

Report Date: 29-Dec-24

**CAPITAL BANK OF JORDAN**

ASE: CAPL

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

**RATING:**


Initiated Coverage 13/03/2024

**Previous Rating**


15/09/2024

We recommend **Buying** CAPL as it is deemed attractive when considering the stock returns on a risk-adjusted basis. 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 2.00**

52- Week Price Range	Market Capitalization	Dividend Yield	Last Dividends
JD 1.80- JD 2.11	JD 491.9M	8.02%	JD 0.15 / share

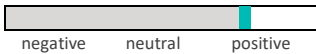
<b>Founded:</b> 1995	<b>Shares Outstanding:</b> 263.0 M	<b>Employees:</b> 888	<b>Volume(3m):</b> 1,097.2 K	<b>Ex-DIV Date:</b> May 26, 24
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<b>P/BV:</b> 0.72x	<b>Forward P/E:</b> 5.19x	<b>Volatility(annual):</b> 23.6%	<b>Public Float:</b> 57.4 M	<b>Sector:</b> Banking
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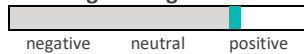
Founded in 1995 and headquartered in Amman, **Capital Bank of Jordan** ("CAPL" or the "Bank"), is a publicly listed financial institution offering a wide range of commercial and investment banking services for retail and corporate clients. Through strategic acquisitions, including majority stakes in the National Bank of Iraq, Bank Audi's operations in Jordan and Iraq, and Société Générale Bank in Jordan, CAPL has significantly expanded its regional footprint and enhanced its competitive edge. Its wholly owned subsidiary, Capital Investments, further reinforces the Bank's position as a regional leader in investment banking services

**Recommendation Summary**

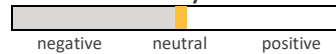
UFICO's **Buy** recommendation on CAPL is based on a systematic analysis of four key characteristics mentioned above. CAPL's stock exhibits strong performance and displays a high return on equity. Despite this positive outlook, market participants are encouraged to diligently track upcoming quarterly results for further insights to facilitate well-informed decisions.

**Relative Valuation**


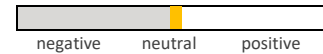
CAPL's pricing seems **undervalued** in terms of its P/E ratio but **fairly priced** in terms of its P/B ratio in comparison to its peers, while its dividend yield of 8.02% **exceeds** the banking industry's average.

**Earnings Strength**


The anticipated earnings growth is forecasted to continue, while the net interest margin has achieved a healthy level of 2.65% but falls short of the industry average of 3.23%.

**Financial Stability**


CAPL recorded a CAR of 15.23%, signaling a strong capital buffer in compliance with regulatory standards.

**Price Movement**


At its current 14-week RSI, the stock is rated as **Neutral**, while indicating a **Sell** signal based on its 200-Day (MA). However, if the 200-Day MA breaks, it could potentially signal a buy opportunity.

**Major Risks & Rewards**

- **Dividend Income:** CAPL has a strong track record of consistently distributing dividends, making it an attractive option for income-focused investors.
- **Regulatory Oversight:** CAPL operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Diversification:** Including CAPL stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **Credit Quality Risks:** CAPL 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:** CAPL 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 CAPL, influencing stock prices.
- **Liquidity Risks:** Due to lower trading volumes and limited liquidity, investors may encounter challenges in buying or selling CAPL shares without impacting the stock's price and may face higher transaction costs as a result.
- **Political Risk:** CAPL operations in Iraq poses significant challenges due to the country's political instability, security concerns, and evolving regulatory environment.

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**CAPITAL BANK OF JORDAN**

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Price as of 22-Dec-24

**JD 1.87/Share**

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)
<b>CAPL</b>	<b>Capital Bank Of Jordan</b>	<b>JD 1.87</b>	<b>491,879</b>	<b>JD 0.361</b>	<b>5.19x</b>	<b>0.72x</b>	<b>8.02%</b>	<b>14.12%</b>	<b>2.68%</b>	<b>60.23%</b>
JOKB	Jordan Kuwait Bank	JD 2.82	423,000	JD 0.773	3.65x	0.62x	2.84%	17.82%	2.53%	48.35%
UBSI	Bank Al Etihad	JD 1.70	340,000	JD 0.254	6.71x	0.70x	5.88%	9.82%	2.94%	72.32%
BOJX	Bank Of Jordan	JD 2.19	438,000	JD 0.198	11.04x	0.85x	8.22%	7.64%	4.40%	64.38%
<b>Peer Group Weighted Average</b>					<b>7.21x</b>	<b>0.73x</b>	<b>5.65%</b>	<b>11.84%</b>	<b>3.33%</b>	<b>60.98%</b>
<b>Sector Weighted Average (excluding CAPL)</b>					<b>7.30x</b>	<b>0.69x</b>	<b>6.55%</b>	<b>10.08%</b>	<b>3.23%</b>	<b>70.98%</b>
<b>Sector Median</b>					<b>11.19x</b>	<b>0.70x</b>	<b>6.53%</b>	<b>9.13%</b>	<b>2.94%</b>	<b>72.69%</b>

\* In JD Thousands.

**Past Performance**

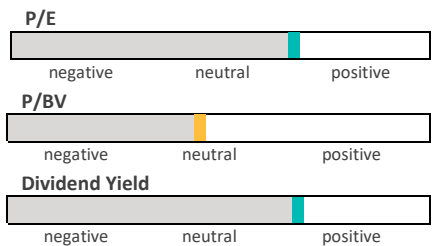
	2020	2021	2022	2023	2024*
Net Interest Margin	2.80%	2.89%	2.82%	2.45%	2.68%
Dividend/Share (JD)	0.12	0.15	0.17	0.11	NA
Earnings/Share (JD)	0.130	0.394	0.330	0.273	0.361
Return on Equity	8.6%	23.5%	17.7%	11.3%	14.1%

\* annualized Q3 2024 results

**Relative Valuation is POSITIVE**

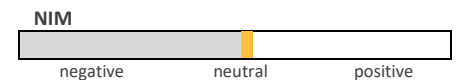
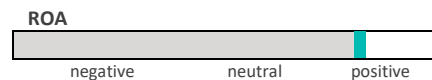
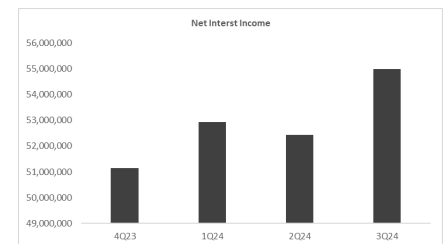
Last Price	Market Cap	EPS	P/E	BV/Share	P/BV	DPS	Div. Yield
22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(MRQ)	(2023)	(TTM)
JD 1.87	JD 491,879,418	JD 0.361	5.19x	JD 2.6	0.72x	JD 0.15	8.02%

- **P/E vs Industry:** suggests that CAPL is undervalued compared to the weighted average and median P/E for the banking sector in Jordan and its peers.
- **P/BV vs. Industry:** suggests that CAPL is fairly priced when compared to the weighted average and median P/BV for the banking sector in Jordan and its peers.
- **Dividend Yield** of 8.02% is above the banking industry dividend yield.


**Earnings Strength is POSITIVE**

3Q24 Results	Net Interest Income (YoY)	Net Income (YoY)	NIM	ROE	ROA
	JD 159.3 M (+24.8%)	JD 71.1 M (+16.81%)	2.68%	14.12%	1.20%

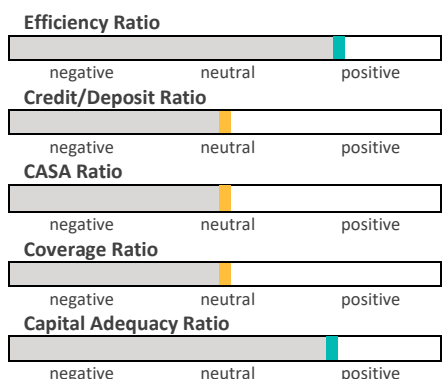
- **Return on Equity** indicates favorable profitability for shareholders, and it's above the industry average.
- **Return on Assets:** of 1.20% is above the industry norm of about 1.0%, implying that the Bank efficiently employs its assets to generate profits. This indicates effective management in utilizing resources to enhance profitability.
- **Net Interest Margin (NIM)** of 2.68% is considered healthy. 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	Coverage Ratio*	CAR*	Leverage*
(MRQ)	35.19%	60.23%	42.59%	69.23%	15.23%	6.50%

\* Based on annualized Q2 2024 results as Q3 for these ratios has not been announced.

- **Efficiency Ratio** of 35.19% demonstrates optimal operational efficiency, as an efficiency ratio of 55% or lower is considered ideal.
- **Credit/Deposit Ratio:** of 60.23% suggests that the bank is not fully optimizing its lending capacity relative to its deposit base, as it falls below the conventional benchmark of 75%.
- **CASA Ratio** of 42.59% represents the portion of low-cost and stable funds compared to the Bank's total deposits base. This suggests that a larger 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.



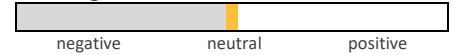
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## CAPITAL BANK OF JORDAN

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- **Coverage Ratio** of 69.23% indicates an acceptable 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:** CAPL reported a CAR of 15.323% by the end of 2023, indicating a strong capital buffer and in compliance with regulatory standards.
- **Leverage Ratio** of 6.5% indicates that CAPL operates with a higher level of risk, as evidenced by its comparatively low leverage ratio within the sector, which suggests an aggressive stance by the bank.

### Leverage Ratio



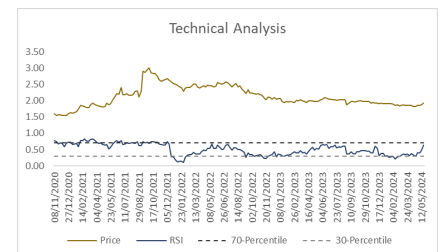
### Price Movement is **NEUTRAL**

Annual Volatility: +/- 23.6%      14-Weeks RSI: 59.8      200-Day MA: 1.92

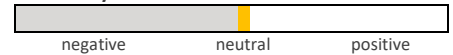
- **Volatility** of 23.6% suggests that CAPL's stock price has exhibited high fluctuations, indicating a considerable level of risk for investors.
- **14-Weeks RSI:** is 59.8, observed over a 14-week period, indicates a **Neutral** stance for the stock, neither oversold nor overbought. Traditionally, an RSI exceeding 70 signifies overbought conditions, while a value below 30 suggests oversold conditions.
- **200-Day Moving Averages:** The stock currently trades below its 200-Day MA indicating a **Sell** signal, if this resistance level breaks, it could signal an upside potential for the stock, signaling a Buy opportunity, otherwise, the subsequent support level would be at 1.80.

The stock is currently displaying a neutral trend pattern. After testing the support level at JD 1.90, the price stabilized around JD 1.87. This consolidation suggests potential bullish momentum, with a possible rebound targeting the next resistance level at JD 2.00 if positive sentiment gains traction.

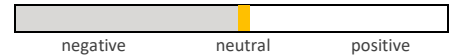
### Stock Price down 6.03% over the past year



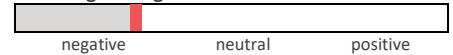
### Volatility



### 14-Weeks RSI



### Moving Averages



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**JD 1.87/Share**

**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		
		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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