

**Report Date: 29-Dec-24**

# ARAB BANK

**ASE: ARBK**

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

**RATING:**


Initiated Coverage 13/03/2024

We recommend **Buying** ARBK 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 6.46**

Previous Rating					52- Week Price Range	Market Capitalization	Dividend Yield	Last Dividends
1	2	3	4	5	JD 4.18- JD 4.94	JD 2,774.7 M	6.93%	JD 0.30 / share

<b>Founded:</b> 1930	<b>Shares Outstanding:</b> 640.8 M	<b>Employees:</b> 3,594	<b>Volume(3m):</b> 1,922.0 K	<b>Ex-DIV Date:</b> Mar 31, 24
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<b>P/BV:</b> 0.37x	<b>Forward P/E:</b> 4.07x	<b>Volatility(annual):</b> 18.0%	<b>Public Float:</b> 327.1 M	<b>Sector:</b> Banking
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**Arab Bank** (“**ARBK**” or the “**Bank**”), headquartered in Amman, Jordan, is one of the largest Arab banking networks, with over 600 branches spanning five continents. The Bank offers a comprehensive suite of financial services across consumer, corporate, and institutional banking, as well as treasury operations, with a presence in major financial hubs like London, Dubai, Singapore, and Sydney. ARBK’s diversified structure includes subsidiaries such as Europe Arab Bank Plc and Arab Bank Australia Limited, as well as strategic affiliations with Arab National Bank and Turkland Bank.

In October 2023, the Bank issued USD 250 million in Additional Tier 1 (AT1) bonds to strengthen its capital base and diversify funding sources, supporting its ambitions for regional expansion and long-term growth.

**Recommendation Summary**

UFICO's **Strong BUY** recommendation on ARBK is based on a systematic analysis of four key characteristics mentioned above. ARBK demonstrates strong earnings growth, a competitive return on equity, and attractive valuation metrics, including a favorable P/BV ratio and high net interest margin. Additionally, the Bank’s appealing dividend yield and superior performance relative to peers further support its investment case. Despite this positive outlook, market participants are encouraged to diligently track upcoming quarterly results for further insights to facilitate well-informed decisions.

**Relative Valuation**


ARBK’s pricing appears to be **undervalued** in terms of both its P/E and P/BV ratios. The Bank’s dividend yield of 6.93% is **slightly above** the industry average.

**Earnings Strength**


The net interest margin has reached 3.12%, a level typically viewed as strong and healthy for the banking industry.

**Financial Stability**


ARBK recorded a CAR of 17.66%, signaling a strong capital buffer in compliance with regulatory standards.

**Price Movement**


At its current 14-week RSI and the 200-Day Moving Average., the stock is rated as **NEUTRAL**.

**Major Risks & Rewards**

- **Dividend Income:** ABRK has a strong track record of consistently distributing dividends, making it an attractive stock for income-focused investors.
- **Regulatory Oversight:** ARBK operates under regulatory oversight, enhancing investor confidence in the stability and integrity of its operations within the financial system.
- **Diversification:** Including ARBK stock in a diversified portfolio can mitigate risk and potentially enhance overall performance.
- **Credit Quality Risks** ARBK 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:** ARBK 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 ARBK, influencing stock prices.
- **Currency Risk:** ARBK multinational operations expose it to currency risk, where fluctuations in exchange rates can impact its financial performance, cash flows, and overall competitiveness across different countries.
- **Bond Coupon Payments:** Elevated funding cost given the declining interest rates, can pressure net interest margins and profitability, particularly if the Bank cannot generate adequate returns on the raised funds.
- **Geopolitical Tension:** The Bank has a significant presence in Palestine. Given the dynamic geopolitical and economic environment in the region, the Bank’s activities in Palestine are subject to various risks and opportunities that can influence its financial performance. Stakeholders should consider these factors when evaluating the Bank.

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**JD 4.33/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>ARBK</b>	<b>Arab Bank</b>	<b>JD 4.33</b>	<b>2,774,664</b>	<b>JD 1.06</b>	<b>4.07x</b>	<b>0.37x</b>	<b>6.93%</b>	<b>9.29%</b>	<b>3.12%</b>	<b>69.75%</b>
THBK	The Housing Bank for Trade & Finance	JD 3.29	1,036,350	JD 0.49	6.67x	0.78x	7.60%	11.99%	4.26%	78.19%
JOIB	Jordan Islamic Bank	JD 4.00	800,000	JD 0.33	12.04x	1.48x	5.50%	12.37%	3.06%	80.65%
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%
BOJX	Bank of Jordan	JD 2.19	438,000	JD 0.20	11.04x	0.85x	8.22%	7.64%	4.40%	64.38%
JOKB	Jordan Kuwait Bank	JD 2.82	423,000	JD 0.77	3.65x	0.62x	2.84%	17.82%	2.53%	48.35%
<b>Peer Group Weighted Average</b>					<b>7.99x</b>	<b>0.94x</b>	<b>6.44%</b>	<b>12.59%</b>	<b>3.51%</b>	<b>70.18%</b>
<b>Sector Weighted Average (excluding ARBK)</b>					<b>9.02x</b>	<b>0.87x</b>	<b>6.64%</b>	<b>10.97%</b>	<b>3.24%</b>	<b>70.59%</b>
<b>Sector Median</b>					<b>11.19x</b>	<b>0.72x</b>	<b>6.12%</b>	<b>9.13%</b>	<b>2.93%</b>	<b>72.69%</b>

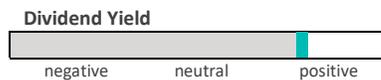
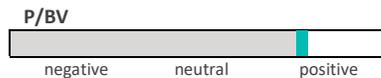
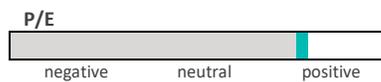
*\* In JD thousands*
**Past Performance**

	2020	2021	2022	2023	2024*
Net Interest Margin	2.28%	2.28%	2.47%	3.07%	3.12%
Dividend/Share (JD)	0.12	0.20	0.25	0.30	NA
Earnings/Share (JD)	0.212	0.326	0.560	0.886	1.06
Return on Equity	2.1%	3.2%	5.3%	8.2%	9.3%

*\* annualized Q3 2024 results*
**Relative Valuation is POSITIVE**

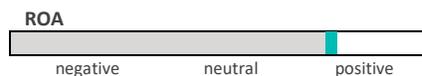
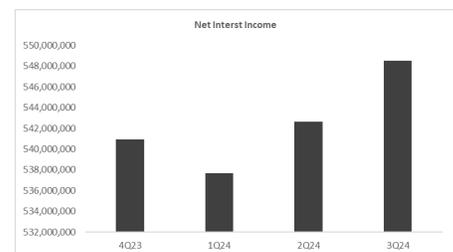
Last Price	Market Cap	EPS	P/E	BV/Share	P/BV	DPS	Div. Yield
22/12/2024	22/12/2024	(Q3)	(Forward)	(MRQ)	(MRQ)	(2023)	(TTM)
JD 4.33	JD 2,774,664,000	JD 1.06	4.07x	JD 11.67	0.37x	JD 0.30	6.93%

- **P/E vs Industry:** of 4.07x suggests that ARBK is undervalued compared to the weighted average and median P/E for the banking sector in Jordan.
- **P/BV vs. Industry:** of 0.37x suggests that ARBK is undervalued compared to the weighted average and median P/BV for the banking sector in Jordan.
- **Dividend Yield** of 6.93% is slightly above the banking sector average.


**Earning Strength is POSITIVE**

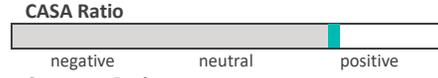
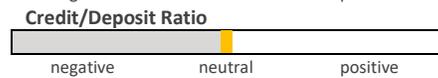
3Q24 Results	Net Interest Income (YoY)	Net Income (YoY)	NIM	ROE	ROA
	JD 1,149.8 M (+8.35%)	JD 511.5 M (+19.5%)	3.12%	9.29%	1.39%

- **Return on Equity** of 9.29% indicates favorable profitability for shareholders, but it's below the industry average of 10.97%.
- **Return on Assets:** of 1.39% surpasses the industry norm of about 1.0%, implying that the Bank effectively utilizes its assets to generate profits.
- **Net Interest Margin (NIM)** of 3.12% is considered healthy for banks. 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 (MRQ)	Efficiency	Credit/Deposits	CASA	Coverage	CAR	Leverage
	36.74%	69.75%	48.77%	97.68%	17.66%	11.77%

- **Efficiency Ratio** of 36.74% demonstrates optimal operational efficiency, as an efficiency ratio of 55% or lower is considered ideal.
- **Credit/Deposit Ratio:** of 69.75%, indicates that a significant portion of the Bank's deposits are being utilized for lending efficiently. Typically, the ideal loan-to-deposit ratio ranges between 75% to 90%.
- **CASA Ratio** of 48.77% represents the portion of low-cost and stable funds compared to the Bank's total deposits base. This suggests that a large proportion of the Bank's



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

- **Coverage Ratio** of 97.68% indicates a robust 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:** ARBK reported a CAR of 17.66% by the end of 2023, showcasing a robust capital buffer that surpasses the requirements set forth by the Central Bank of Jordan (CBJ).
- **Leverage Ratio** of 11.77% indicates that ARBK operates with acceptable level of risk evident by its leverage ratio that is in line with the banking sector. A higher leverage ratio implies a lower level of financial risk.

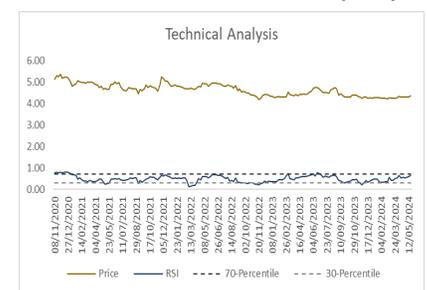
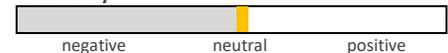
**Capital Adequacy Ratio**

**Leverage Ratio**

**Price Movement is NEUTRAL**
**Annual Volatility: +/- 18.0%**      **14-Weeks RSI: 45.9**      **200-Day MA: 4.32**

- **Volatility** of 18.0% suggests that ARBK's stock price has exhibited moderate fluctuations indicating moderate level of risk.
- **14-Weeks RSI:** is 45.9, 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 4.32. The stock currently trades slightly above its 200-Day MA which indicates a **Buy** signal. If the stock can surpass the 200-Day MA, it might gain upward momentum.

ARBK has been consolidating within a narrow trading range, facing persistent selling pressure below its short-term moving averages. This trend is likely to persist in the near term unless there is a notable improvement in macroeconomic conditions. However, we view the current levels as an attractive entry point for accumulation, leveraging a cost-averaging strategy. Our short-term price target for ARBK is set at JD 4.50.

**Stock Price down 4.84% 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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