

Report Date: 29-Mar-25

## Bank Al Etihad

ASE: UBSI

Annual Earnings: 31/12/2024

### RATING:



Initiated Coverage 02/03/2024

Previous Rating



30/12/2024

We recommend **Holding UBSI** as it is considered fairly valued at its current stock price. 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 1.70**

52- Week Price Range	Market Capitalization	Dividend Yield	Dividend
JD 1.60 - JD 1.93	JD 336 M	5.95%	JD 0.10 / share
<b>Founded:</b> 1978	<b>Shares Outstanding:</b> 200.0 M	<b>Employees:</b> 1,329	<b>Volume(3m):</b> 170.52 K
<b>P/B:</b> 0.70x	<b>Current P/E:</b> 6.71x	<b>Volatility(annual):</b> 19.74%	<b>Public Float:</b> 36.8 M
<b>Ex-DIV Date:</b> Apr 27, 25			
<b>Sector:</b> Banking			

**Bank Al Etihad ("UBSI" or the "Bank")**, a publicly listed Jordanian financial institution, provides various commercial banking services to individuals and corporate clients in Jordan. The Bank offers current and savings accounts, fixed deposit accounts, and certificates of deposit; personal, car, home loans; corporate loans; trade finance; commercial loans, and other commercial banking services. UBSI has recently reiterated its financial guidance, reflecting its ambitious targets for the coming years. These targets include a 47.4% increase in customer deposits, a 43.6% growth in assets, and a 48.8% expansion in net credit facilities, all to be achieved by the end of 2027. The Bank also anticipates a significant improvement in net profit, aiming for a 2.2x increase, with a target of JD 98.8 million by 2027.

### Recommendation Summary

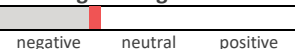
UFICO recommends investors consider **holding** UBSI's stock, with cautious optimism for potential future gains. This recommendation is additionally supported by UBSI's recent issuance of the perpetual bonds, expected to aid in the Bank's expansion efforts and ensure a satisfactory capital adequacy ratio. However, investors are encouraged to carefully monitor forthcoming quarterly results for supplementary information to make well-informed decisions.

#### Relative Valuation



UBSI appears to be **fairly priced** in terms of its P/BV and P/E ratios relative to its peers. The Bank's dividend yield is **below** the banking sector average.

#### Earnings Strength



The net interest margin has reached 3.0%, a level typically viewed as strong and healthy for the banking industry, but ROE and ROA are both below average, indicating potential issues with profitability and efficiency.

#### Financial Stability



The Bank demonstrates moderate operational efficiency with a conservative capital structure reflected by a CAR of 14.62% and leverage ratio of 6.58%. However, its coverage ratio suggests under-provisioning against NPLs, while its CASA ratio indicates room for improvement in attracting low-cost deposits.

#### Price Movement



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

### Major Risks & Rewards

- **Dividend Income:** UBSI has a track record of consistently distributing dividends, making it an attractive stock for income-focused investors.
- **Regulatory Oversight:** UBSI operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Diversification:** Including UBSI stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **Credit Quality Risks:** UBSI's financial health is susceptible to the quality of its loan portfolio. Defaults in the loan portfolio may lead to declines in the stock's value.
- **Regulatory Risks:** UBSI 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 UBSI, influencing stock prices.
- **Liquidity Risks:** Due to lower trading volumes or limited market participation, investors may encounter challenges in buying or selling UBSI shares without impacting the stock's price and may face higher transaction costs as a result.
- **AT1 Bond Coupon Payments:** Elevated funding cost fixed at 8.50% for the first five years of the bond, given the declining interest rates, can pressure net interest margins and profitability, particularly if the Bank cannot generate adequate returns on the raised funds.

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ASE: UBSI

Price as of 22-Dec-24

**JD 1.67/Share**

## Peers Group Comparison

Ticker	Peer Name	Price	Mkt Cap*	EPS	P/E	P/BV	Yield	ROE	NIM	Credit/Deposits
		26/3/2025	26/3/2025	(2024)	(Current)	(MRQ)	(TTM)	(2024)	(2024)	(MRQ)
<b>UBSI</b>	<b>Bank Al Etihad</b>	<b>JD 1.68</b>	<b>336,000</b>	<b>JD 0.217</b>	<b>7.76x</b>	<b>0.68x</b>	<b>5.95%</b>	<b>8.09%</b>	<b>3.00%</b>	<b>71.22%</b>
CAPL	Capital Bank Of Jordan	JD 2.68	402,000	JD 0.782	3.43x	0.57x	4.48%	17.74%	2.55%	50.37%
JOKB	Jordan Kuwait Bank	JD 2.26	452,000	JD 0.175	12.91x	0.86x	7.96%	6.66%	4.35%	66.57%
BOJX	Bank Of Jordan	JD 1.97	518,183	JD 0.410	4.80x	0.72x	7.61%	15.62%	2.65%	58.33%
<b>Peer Group Weighted Average</b>					<b>7.07x</b>	<b>0.72x</b>	<b>6.69%</b>	<b>13.29%</b>	<b>3.18%</b>	<b>58.71%</b>
<b>Sector Weighted Average (excluding UBSI)</b>					<b>7.76x</b>	<b>0.72x</b>	<b>6.86%</b>	<b>10.26%</b>	<b>3.16%</b>	<b>71.11%</b>
<b>Sector Median</b>					<b>11.82x</b>	<b>0.72x</b>	<b>7.55%</b>	<b>9.27%</b>	<b>2.83%</b>	<b>74.62%</b>

\* In JD thousands

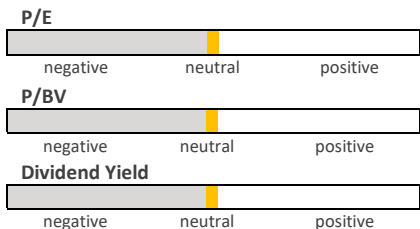
## Past Performance

	2020	2021	2022	2023	2024
Net Interest Margin	3.1%	2.7%	2.8%	3.0%	3.0%
Dividend/Share (JD)	0.10	0.10	0.10	0.10	0.10
Earnings/Share (JD)	0.147	0.203	0.215	0.236	0.217
Return on Equity	5.9%	7.8%	7.8%	10.1%	8.1%

## Relative Valuation is **NEUTRAL**

Last Price	Market Cap	EPS	P/E	BV/Share	P/BV	DPS	Div. Yield
26/3/2025	26/3/2025	(2024)	(Current)	(2024)	(MRQ)	(2024)	26/3/2025
JD 1.68	JD 336,000	JD 0.217	7.76x	JD 2.48	0.68x	JD 0.10	5.95%

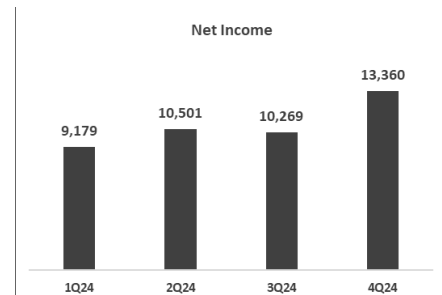
- **P/E vs Industry** suggests that UBSI is fairly priced compared to its peers but undervalued with respect to the median P/E for the banking sector in Jordan.
- **P/BV vs. Industry** indicates that UBSI is fairly priced compared to its peers and the banking sector.
- **Dividend Yield** is below its peers and the banking sector average.



## Earning Strength is **NEGATIVE**

FY24 Results	Net Interest Income	Net Income	NIM	ROE	ROA
	JD 236.9 M (+11.28%)	JD 43.3M (-8.12%)	3.00%	8.09%	0.55%

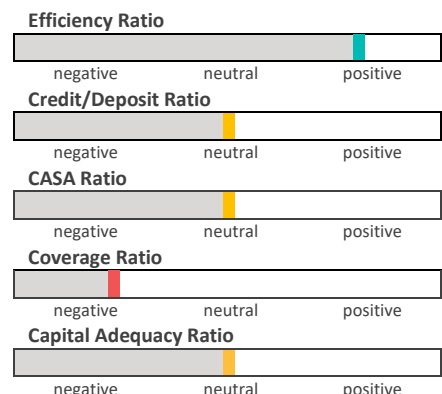
- **Return on Equity** signifies acceptable profitability for shareholders, but is still below the sector average and peers.
- **Return on Assets** of 0.55%, a figure below the industry average of 1.0%, sheds some light on potential inefficiencies in the Bank's utilization of its assets to generate profits.
- **Net Interest Margin (NIM)** of 3.00% is generally considered healthy for a bank. 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 **NEUTRAL**

FY24 Results	Efficiency	Credit/Deposit	CASA	Coverage	CAR	Leverage
	38.98%	71.22%	38.25%	69.55%	14.62%	6.58%

- **Efficiency Ratio** of 38.98% demonstrates optimal operational efficiency, as an efficiency ratio of 50% or lower is considered ideal.
- **Credit/Deposit Ratio**: of 71.22%, indicates a balanced lending strategy. Typically, the ideal loan-to-deposit ratio ranges between 75% to 90%.
- **CASA Ratio**: of 38.25% is moderate, but ideally, banks aim for a ratio above 40% to maintain a low-cost funding base. This level suggests the bank could improve its share of low-cost deposits (current and savings accounts) to boost profitability.
- **Coverage Ratio** of 69.55% is below the preferred threshold of 100%. It indicates that the Bank has not fully provisioned against its NPLs, which could present a risk if asset quality deteriorates.



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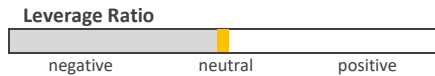
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Price as of 22-Dec-24

JD 1.67/Share

- **Capital Adequacy Ratio:** UBSI reported a CAR of 14.62%. In accordance with CBJ regulations, the minimum CAR is set at 12%, with the best category requiring an average CAR of 14% or higher.
- **Leverage Ratio** of 6.58% compared to the industry average of 11%, suggests the Bank is operating with a healthy level of capital relative to its total assets, which enhances stability and reduces risk. The leverage ratio helps explain why UBSI reports a higher ROE relative to its lower ROA.



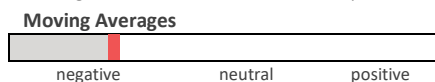
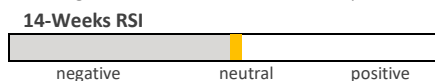
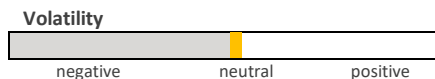
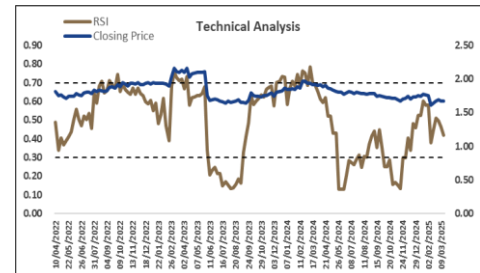
### Price Movement **NEUTRAL**

Annual Volatility: +/- 19.74%    14-Weeks RSI: 47.57    200-Day MA: 1.738

- **Volatility** of 19.74% suggests that UBSI's stock price has exhibited moderate to high level of fluctuations.
- **14-Weeks RSI:** is 47.57, observed over a 14-week period, is on the neutral side. Traditionally, an RSI exceeding 70 signifies overbought conditions, while a value below 30 suggests oversold conditions.
- **200-Day Moving Averages** is 1.738. The stock's position below the 200-day moving average is considered a negative signal for long-term trends and is typically interpreted as a **Sell** signal.

The stock is trading near its resistance level of **JD 1.71**. The RSI suggests that the stock is approaching overbought conditions. Investors should monitor these levels closely, as a breakout above resistance could signal further gains, whereas failure to surpass this level might result in a pullback towards support.

### Stock Price Down 12.5% over the past year



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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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