



Amman Stock Exchange The Banking Sector – end of Q3

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Key Highlights

- ASE performance displayed increased volatility during 2016
- Jordanian bourse overvalued compared to regional peers
- The financial sector produced modest returns YTD
- Listed companies in the banking sector witnessed lower deposits growth rates

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ASE General Index YTD Performance



- The Amman Stock Exchange (ASE) General Index lost a slight 0.78% y-t-d as of September 28th, 2016, despite increased gauge volatility witnessed over the period
- The ASE was led by consumer staples and energy stocks but was severally pulled back by Telecom and materials stocks.

Major events

- Positive impact from the expected alleviation of trade barriers with the European Union in mid-January, with the UK pushing for trade referendums to benefit countries hosting Syrian refugees at the start of the year. However, the possibility of such agreements being upheld following the Brexit vote may be up for discussion
- Positive impact from the inalization of trade agreement with Russia to begin purchasing liquefied natural gas (LNG) from Gazprom on March 28th, 2016
- Negative impact from International Monetary Fund’s new WEO report in early Q3 2016, with expectations of growth recovery to remain out of reach for the MENAP region as a result of cheap oil and terrorist concerns
- Volatility towards the end of the quarter linked to parliamentary elections held in the Hashemite Kingdom, which yielded positive results in terms of female representation and increased demographic representation

Regional Indices YTD Performance

The first three quarters of 2016 depicted contrasting performances for the region's stock exchanges.

The EGX 30 recognized the highest return, gaining 13.12% since the index's close at end-2015. The major driver behind this upturn was the devaluation of the currency in March. The index was also boosted by the government entering loan agreement talks with the IMF and a number of GCC economies, although their participation is less than certain as a result of expected budget cuts.

The Dubai Financial Market General Index (DFMGI) and the Abu Dhabi Securities Market Index (ADSMI) gained 9.57% and 3.65% y-t-d, respectively. These indices experienced intense fluctuations throughout the development of the oil crisis, but the Emirati economy possesses the greatest chances of achieving a faster recovery as a result of the diversification of its investments and weaker dependence on oil than other Arab oil-producing states.

The Amman Stock Exchange (ASE) and the BLOM Stock Index (BSI), which are rather illiquid stock markets demonstrated the least long-term fluctuations in level. The two indices are also similar in the economic environment of the countries in which they are located. Both the Hashemite Kingdom and Lebanon currently suffer from deficits in most balances, such as trade, and are burdened with the excessive presence of refugees.

The Tadawul All Shares Index (TASI) which tracks the Saudi Arabian Stock Exchange posted the worst y-t-d decline of 19.08% as of September 28th, as the Kingdom continues to bear the brunt of the oil crisis, which has led the need to take on courageous economic reform projects. One of the decisions taken by the ruling family to alleviate pressure on the government was the reduction of wages of public officials by 15-20%, cancellation of benefits, with possible reductions or cancellations of subsidies on several consumer goods also being considered. The OPEC recently decided to lower production of oil in an effort to stimulate oil prices.

Performance of regional stock exchanges

Stock Exchange	YTD Close at 9/28/2016	y-t-d % change
EGX 30	7,924.85	13.12%
DFMGI	3,452.60	9.57%
ADSMI	4,464.48	3.65%
ASE	2,119.76	-0.78%
BSI	1,159.27	-0.88%
TASI	5,593.28	-19.08%

Source: Bloomberg, as of September 28th, 2016

Amman Stock Exchange Constituents

The Amman Stock Exchange General Index is constituted of 100 listed companies, belonging to 11 different sectors, according to GICS classification, as presented in the below table:

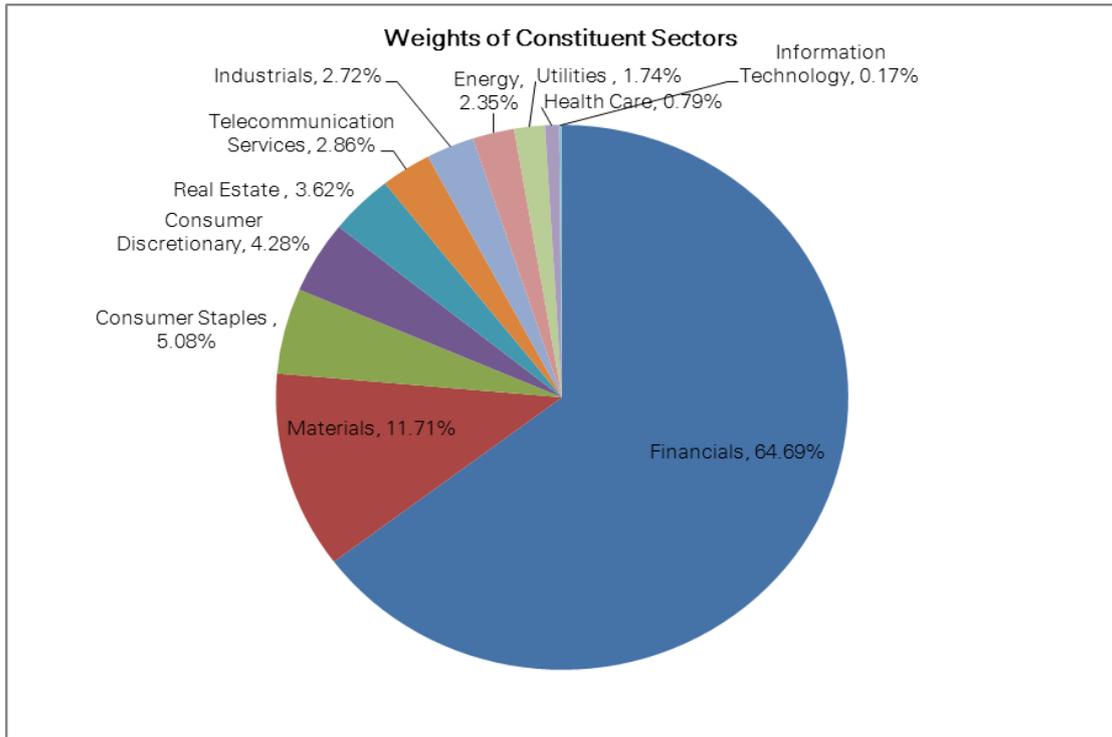
Industry	Number of Companies	Market Cap (\$M)	YTD Return (%)	Beta	EV/EBITDA T12M	P/E	P/B	P/S
<i>Median</i>	<i>100</i>	<i>21,186</i>	<i>-1.17</i>	<i>1</i>	<i>11.25</i>	<i>13.48</i>	<i>1.42</i>	<i>2.21</i>
Financials	31	13,730	3.69	0.93	28.93	12.65	1.16	2.68
Materials	10	2,490	-19.65	0.85	9.44	16.91	1.29	2.21
Consumer Staples	5	1,080	43.12	1.76	15.28	17.94	8.23	4.27
Consumer Discretionary	13	911	1.71	0.52	8.15	13.48	1.50	3.48
Real Estate	21	769.77	4.19	0.66	1,090	83.95	1.42	74.81
Telecom Services	1	608	-32.52	1.23	3.58	54.76	1.68	1.62
Industrials	10	577.8	-8.26	0.72	11.37	8.7	1.23	13.69
Energy	1	501	13.83	1.25	3.59	10.99	1.52	0.19
Utilities	2	369.5	0.51	1.18	9.41	12.74	2.36	0.18
Health Care	5	168	-7.47	0.66	19.78	11.87	1.02	1.03
Information Technology	1	35.55	72	0.96	11.25	23.38	0.52	1.17

Source: Bloomberg, September 28th, 2016

- The index shows a disproportionate concentration of companies in the financial sector, considering that it not only has the largest amount of member firms, but also accounts for the majority of the index's total market cap.

The Financial sector is comprised of 31 companies with an aggregate market capitalization of \$13,730.97M as of September 30th, 2016. This is equivalent to 64.81% of index's total market cap as of that date.

- The financial sector earned positive but modest returns over the first 9 months of the year, realizing a market-cap-weighted average year-to-date return of 3.69% by September 28th, 2016. It outperformed the ASE General Index, signaling that the financial sector represents a more attractive investment opportunity.
- Based on relative valuation, the sector appears to have a small room for improvement compared to the rest of the sectors
- Exceptional returns were achieved by individual companies more exposed to current macro-economic trends. Such companies include Al Eqbal Investment Co, which operates in the development and construction of renewable energy products and whose stock gained 53.39% over the year. In contrast, Jordan Telecommunications Co lost 32.52% over the same period as a result of excessive costs being undertaken to upgrade their network.



Source: Bloomberg, September 28th, 2016

Comparable Sectors in the region

Relative Valuation of Financial Sectors on Regional Stock Exchanges¹

Index	YTD	ROA	ROE	P/E	P/B	Div. Yield (%)
<i>Median</i>	<i>1.57</i>	<i>1.73</i>	<i>12.48</i>	<i>8.16</i>	<i>1.24</i>	<i>5.68</i>
ASE –financial sector	3.14	1.24	8.84	13.82	1.23	5.45
EGX 30- financial sector	8.86	2.41	25.27	12.8	2.7	5.90
DFMGI- financial sector	-8.65	1.85	12.06	7.14	1.24	8.17
ADSMI- financial sector	4.26	1.6	9.93	9.18	1.24	4.82
TASI – financial sector	-24.27	1.85	13.17	6.58	0.89	2.75
BSI - financial sector	0.62%	0.94	12.90	6.11	0.79	6.42

Source: Bloomberg, September 28th, 2016

- Using market multiples, the financial sector of the Jordanian stock exchange appears to be performing well compared to the financial sectors of other bourses.
- In terms of market returns, Jordan's listed banking stocks beat that of Lebanon, KSA, and Dubai, but lagged behind Egypt's and Abu Dhabi's. The dividend yield however is acceptable. The P/E ratio of 13.82 exceeds the regional median, indicating a potential overvaluation.
- Financial companies listed on the EGX 30 also have an elevated average P/E, but boast higher returns on equity and assets.
- The Gulf exchanges display attractive returns on equity and slight room for upward potential when considering P/E and P/B metrics. However, it must be noted that the investment environment in these economies is highly susceptible to economic reform, and factors that have displayed increasing volatility, such as fluctuating oil prices and interest rates.

Breakdown of Companies

Banks in the Jordanian Financial Sector

Name	Market Cap (\$M)	YTD Return (%)	Beta 1-Year	P/E	P/B	P/S	Div Yield (%)
<i>median</i>	13,331.95	<i>6.66</i>	<i>0.93</i>	<i>13.34</i>	<i>1.30</i>	<i>2.97</i>	<i>5.45</i>
Arab Bank PLC	5,492.31	-1.09	1.1	12.78	0.69	2.38	3.38
Housing Bank for Trade and Finance/The	3,302.12	1.57	0.43	18.57	2.43	4.98	4.22
Jordan Islamic Bank	785.79	39.89	1.22	12.24	1.4	2.31	4.87
Bank of Jordan	748.67	8.94	1.03	10.77	1.76	2.6	7.68
Jordan Ahli Bank	513.98	-5.66	1.05	10.85	0.83	2.26	3.92
Jordan Kuwait Bank	513.98	-11.95	1.15	8.83	1.11	2.06	6.28
Cairo Amman Bank	480.37	44.27	0.97	8.01	0.88	1.77	6.57
Arab Jordan Investment Bank	349.48	4.04	0.78	11.26	0.73	1.23	3.45
Bank Al Etihad	315.31	-7.58	0.81	11.66	1.31	2.57	7.99
Capital Bank of Jordan	233.22	-9.96	1	--	0.69	1.47	9.07
Jordan Commercial Bank	221.54	-13.5	0.61	--	1.65	2.06	5.96
Arab Banking Corp/Jordan	197.26	9.66	0.4	15.79	2.05	1.76	5.96
Jordan Dubai Islamic Bank	177.92	17.68	0.7	8.73	0.93	2.07	7.75

Source: Bloomberg, September 28th, 2016

¹ The metrics mentioned in the relative valuation table, except for the median, are calculated as the weighted average of each metric by market cap.

- There are 13 banks listed on the General index, accounting for a total market cap of \$13,331.95M, equivalent to 63.56% of the index's total market cap as of September 30th, 2016. The largest of these banks by some distance is Arab Bank, with a market cap of \$5,492.31M as of Q3 2016.
- Based on the market multiples above, Jordan Islamic Bank and Cairo Amman Bank displayed the best y-t-d performances, with respective y-t-d returns by September 28th, 2016, of 39.89% and 44.27%, respectively.

However, Jordan Islamic Bank's P/B ratio of 1.40, compared to the sector's median of 1.30, suggests that the stock may witness a minor downward correction in price. In contrast, Cairo Amman Bank's relatively low P/B of 0.88 suggests that the stock is still undervalued and still has some upside potential.

- Jordan Kuwait Bank and Jordan Commercial Bank the worst performances in the sector during 2016 in terms of return, losing respective amounts of 11.89% and 13.50%. However, it should be noted that Jordan Kuwait Bank (JKB) appears to hold some upside potential judging by the P/B ratio of 1.11. Combined with the dividend yield of 6.28%, compared to a median yield of 5.45%, the JKB stock may be a good investment consideration.

Comparison of Fundamentals

Profitability metrics

Name	ROA (%)	ROE (%)	Net Interest Spread (%)	Trailing 12 Months NI (\$M)	Trailing 12M EPS (\$)
<i>Median</i>	<i>1.24</i>	<i>11.09</i>	<i>3.52</i>	<i>37.62</i>	<i>0.27</i>
Arab Bank	0.89	5.37	2.14	430.81	0.68
Housing Bank for Trade and Finance/The (THBK)	1.62	13.42	3.79	177.35	0.70
Jordan Islamic Bank	1.36	17.10	5.46	72.80	0.48
Bank of Jordan	1.88	12.42	8.87	60.82	0.30
Jordan Kuwait Bank	1.23	7.73	3.37	47.71	0.48
Cairo Amman Bank	1.57	12.87	4.19	54.99	0.31
Arab Jordan Investment Bank	1.20	11.18	2.94	29.87	0.20
Jordan Ahli Bank	0.73	6.31	3.61	26.35	0.15
Bank Al Etihad	1.40	11.34	2.95	45.38	0.36
Capital Bank of Jordan	-0.11	-0.82	2.80	-3.11	-0.02
Jordan Commercial Bank	0.88	8.68	3.14	16.62	0.16
Arab Banking Corp/ Jordan	1.48	11.01	3.75	22.54	0.21
Invest bank Co	1.96	11.22	3.70	23.20	0.23

Source: Bloomberg, June 30th 2016

- Jordan Islamic Bank and Bank of Jordan display favorable profitability metrics in terms of return on both assets and equity. In addition, the interest rate spreads generated by these banks indicate that they are equipped to generate excessive returns on their operational activities in spite of the low interest rates the Jordanian banking sector is currently witnessing.
- Capital Bank of Jordan represents the only listed bank in the sector to generate negative earnings. This may be linked to the bank's inability to generate an interest rate spread greater than or at the sector median of 3.52%. Jordan Ahli Bank also appears to be performing poorly, as suggested by its ROA and ROE metrics significantly lagging behind the sector median.
- Arab Bank is the economy's largest bank, in terms of credit facilities extended, asset size and market cap. However, the bank's involvement in a lawsuit resulted in large provisions being taken, thereby dragging down Arab bank's ROA, ROE and EPS metrics. Arab Bank's return on assets and return on common equity stood at 0.89% and 5.37%, compared to medians of 1.29% and 11.09%, respectively, for listed Jordanian banks. The bank also trails its local peers in terms of dividend yield, which tallied 3.38% for dividends distributed for 2015's performance. In contrast, Jordanian banks boasted a median dividend yield of 5.45%. However, Arab Bank remained one of the most profitable companies, as suggested by Earnings per Share of \$0.68, with only the Housing Bank for Trade and Finance achieving a higher \$0.70. In terms of net income, Arab Bank by far outperforms its peers, with a trailing 12 months net income of \$430.81M (JOD 340.16M).

Drivers of Banking Activity

Name	Total Loans (\$M)	Total Deposits (\$M)	LTD Ratio (%)
<i>Median</i>	1,790.44	2,214.15	73.22
Arab Bank	22,524.11	32,218.18	69.91
<i>Growth (%)</i>	1.55	-1.77	
Housing Bank for Trade and Finance/The	5,547.19	7,785.09	71.25
<i>Growth (%)</i>	11.80	-5.39	
Jordan Islamic Bank	3,168.33	4,912.46	64.50
<i>Growth (%)</i>	14.24	7.27	
Bank of Jordan	1,766.40	2,354.72	75.02
<i>Growth (%)</i>	4.85	3.61	
Jordan Kuwait Bank	1,973.18	2,636.55	74.84
<i>Growth (%)</i>	-4.22	6.20	
Cairo Amman Bank	1,814.48	2,073.58	87.50
<i>Growth (%)</i>	9.59	-11.71	
Arab Jordan Investment Bank	1,059.20	1,505.93	70.33
<i>Growth (%)</i>	7.17	1.86	
Jordan Ahli Bank	2,196.31	2,813.69	78.06
<i>Growth (%)</i>	14.00	25.21	
Bank Al Etihad	1,846.75	2,523.09	73.19
<i>Growth (%)</i>	3.47	12.50	
Capital Bank of Jordan	1,342.83	1,833.26	73.25
<i>Growth (%)</i>	3.21	-0.64	
Jordan Commercial Bank	957.12	1,503.67	63.65
<i>Growth (%)</i>	11.02	16.37	
Arab Banking Corp/ Jordan	833.33	899.76	92.62
<i>Growth (%)</i>	12.37	-8.46	
Invest Bank Co	725.43	825.82	87.84
<i>Growth (%)</i>	3.38	3.90	

Source: Bloomberg, September 28th, 2016

- Jordan's economy is experiencing a change in monetary policy and decreasing interest rates in an attempt to boost investor appetite for loans. This policy appears to already be taking effect, as demonstrated by most of the listed Jordanian banks registering growth in loan activity.
- Arab Bank witnessed the slowest growth in total loans, along with the smallest decline in total deposits. Considering that most banks operate almost entirely in Jordan, Arab Bank's less volatile changes in their accounts can be linked to the geographical diversity of Arab Bank's activities.

Macroeconomic Overview of Jordanian Banking Sector

The International Monetary Fund (IMF) adjusted its forecasts for Jordan's economic growth downwards to 3.20% and 3.70% for 2016 and 2017, with 2018 forecasts currently at a higher 4.00%.

In an attempt to combat the stagnant economic situation, the Central Bank of Jordan (CBJ) has adopted an expansionary monetary policy to encourage investment in the economy at more affordable lending costs. Over the first 5 months of 2016, the CBJ reduced the weighted average interest rates on interbank transactions, overdrafts and loans and advances by 0.214 percentage points (pp), 0.26 pp and 0.08 pp to respective rates of 1.75%, 7.75% and 8.16%.

By end-July 2016, deposits at Jordan's licensed banks had reached a level of JOD 33.08B (\$46.71B), increasing 3.45% since end-December 2015. The resident private sector accounted for 78.94% of these deposits, tallying a total of JOD 26.12B (\$36.88B) by July, 2016, compared to JOD 25.80B (\$36.43B) by the end of 2015.

Total credit facilities extended by licensed banks grew by 3.69% year to date, ending July 2016 at JOD 22.26B (\$31.43B). Loans and advances accounted for the bulk of the credit portfolio with JOD 19.36B (\$27.34B), or 86.97%, and return higher yields on average than overdrafts.

As such, Jordanian banks had a consolidated loan-to-deposit (LTD) ratio of 67.29% by end-July, increasing from December 2015's level of 64.74%. It is worth mentioning that most Jordanian banks operate almost entirely within the Jordanian economy, with Arab Bank the obvious exception.

Interest rates are expected to increase in the Kingdom in the future if austerity measures currently in place serve to improve private sector spending. However, it is also important to bear in mind that the Jordanian Dinar's peg to the U.S dollar means that such monetary policy decisions will hinge on the U.S Fed's decision regarding whether or not to raise their interest rates between now and the end of the year.