

Report Date: 29-Dec-24
Cairo Amman Bank

ASE: CABK

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

RATING:


Initiated Coverage 13/03/2024

Previous Rating


We recommend **HOLDING** CABK's stock as there may be more appealing stocks within the industry that, in our view, offer higher risk-adjusted returns. This projection is based on our analysis of four key factors that influence common stock performance: (1) relative valuation, (2) earnings strength, (3) financial stability, and (4) price movement.

Target Price
JD 1.02

52- Week Price Range	Market Capitalization	Dividend Yield	Last Dividend
JD 1.00- JD 1.33	JD 208.0 M	9.62%	JD 0.10 / share

Founded: 1960	Shares Outstanding: 200.0 M	Employees: 2,203	Volume(3m): 469.2 K	Ex-DIV Date: Apr 16, 24
P/B: 0.47x	Forward P/E: 15.54x	Volatility(annual): 14.5%	Public Float: 50 M	Sector: Banking

Cairo Amman Bank (CABK or the "Bank"), established in 1960 and headquartered in Amman, Jordan, is a publicly listed bank offering a broad range of retail, corporate, treasury, and investment services. The Bank operates 22 branches in Palestine, one in Bahrain, and fully owned subsidiaries providing brokerage and leasing services. CABK also holds a 51% stake in Safa Bank, an Islamic bank in Palestine.

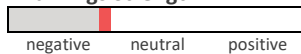
In 2024, CABK increased its paid-up capital from JD 190 million to JD 200 million, sustaining its financial strength. Additionally, the Bank signed a financing agreement for a 50-megawatt solar power plant in partnership with Masader Al Haq and the National Electricity Power Company, reinforcing its commitment to sustainability and green finance initiatives.

Recommendation Summary

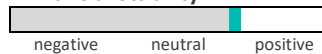
UFICO's **Hold** recommendation on CABK's is based on a systematic analysis of the four key characteristics mentioned. CABK demonstrates financial stability and a foundation for sustained profitability and growth, positioning it as a reliable long-term investment within the banking sector. However, the current valuation suggests limited short-term upside, warranting a Hold stance while closely monitoring market developments. Therefore, market participants are urged to carefully monitor forthcoming quarterly results for additional insights to make well-informed decisions.

Relative Valuation

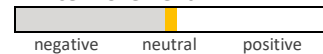

CABK appears to be **overvalued** in terms of its P/E ratio compared to its peers and **undervalued** in terms of its P/BV ratio. The Bank's dividend yield of 9.62% **exceeded** the banking industry average.

Earnings Strength


The net interest margin stands at 3.36%, a level considered healthy and high within the industry, while the ROE and ROA are below industry averages.

Financial Stability


CABK recorded a CAR of 21.1%, signaling a strong capital buffer in compliance with regulatory standards.

Price Movement


While technical analysis indicates that the stock may face short-term challenges, our long-term forecasts suggest that holding the position remains justified as timing is unlikely to significantly impact the overall investment outcome.

Major Risks & Rewards

- **Dividend Income:** CABK has a track record of consistently distributing dividends, making it an appealing option for income-focused investors.
- **Diversified Operations:** The existence of branches in Jordan, Palestine and Bahrain offer CABK's clients an array of services to cater for their needs. Furthermore, the Bank offers Islamic Banking through its subsidiary, Safa Bank.
- **Regulatory Oversight:** CABK operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Diversification:** Including CABK stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **Credit Quality Risks** CABK faces 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:** CABK 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 CABK, influencing stock prices.
- **Liquidity Risks:** Due to lower trading volumes and limited liquidity, investors may encounter challenges in buying or selling CABK shares without impacting the stock's price. investors may face higher transaction costs as a result.
- **Litigation Risk:** The Bank faces an ongoing civil lawsuit in New York, filed under the US Counter Terrorist Act, for which resolution remains pending. If found guilty, the outcome of this lawsuit could have adverse effects on the Bank's operations.

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)
CABK	Cairo Amman Bank	JD 1.04	208,000	JD 0.067	15.54x	0.47x	9.62%	3.03%	3.36%	87.38%
AJIB	Arab Jordan Investment Bank	JD 1.29	193,500	JD 0.098	13.10x	0.89x	7.75%	6.78%	2.13%	48.51%
INVB	Invest Bank	JD 1.49	186,250	JD 0.225	6.61x	0.86x	5.37%	13.24%	2.93%	87.37%
AHLI	Jordan Ahli Bank	JD 1.01	202,662	JD 0.084	11.97x	0.61x	7.92%	5.10%	2.82%	72.69%
Peer Group Weighted Average					10.63x	0.78x	7.01%	8.26%	2.63%	69.35%
Sector Weighted Average (excluding CABK)					6.95x	0.69x	6.42%	10.56%	3.19%	69.79%
Sector Median					11.04x	0.72x	6.53%	9.29%	2.93%	72.32%

* In JD thousands

Past Performance

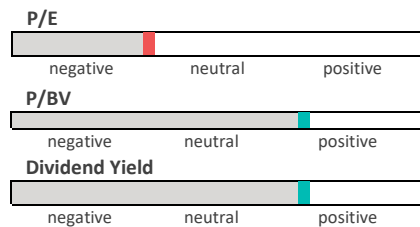
	2020	2021	2022	2023	2024*
Net Interest Margin	2.71%	2.64%	2.79%	3.74%	3.36%
Dividend/Share (JD)	0.09	0.12	0.09	0.10	NA
Return on Equity	5.0%	8.5%	8.6%	8.4%	3.03%

* annualized Q3 2024 results

Relative Valuation is POSITIVE

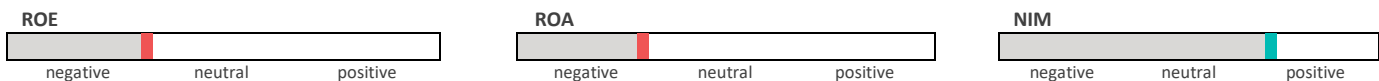
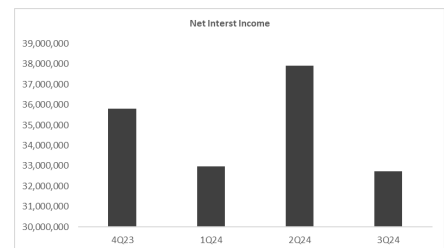
Last Price	Market Cap	EPS	P/E	BV/Share	P/BV	DPS	Div. Yield
22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(MRQ)	(2023)	(TTM)
JD 1.04	JD 208,000,000	JD 0.067	15.54x	JD 2.20	0.47x	JD 0.10	9.62%

- **P/E vs Industry:** 15.5x suggests that CABK is overvalued compared to the weighted average and median P/E for the banking sector in Jordan.
- **P/BV vs. Industry:** of 0.47x suggests that CABK is undervalued compared to the weighted average and median P/BV for the banking sector in Jordan.
- **Dividend Yield** of 9.62% exceeds the banking industry average of 6.42%.


Earning Strength is NEGATIVE

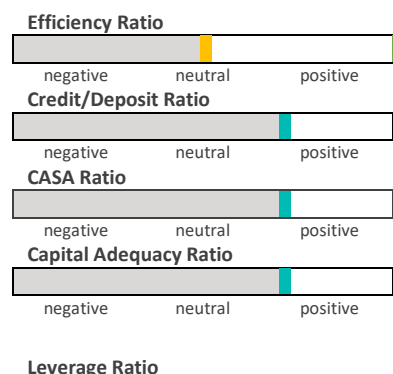
3Q24 Results	Net Interest Income (YoY)	Net Income (YoY)	NIM	ROE	ROA
	JD 110.0 M (-7.48) %	JD 10.0 M (-62.1 %)	3.36%	3.03%	0.34%

- **Return on Equity** of 3.03% is considered low when compared to the weighted average and median ROE for the banking sector in Jordan.
- **Return on Assets** of 0.34% is below the industry's healthy benchmark of 1%, suggesting the Bank is not efficiently utilizing its assets to generate profits.
- **Net Interest Margin (NIM)** of 3.36% is generally considered healthy and on the high end in the banking industry. 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. A higher NIM indicates better profitability in terms of interest income.


Operations Indicators is POSITIVE

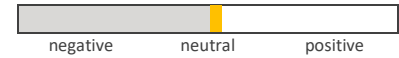
3Q24 Results (MRQ)	Efficiency	Credit/Deposit	CASA	CAR	Leverage
	53.45%	87.38%	46.77%	21.10%	11.58%

- **Efficiency Ratio** of 53.45%, the Bank demonstrates good operational efficiency, as an efficiency ratio of 55% or lower is considered ideal.
- **Credit/Deposit Ratio:** A high credit/deposit ratio (above 75%) indicates that a significant portion of the Bank's deposits are being utilized for lending efficiently. potentially leading to increased interest income and overall profitability.
- **CASA Ratio** of 46.77% represents the portion of low-cost and stable funds compared to the Bank's total deposit base. This suggests that a relatively healthy 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.



Report Date: 29-Dec-24
Cairo Amman Bank
ASE: CABK

- **Capital Adequacy Ratio:** In accordance with CBJ regulations, the minimum CAR is set at 12%, with the best category requiring an average CAR of 14% or higher. CABK reported a CAR of 21.10%.
- **Leverage Ratio** of 11.58%. CABK operates with acceptable risk as it operates with higher leverage ratio that is in line with the industry. A higher leverage ratio implies a lower level of financial risk. It shows that the Bank is more on the conservative side.



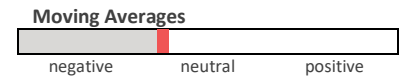
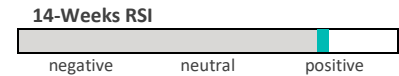
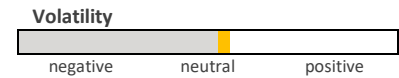
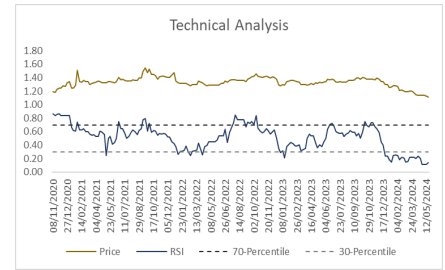
Price Movement is **NEUTRAL**

Annual Volatility: +/- 14.5% 14-Weeks RSI: 23.3 200-Day MA: 1.16

- **Volatility:** A volatility of 14.5% for CABK suggests a relatively moderate level of price fluctuation in the stock.
- **14-Weeks RSI:** An RSI value of 23.3 suggests that the stock, observed over a 14-week period, is more on the oversold levels. Conventionally, when the RSI exceeds 70, the stock is deemed overbought, while a value below 30 indicates oversold conditions signaling a **BUY** opportunity.
- **200-Day Moving Averages:** is 1.16, and the stock is currently trading just below this level indicating a **SELL** signal.

The stock has been trading in a clear downtrend, recently hitting support at JD 1.11, down from a high of JD 1.38, marking a 20% decline over the past five months. The price action suggests further downside momentum, with the stock likely to test the psychological support level at JD 1.00. A break below this level would set the next downside target at JD 0.93.

Price down 23.5% over the past year



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.

Disclaimer

The statements, opinions and analyses presented in this report (collectively, "Information") are for informational purposes only. Any opinions or probabilities expressed in this report are those of the author as of the report date and are subject to change without notice. United Financial Investments ("UFICO") makes no guarantee as to the completeness or accuracy of the Information, nor can it accept any responsibility for any errors in the report. Other events that were not taken into account may occur, and any opinions or probabilities should not be construed to be indicative of the actual events that may occur. The Information contained herein is not an offer to sell or the solicitation of an offer to buy any securities. Nothing contained herein is intended to be investment advice, nor is it to be relied upon in making any investment or other decision. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment will be profitable or equal any historical performance level(s). Neither UFICO, any of its affiliates, nor each of their respective officers, directors, members, agents, representatives, employees, or contractors (collectively, "UFICO Parties"), are liable for investment decisions based upon, or the results obtained from, the Information provided. UFICO Parties or their clients may at times own positions in the companies described in these reports. You assume all risks of loss resulting, directly or indirectly, from the use of the Information contained in this report. By accepting receipt of this report, you agree to hold harmless the UFICO Parties from any and all claims, actions, damages, losses, liabilities, costs and expenses of any kind whatsoever, including any claims of negligence, arising out of, resulting from, by reason of, or in connection with the use of the Information contained in this report. This report contains certain "forward-looking statements," which may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," "potential" and other similar terms. Examples of forward-looking statements include estimates with respect to financial condition, market developments, and the success or lack of success of particular investments (and may include such words as "crash" or "collapse"). All are subject to various factors, including general and local economic conditions, changing levels of competition within certain industries and markets, changes in interest rates, changes in legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors that could cause actual results to differ materially from projected results. Comparable companies, strategies, portfolios and indices may be included in this report only as a context reflecting general market results during the depicted period or as of the specified date. The comparison of any company, strategy, portfolio or index to a single other portfolio may be inappropriate because the portfolio's assets, strategies and level of risk may vary materially from the comparable company, strategy, portfolio or index as a whole. This report is provided to you on a confidential basis and is intended solely for the use of the person to whom it is provided. It may not be modified, reproduced or redistributed in whole or in part without the prior written consent of UFICO.