

Report Date: 30-Dec-24

SAFWA ISLAMIC BANK

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

Price as of 22-Dec-24

JD 1.87 Share

RATING:


Initiated Coverage 22/12/2024

We recommend **Holding SIBK** 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

1.80

52- Week Price Range	Market Capitalization	Dividend Yield	Last Dividend	Forward P/E	P/BV
JD 1.59 - JD 1.96	JD 224.4 M	NA	NA	12.53x	1.10x

Founded: 1963	Shares Outstanding: 120 M	Employees: 780	Volume(3m): 37.3 K	Ex-DIV Date: Mar 31, 24
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Volatility(annual): 21.0%	Public Float: 15.0M	Sector: Banking
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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.

Recommendation Summary

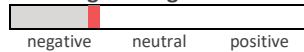
UFICO's **HOLD** recommendation on SIBK is based on a systematic analysis of four key characteristics mentioned above. SIBK's stock demonstrates favorable earnings growth and displays a reasonable return on equity. Despite this positive outlook, market participants are encouraged to diligently track upcoming quarterly results for further insights to facilitate well-informed decisions.

Relative Valuation



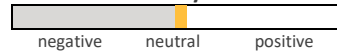
SIBK's pricing appears to be **fairly priced** in terms of both P/E, and P/BV ratios with respect to its peers. The Bank did not distribute any dividends for the year 2023.

Earnings Strength



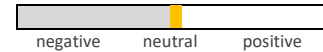
The net interest margin has reached 1.54%, a level typically viewed as low compared to the industry.

Financial Stability



SIBK recorded a CAR of 16.8%, signaling a strong capital buffer in compliance with regulatory standards.

Price Movement



At its current 14-week RSI the stock is rated as **Neutral**, but 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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JD 1.87/Share
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)
SIBK	Safwa Islamic Bank	JD 1.87	224,400	JD 0.149	12.53x	1.10x	0.00%	9.13%	1.54%	53.20%
JOIB	Jordan Islamic Bank	JD 4.00	800,000	JD 0.332	12.04x	1.48x	5.50%	12.37%	3.06%	80.65%
AHLI	Jordan Ahli Bank	JD 1.01	202,662	JD 0.084	11.97x	0.61x	7.92%	5.10%	2.82%	72.69%
CABK	Cairo Amman Bank	JD 1.04	208,000	JD 0.067	15.54x	0.47	9.62%	3.03%	3.36%	87.38%
BOJX	Bank Of Jordan	JD 2.19	438,000	JD 0.198	11.04x	0.85x	8.22%	7.64%	4.40%	64.38%
Peer Group Weighted Average					12.21x	1.08x	7.81%	9.04%	3.43%	76.20%
Sector Weighted Average (excluding SIBK)					7.00x	0.68x	6.66%	10.39%	3.24%	70.81%
Sector Median					11.04x	0.70x	6.93%	9.29%	2.94%	72.69%

* In JD thousands

Past Performance

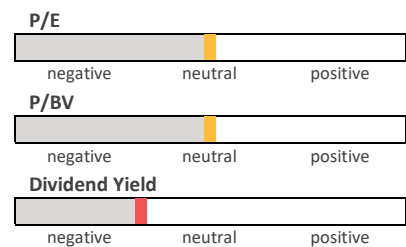
	2020	2021	2022	2023	2024*
Dividend/Share (JD)	0.06	0.06	-	-	NA
Earnings/Share (JD)	0.082	0.119	0.127	0.148	0.149
Return on Equity	6.58%	8.64%	8.80%	9.25%	9.13%

* annualized Q3 2024 results

Relative Valuation is NEUTRAL

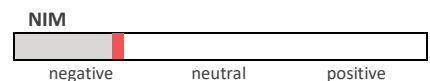
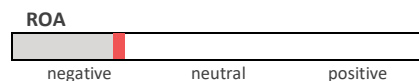
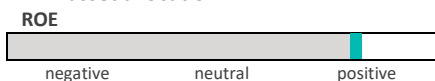
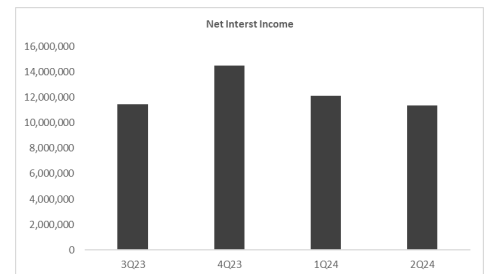
Last Price	Market Cap	EPS	P/E	BV/Share	P/BV
22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(MRQ)
JD 1.87	JD 224,400,000	JD 0.149	12.53x	JD 1.7	1.10x

- **P/E vs Industry:** suggests that SIBK is potentially overvalued compared to the banking sector's weighted average P/E, but fairly priced in comparison to its peers.
- **P/BV vs. Industry:** suggests that SIBK is potentially overvalued compared to the banking sector's weighted average P/BV, but fairly priced in comparison to its peers.
- **Dividend Yield:** The Bank did not distribute any dividends for the financial year 2023.


Earning Strength is NEGATIVE

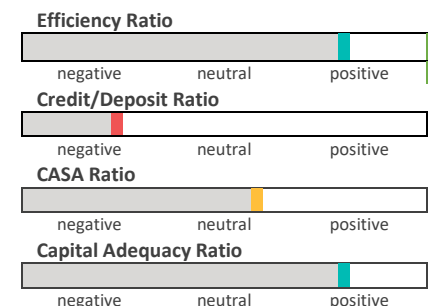
3Q24 Results	Net Interest Income (YoY)	Net Income (YoY)	NIM	ROE	ROA
	JD 141.7 M (+20.3%)	JD 13.4 M (+10.0%)	1.54%	9.13%	0.57%

- **Return on Equity** indicates acceptable profitability for shareholders but is lower than the sector's weighted average.
- **Return on Assets:** of 0.57% 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.
- **Net Interest Margin (NIM)** of 1.54% indicates that SIBK earns relatively low income on its interest-earning assets after accounting for interest expenses. This figure, when compared to the industry norm typically around 2-3% for banks, suggests less efficient asset allocation.


Operations Indicators is NEUTRAL

3Q24 Results (MRQ)	Efficiency	Credit/Deposits	CASA	CAR	Leverage
	17.54%	53.20%	37.17%	16.86%	6.00%

- **Efficiency Ratio** of 17.54% demonstrates optimal operational efficiency, as an efficiency ratio of 55% or lower is considered ideal.
- **Credit/Deposit Ratio:** of 53.20%, indicates that a significant portion of the Bank's deposits are not being utilized for lending efficiently. Typically, the ideal loan-to-deposit ratio ranges between 75% to 90%.
- **CASA Ratio** of 37.17% represents the portion of low-cost and stable funds compared to the Bank's total deposits base. This suggests that a small proportion of the Bank's deposits



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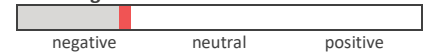
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are in the form of current and savings accounts. Typically, a CASA ratio above 45-50% is viewed favorably for banks.

- **Capital Adequacy Ratio:** CAR of 16.86%, showcasing a robust capital buffer that surpasses the requirements set forth by the Central Bank of Jordan (CBJ).
- **Leverage Ratio** of 6.00% 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 higher leverage ratio reflects a stronger capital base and indicates lower financial risk, while a lower ratio suggests a reduced capacity to absorb losses and greater vulnerability to economic fluctuations.

Leverage Ratio



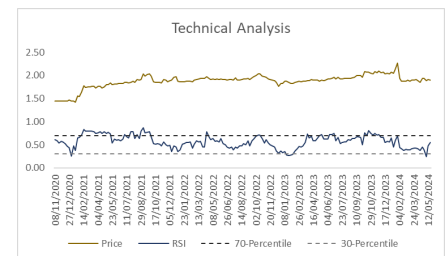
Price Movement is **NEUTRAL**

Annual Volatility: +/- 21.0% 14-Weeks RSI: 47.0 200-Day MA: 1.83

- **Volatility** of 21.0% suggests that SIBK's stock price has exhibited moderate fluctuations indicating moderate level of risk.
- **14-Weeks RSI:** is 47.0, 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 1.83. The stock currently trades above the 200-Day MA which indicates a **Buy** signal.

The stock is currently trading within a consolidation range, with a strong support level at JD 1.87 where it has found buying interest previously, and a key resistance at JD 1.95, which has been tested multiple times but faced selling pressure. After a bullish rally from JD 1.70 to JD 1.95, indicating positive sentiment, the stock struggled to maintain momentum above JD 1.90, showing signs of weakening. The recent price action suggests a potential sideways movement between JD 1.85 and JD 1.95.

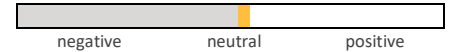
Stock Price Down 3.60% over the past year



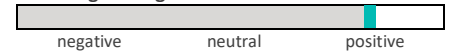
Volatility



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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