of Jordan.
- **Leverage Ratio** 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 **NEUTRAL**

Annual Volatility: +/- 27.0%

14-Weeks RSI: 67.824

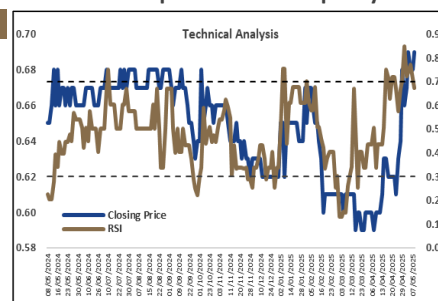
200-Day MA: 0.65

- **Volatility** suggests sensitivity to market sentiment and limited institutional positioning.
- **14-Weeks RSI:** observed over a 14-week period, approaching overbought territory, signaling that the recent upward momentum may be nearing exhaustion. Traditionally, an RSI exceeding 70 signifies overbought conditions, while a value below 30 suggests oversold conditions.
- **200-Day Moving Averages:** The stock is trading moderately above its 200-day MA, which reflects a short-term bullish trend.

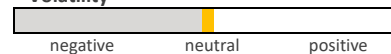
From a price action perspective, immediate resistance is seen at JD 0.72, a recent high and near-term psychological barrier. A breakout above this could lead to a test of the JD 0.75 range. Support lies at JD 0.66, just above the 200-day MA, followed by stronger support at JD 0.63, which may offer a tactical re-entry point for short-term traders.

We recommend a Hold for current shareholders, with a bias to take profits near JD 0.72–JD 0.75. New investors should wait for a pullback toward JD 0.63–JD 0.65 before considering exposure, ideally with clearer signs of earnings normalization and capital return potential. A break below JD 0.63 would signal renewed weakness and warrant reassessment.

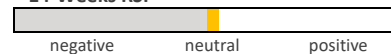
Price up 6.2% over the past year



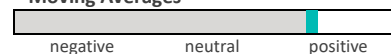
Volatility



14-Weeks RSI



Moving Averages



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| 1 | 2 | 3 | 4 | 5 | | |
|---|---|---|---|---|--------------------|------------------------------|
| 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 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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