

Report Date: 30-Dec-24

# THE HOUSING BANK FOR TRADE AND FINANCE

ASE: THBK

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

## RATING:



Initiated Coverage 13/03/2024

### Previous Rating



16/09/2024

We recommend **Buying** THBK 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 3.80**

52- Week Price Range	Market Capitalization	Dividend Yield	Last Dividend
JD 3.25- JD 3.80	JD 1,036.4 M	7.60%	JD 0.25/share

<b>Founded:</b> 1973	<b>Shares Outstanding:</b> 315.0 M	<b>Employees:</b> 3,913	<b>Volume(3m):</b> 99.7 K	<b>Ex-DIV Date:</b> May 1, 24
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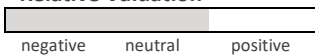
<b>P/BV:</b> 0.78x	<b>Forward P/E:</b> 6.67x	<b>Volatility(annual):</b> 25.5%	<b>Public Float:</b> 17.6 M	<b>Sector:</b> Banking
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The Housing Bank for Trade and Finance ("THBK" or the "Bank"), a publicly listed Jordanian financial institution headquartered in Amman, Jordan, was founded in 1973 and is the **second largest bank in Jordan**. The Bank offers a wide array of financial services including corporate and retail banking, investment banking, asset management, and treasury services. With a strong emphasis on innovation and customer satisfaction, the Bank has established a widespread network of branches across Jordan while leveraging technology for enhanced accessibility through online and mobile banking. THBK owns 49.5% of The International Bank for Trade and Finance (Syria), 85.0% of The Housing Bank for Trade & Finance (Algeria), and 75.0% of Jordan International Bank (UK). Moreover, the Bank offers brokerage services and financial leasing through its subsidiaries in Jordan.

## Recommendation Summary

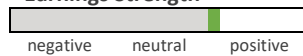
UFICO's **BUY** recommendation on THBK is based on a systematic analysis of four key characteristics mentioned above. THBK's stock showcases strong earnings growth and a high return on equity, exceeding industry benchmarks. The Bank's competitive dividend yield, attractive price-to-earnings ratios, robust net interest margin, and strong peer performance further enhance its investment appeal, making it a compelling option for potential investors. While the outlook remains positive, investors are advised to monitor upcoming quarterly results for additional insights.

### Relative Valuation



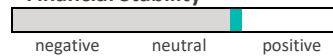
THBK's pricing appears to be **Undervalued** in terms of its P/E ratio, but **Overvalued** in terms of its P/BV ratio. The Bank's dividend yield of 7.60% **exceeds** the banking industry average.

### Earnings Strength



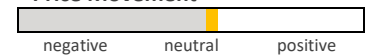
The net interest margin has reached 4.26%, a level typically viewed as strong and on the high-end in the banking sector.

### Financial Stability



THBK recorded a CAR of 18.57%, signaling a strong capital buffer in compliance with regulatory standards set by the CBJ.

### Price Movement



At its current 14-week RSI the stock is rated as **Neutral**, but at its 200-Day Moving Average it is rated a **Sell**.

## Major Risks & Rewards

- **Dividend Income:** THBK has a strong track record of consistently distributing dividends, making it an attractive option for income-focused investors.
- **Regulatory Oversight:** THBK operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Green Financing:** In their recent efforts to align with CBJ's strategy on green financing, the Bank obtained a \$15.0 million green loan from the European Bank for Reconstruction and Development (EBRD) to develop a comprehensive strategy that addresses climate change, environmental and social aspects, as well as governance. This strategy will contribute to the sustainability goals of all the bank's operations and activities.
- **Diversification:** Including THBK stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **Credit Quality Risks:** THBK 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:** THBK 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 THBK, influencing stock prices.
- **Liquidity Risks:** Due to lower trading volumes and limited liquidity, investors may encounter challenges in buying or selling THBK shares without impacting the stock's price and may face higher transaction costs as a result.

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**JD 3.29/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)	(Q3)	(Q3)	(MRQ)
<b>THBK</b>	<b>The Housing Bank for Trade &amp; Finance</b>	<b>JD 3.29</b>	<b>1,036,350</b>	<b>JD 0.49</b>	<b>6.67x</b>	<b>0.78x</b>	<b>7.60%</b>	<b>11.99%</b>	<b>4.26%</b>	<b>78.19%</b>
JOIB	Jordan Islamic Bank	JD 4.00	800,000	JD 0.33	12.04x	1.48x	5.50%	12.37%	3.06%	80.65%
JOKB	Jordan Kuwait Bank	JD 2.82	423,000	JD 0.77	3.65x	0.62x	2.84%	17.82%	2.53%	48.35%
BOJX	Bank of Jordan	JD 2.19	438,000	JD 0.20	11.04x	0.85x	8.22%	7.64%	4.40%	64.38%
CAPL	Capital Bank of Jordan	JD 1.87	491,879	JD 0.36	5.19x	0.72x	8.02%	14.12%	2.68%	60.23%
ARBK	Arab Bank	JD 4.33	2,774,664	JD 1.05	4.07x	0.37x	6.93%	9.29%	3.12%	69.75%
<b>Peer Group Weighted Average</b>					<b>6.06X</b>	<b>0.65X</b>	<b>6.14%</b>	<b>10.86%</b>	<b>3.13%</b>	<b>68.25%</b>
<b>Sector Weighted Average (excluding THBK)</b>					<b>7.27X</b>	<b>0.51X</b>	<b>6.58%</b>	<b>10.09%</b>	<b>3.02%</b>	<b>69.01%</b>
<b>Sector Median</b>					<b>11.58X</b>	<b>0.71X</b>	<b>6.53%</b>	<b>9.13%</b>	<b>2.93%</b>	<b>72.32%</b>

\* In JD thousands

EPS: Earnings per Share, ROE: Return on Equity, NIM: Net Interest Margin

## Past Performance

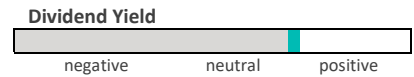
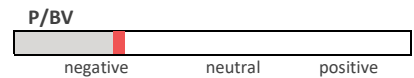
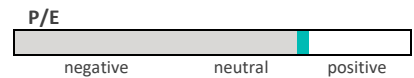
	2020	2021	2022	2023	Q3 2024*
Net Interest Margin (NIM)	3.67%	3.64%	3.77%	4.40%	4.26%
Dividend/Share (DPS)-JD	0.20	0.12	0.20	0.25	-
Earnings/Share (EPS)- JD	0.116	0.335	0.411	0.434	0.493
Return on Equity (ROE)	3.3%	9.1%	10.8%	11.1%	12.0%

\* 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 3.29	JD 1,036,350	JD 0.49	6.67x	JD 4.19	0.78x	JD 0.25	7.60%

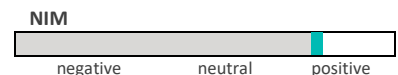
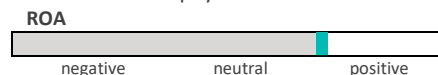
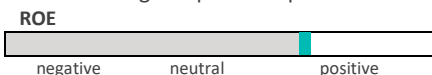
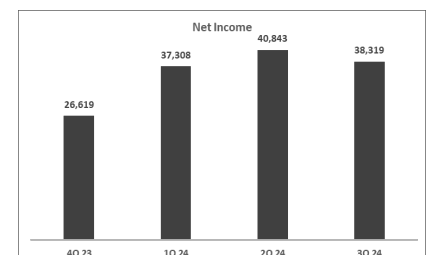
- **P/E vs Industry:** of 6.67x suggests that THBK is undervalued compared to the weighted average and median P/E for the banking sector in Jordan.
- **P/BV vs. Industry:** of 0.78x suggests that THBK is overvalues compared to the weighted average and median P/BV of the banking sector in Jordan.
- **Dividend Yield** of 7.60% is above the banking sector's average dividend yield of 6.58%.



## Earnings Strength is POSITIVE

3Q24 Results	Net Interest Income (YoY)	Net Income (YoY)	NIM	ROE	ROA
	JD 285.1 M (- 1.17%)	JD 116.4 M (+5.72%)	4.26%	11.99%	1.74%

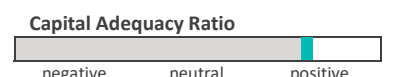
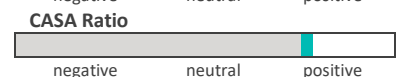
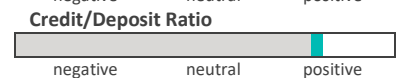
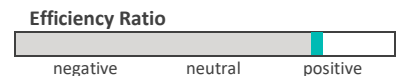
- **Return on Equity** of 11.99% indicates favorable profitability for shareholders, and it's above the industry average of 10.1%.
- **Return on Assets:** of 1.74% surpasses the industry norm of about 1.0%, implying that the Bank efficiently employs its assets to generate profits. This indicates effective management in utilizing resources to enhance profitability.
- **Net Interest Margin (NIM)** of 4.26% is considered healthy and well above the industry norm. 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	Efficiency	Credit/Deposits	CASA	CAR	Leverage
(MRQ)	29.92%	78.19%	52.15%	18.57%	11.84%

- **Efficiency Ratio** of 29.92% demonstrates optimal operational efficiency, as an efficiency ratio of 55% or lower is considered ideal.
- **Credit/Deposit Ratio:** A high Credit/Deposit Ratio (above 75.0%) indicates that a significant portion of the Bank's deposits are being utilized for lending efficiently.
- **CASA Ratio** of 52.15% 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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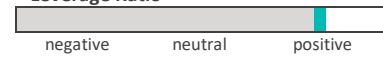
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- **Capital Adequacy Ratio:** THBK reported a CAR of 18.57%, indicating a strong capital buffer and is well above the industry average.
- **Leverage Ratio** of 11.84% indicates that THBK operates with lower level of risk evident by its higher leverage ratio compared to the sector. A higher leverage ratio implies a lower level of financial risk.

Leverage Ratio



Price Movement is **NEUTRAL**

Annual Volatility: +/- 25.5%

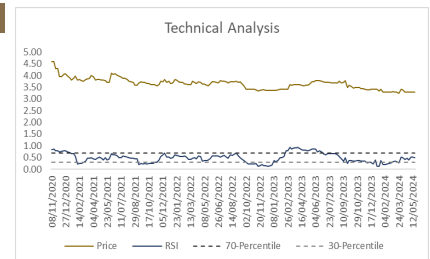
14-Weeks RSI: 47.9

200-Day MA: 3.44

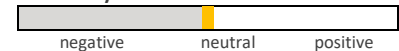
- **Volatility** of 25.5% suggests that THBK's stock price has exhibited moderate fluctuations. This volatility may be influenced more by the stock's limited free float rather than shifts in the Bank's fundamentals.
- **14-Weeks RSI:** is 47.9, observed over a 14-week period, indicates a **neutral** 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 3.44. The stock currently trades below the 200-Day MA, which indicates a **Sell** signal. If the stock can surpass the 200-Day MA, it might gain upward momentum and reach the 3.70 level.

The stock has established a strong support level around JD 3.00, where it has consistently rebounded in the past, indicating buyer interest at this price. On the upside, the key resistance level is around JD 4.00, which has acted as a ceiling for price movements since mid-2021, capping any upward momentum. The stock has been consolidating within this range, reflecting a lack of strong directional trend over the past year.

Price down 11.8% over the past year



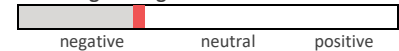
Volatility



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 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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