INITIATION OF COVERAGE

Jordan Kuwait Bank

Coverage initiated with an Overweight Rating

Target Price estimated at JD 3.45 per share

Jordan Kuwait Bank

Target Price JD 3.45 per share
Market Price JD 2.51 per share

July 19th 2024

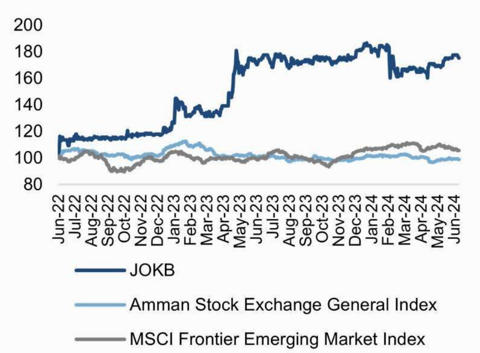
Financials

Bloomberg	JOKB JR
Reuters	JOKB AM
52-week High / Low (JD)	2.64 / 2.21
Market Cap (JD mn) *	377
Volume 6m Avg. (in '000 Shares)	14.4
Free float	17.60%
EPS CAGR 24 -28F*	7.0%
Dividend yield (FY23)	3.2%

*as of 14th July, 2024; Earnings growth includes one-off adjustments

YE: 31 Dec	2023	2024F	2025F	2026F
Op. income (JD mn)	281.4	325.8	363.8	374.2
% change YoY	101.7%	15.8%	11.7%	2.8%
Net income (JD mn)*	59	95	111	116
EPS (JD)*	0.39	0.64	0.74	0.77
P/BV (x)	0.61	0.53	0.43	0.39
ROAE (%)	12.4%	17.6%	16.2%	15.3%
P/E (x)	6.4	4.0	3.4	3.3

*excludes one-offs



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We initiate coverage on Jordan Kuwait Bank (JOKB, the Bank) with an Overweight recommendation. Our 12-month price target of JD 3.45 per share, provides an upside of 37.3% from the current level. The Bank is undergoing a transformational phase through acquisitions and digital initiatives and is well positioned to tap the emerging growth opportunities in Jordan and Iraq, following its acquisition of Bank of Baghdad (BoB). We like JOKB's diversified business mix, double digit growth earnings prospects, a lean cost structure (which in our view has further headroom to improve through digital initiatives), improving asset quality and a well-capitalized balance sheet (and backed by Kuwait-based KIPCO being the largest shareholder). At 0.6x P/B, the shares of JOKB are trading at a discount of ~17% to Jordan banking sector peers, which in our view is unwarranted. The Bank offers an attractive dividend yield of 3.2% (FY23) with potential dividend pay-outs of ~54.0% in the forecast period, making is attractive for long term investors.

Well established in Jordan; expanding footprint in Iraq with strategic acquisitions: JOKB has 60+ branches in Jordan and has captured ~7.0% market share of customer deposits in Jordan. Furthermore, in January 2023, JOKB acquired a majority stake in Bank of Baghdad (BoB: ~53.4% stake held as of December 2023), expanding its presence in the Iraq market. This has proven to be a value acquisition and created synergies post-acquisition, with BoB's market capitalization surging ~2.4 times. Jordanian economy is expected to grow at a steady pace of ~2.9% and while Iraq economy is recovering and forecast to grow at ~3.5% from FY24 to FY28. Overall, we expect loan book to grow at a CAGR of 5.5% till FY28 while deposit mobilization is forecast at ~2.8%.

Steadily shifting focus from corporate lending into retail / SME segment: JOKB has over the recent years has steadily increased its lending mix towards the retail segment (~24% of gross lending in FY23 including RE mortgages) and SME segment (~10%) from FY18 to FY23; an overall shift of 600bps away from Corporate loans (~58%). The SME segment is also supported by external funding which provide liquidity to JOKB at a low cost and the bank lends it with preferential rate to SME customers at a higher yield. This segmental shift has given JOKB an advantage for favourable asset pricing and lower cost financing and hence the management is anticipating higher spread and profitability going forward. Further, the management is expecting the asset quality to improve.

Strategic acquisitions to diversify income sources: Besides the acquisition of BoB, JOKB has acquired stakes in multiple financial services companies as United Financial Investments, Ejara Leasing Company. Besides this, JOKB holds 10% or more stake in Algeria Gulf Bank, Quds Bank, BHM Capital, Middle East Payments Services and Al Ehtirafiah Real Estate Investment Company. These entities are into payment related services, brokerage related services, investment banking, asset management, amongst others and generate revenue through a fee-based income. JOKB is thus transitioning itself from a traditional banking player into a diversified financial service offering with fee income expected to contribute almost ~34% of total income in the forecast period.

Digitization initiatives to drive cost efficiencies: Since the onset of COVID-19, JOKB has intensified its digital banking initiatives (Loyalty programs and a suite of digital products), partnering with various third-party FinTech companies such as Codebase Technologies, Infobip, amongst others. Overall, we expect the bank to improve its operational efficiency and the C/I ratio is expected to decline by ~182bps between FY23 and FY28 to reach below 35% levels.

Key Investment Risks: Lower than expected economic recovery in Jordan and Iraq; Geopolitical uncertainty in the Middle Eastern region creating headwinds to the banking sector in the region; Nearing of new interest rate cycle with pressure on margins and profitability; Devaluation of Iraqi Dinar, amongst others, are some of the key investment risks which could impact our target price estimate.

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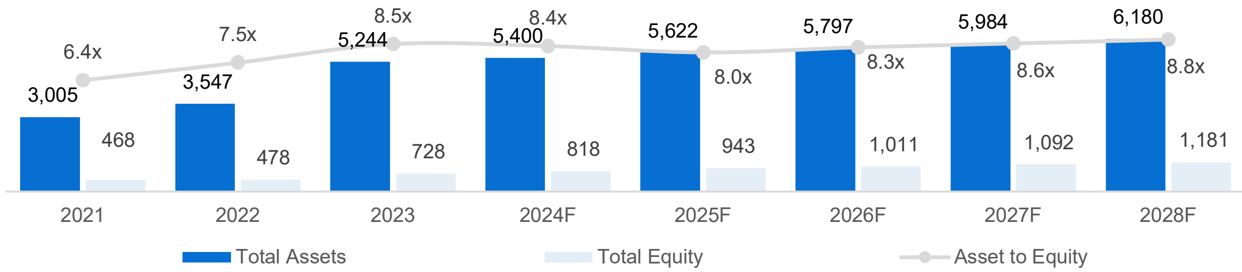
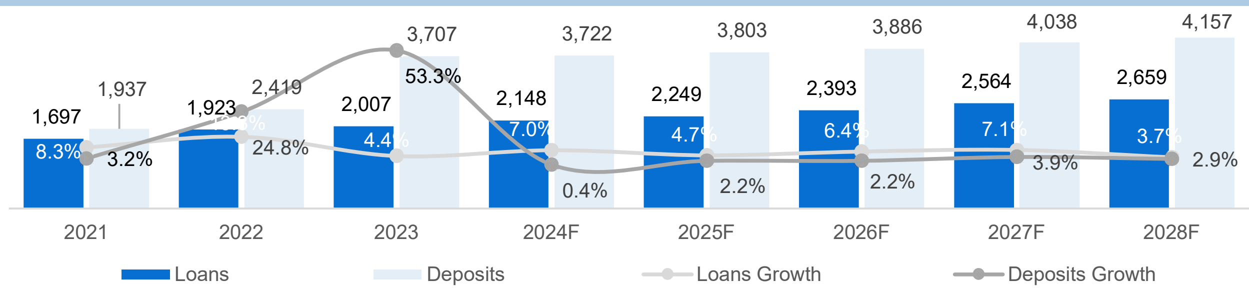
JOKB Story in Charts

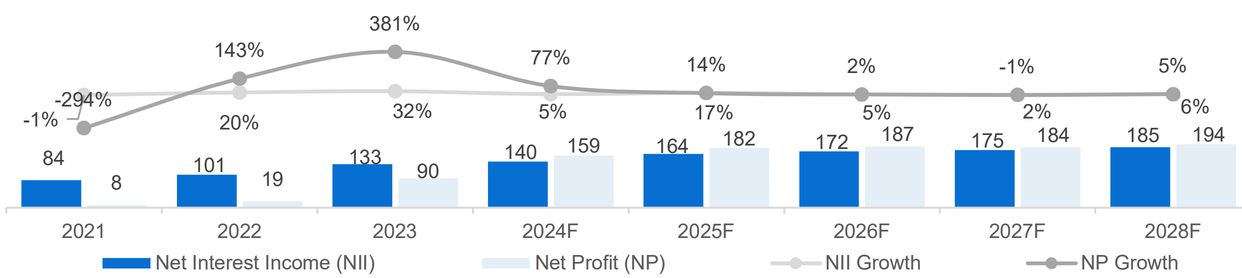
The Asset to Equity ratio is expected to trend upwards as JOKB is expected to increase its advancements gradually



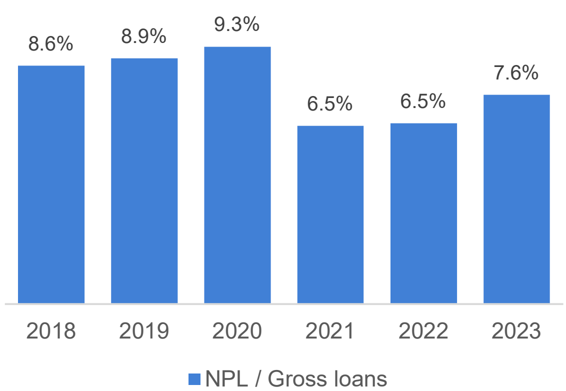
JOKB's loan and deposit book grew at a CAGR of 4.2% and 15.7% respectively, from FY18 to FY23 (JD mn)



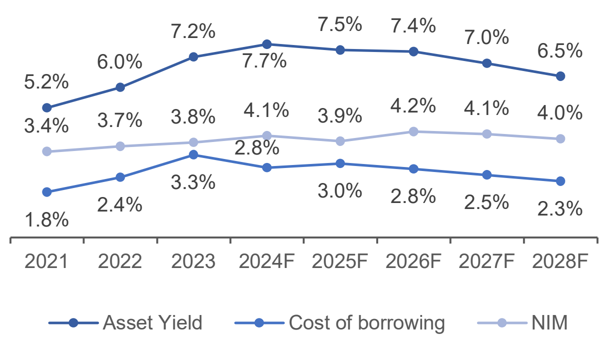
Stable increase in NII and net income is expected during the period of FY23 to FY28 (JD mn)



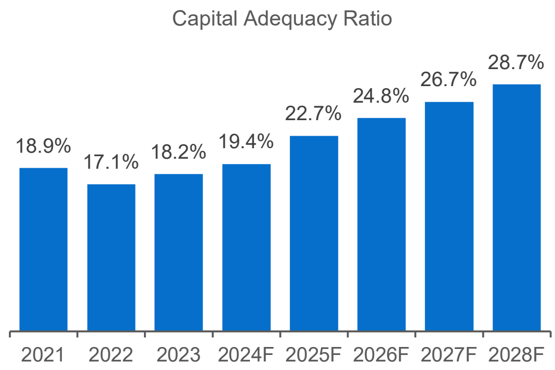
Asset quality improved substantially in FY21, however, it continues to deteriorate from FY22-FY23



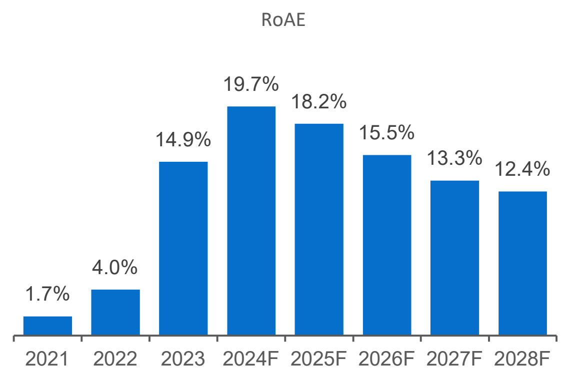
NIM and yields expected to taper down due to unfavourable interest rate environment / rate cuts



Adequately Capitalized with CAR well above minimum requirement



RoAE is expected to reach at ~12% level at the end of FY28



Source: Company reports

Investment Thesis

Improvement in NOI led by strong growth in commission income and improving yields

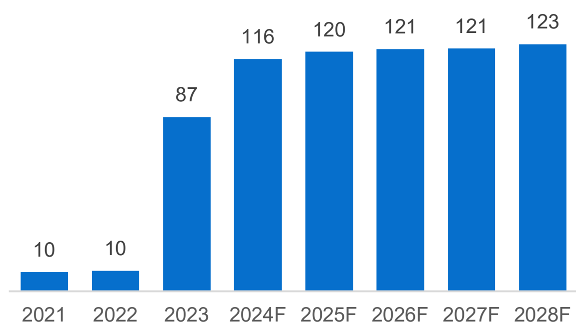
JOKB's net operating income has improved and is likely to continue benefiting from the acquisition synergies

Since FY21, JOKB's net interest income surged from JD 84.3mn to JD 133.2mn by FY23 (+25.7% CAGR FY21 to FY23), primarily attributed to the bank's adept repricing of assets in response to repo rate increase from 3.3% in FY21 to 8.3% in FY23. The benchmark interest rates are at the peak of the rate cycle and a reversal is expected in H2 FY24, consecutively we project JOKB's asset yield to dip from its current 7.2% to 6.5% between FY24 and FY28. We expect this decline to be moderate, given the bank's increased exposure to the retail and SME segments, which have attractive prices. Further, the acquisition of BoB in FY23 has increased bank's asset base and has a potential to favorably price the assets.

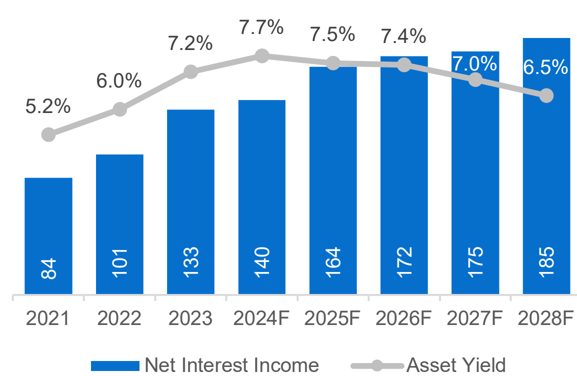
JOKB witnessed a surge in net fees and commission income which is expected to continue on the back of its acquisition of BoB. The geopolitical situation continues to be the major challenge for bank's re-pricing decision given JOKB's loan portfolio has 99.4% floating loans and 0.6% fixed rate mainly related to car/auto loans. Hence, the acquisition of BoB will help the bank to enhance commissions income and FX revenue.

Exhibit 01: Asset and funding base dynamics

Net fees and commission income – JD mn



Net Interest Income and Asset Yield – JD mn



Source: Company reports

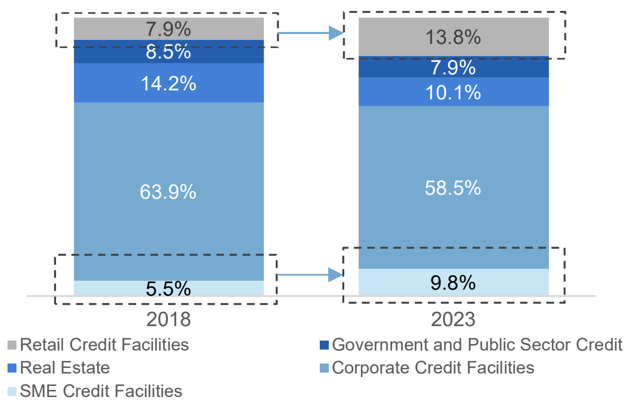
Reconstitution in the loan book with robust growth in retail /SME loans

Growth in SME and Retail segment to improve asset yield

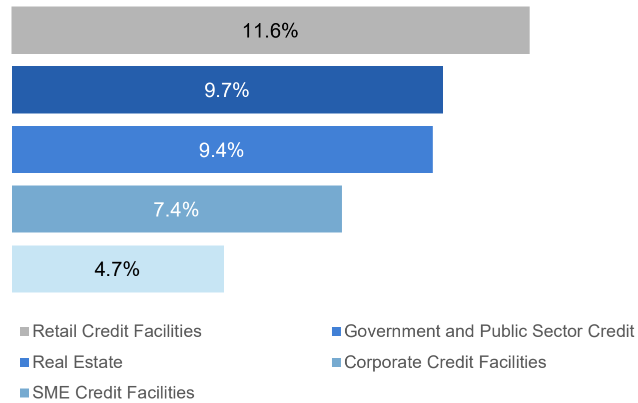
JOKB has increased the share of its SME and retail in its gross loan-book from 5.5% and 7.9% in FY18 to 9.8% and 13.8% in FY23. This is in-line with the bank's long term strategy of reducing its exposure to the corporate sector (yield of ~7.4% in FY23) and increase its efforts towards the retail (average yield of 11.6% in FY23) and SME sector (average yield of ~4.6% in FY23). The bank's SME lending activities benefit from external funding provided by entities such as CBJ and EIB. This external funding offers the bank low to zero-cost liquidity, in order to provide preferential rates to SME customers, thus improving the spread gain for the bank overall.

Exhibit 02: JOKB loan-book matrices

Sector wise loan-book break-down



Segment wise yield on gross credit facilities – FY23



Source: Company Reports

We expect the share of SME and retail portfolio in the bank's loan-book to continue to increase on back of the bank's intensifying strategic efforts through digital initiatives, new product offerings, promotions and cross-selling opportunities, resulting in an elevated average expected asset yield of 7.2% during FY24 to FY28 (even in a declining interest rate scenario).

Digital initiatives to improve efficiency of the bank's operations

Since the onset of COVID-19 pandemic, JOKB has demonstrated renewed focus on digitization by partnering with various tech service providers. In our discussions, the management has reiterated its focus on various digital initiatives, including launch / upgradation of digital services such as wallet, contactless payments, digital lending, fraud management systems, revamping loyalty programs and exploring open banking strategies.

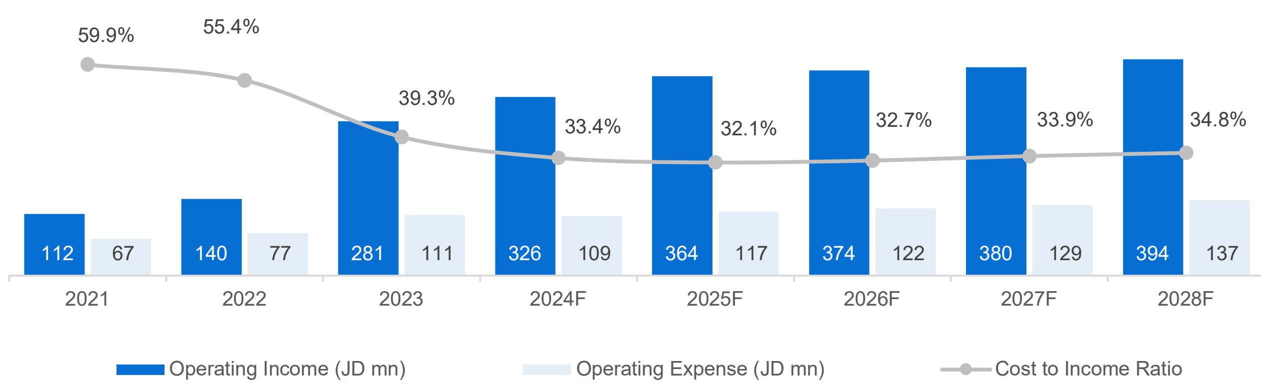
Exhibit 03: Recent Digital Partnerships and Initiatives of JOKB:

Multicurrency prepaid wallet	In July 2024, JOKB partnered with Mastercard and UAE-based fintech FOO to launch eliWallet, a prepaid digital wallet offering virtual and physical cards for cross-border transactions across online channels and in-store payments
iGTB platform	In April 2024, JOKB partnered with iGTB to implement its Digital Transaction Banking (DTB) offering. This will enhance the transaction banking channels with new digital capabilities for its corporate and SME customers
AI-Chatbot Masa	In September 2023, the bank launched Jordan's first AI-based Chatbot with Arabic capabilities to provide services like money transfer, bill payment and inquiries
Partnership with Codebase	In December 2022, the bank partnered with Codebase, an open-API banking solution provider to launch an omni-channel onboarding service and to provide instant credit card issuance
Implemented Cloud-based BPM platform	In December 2022, JOKB implemented cloud-based Business Process Management platform from iGrafx to allow automation, process mining, and Robotic Process Automation to reduce reliance on manual processes
Launched JKBMobile	In July 2022, the bank launched a new banking application "JKBMobile" in collaboration with Mawdoo3
Digitization and Trade Automation	In June 2022, the bank adopted Traydstream's platform to improve the bank's efficiency of managing large volumes of trade documents including letters of credit
Data Security and Disaster Recovery	In February 2022, the bank partnered with Zain for management, storage, and security of its data under disaster scenarios. This upgrades JKB's promptness to deal with emergency cases

Source: News Articles

Post the acquisition of BoB, JOKB's cost to income of 36.6% (in FY23) remains the lowest among its peers. Moreover, we expect the bank's digital initiatives to result in decline in C/I ratio by another 182bps between FY23 and FY28 to reach below 35% levels. The ratio has increased in recent years due to the development projects that the bank initiated to improve its services. However, going forward, considering the completion of new digital initiative projects, we expect considerable improvement on cost efficiencies.

Exhibit 04: JOKB Cost to Income Matrices:



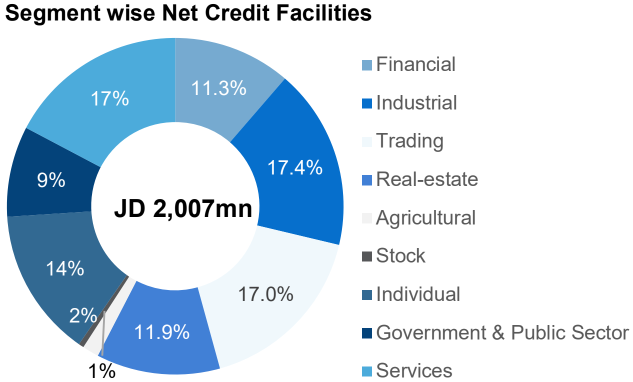
Source: Company Reports

Cost of Risk (CoR) forecast to be lower on back of improving NPL

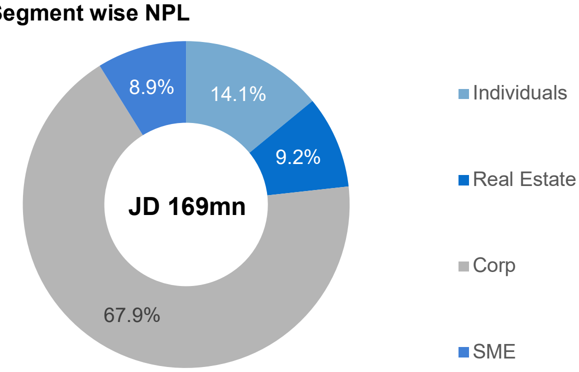
JOKB has a well-diversified loan book across various sectors, however, corporate sector contributes to around 67.9% of total NPLs, making the bank vulnerable to business and economic cycles. Recently, Jordan's economy has exhibited robust signs of recovery specially in manufacturing (17.3%), transport (8.1%), agricultural (2.1%), and construction (3.6%) sectors in H1 FY23. We expect the recovery in Jordan's economy to continue, resulting in contraction in CoR from (1.3%) in FY24 to (0.7%) in FY28.

Exhibit 05: Segment wise Net Credit Facilities and NPL

Segment wise Net Credit Facilities



Segment wise NPL



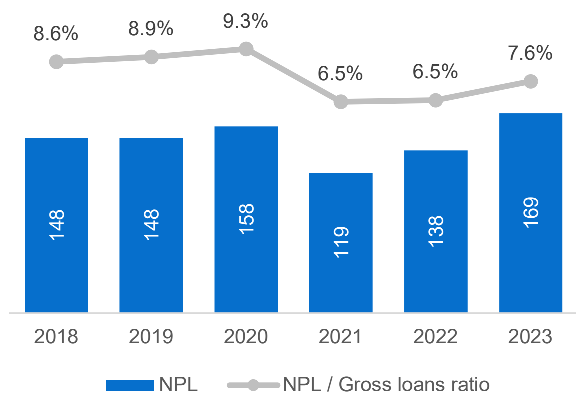
Source: Company reports

NPL ratio to continue its downward trajectory while an already high coverage to reduce provisioning in coming years

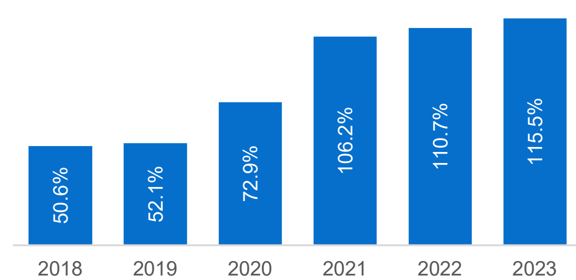
NPL ratio of JOKB has improved from 9.3% in FY20 to 7.6% in FY23, resulting from economic recovery and credit expansion in Jordan. Further, the bank has been more conservative in its risk management practices and has consecutively improved the NPL coverage ratio from 72.9% to 115.5% in FY23. While this has temporarily impacted net income, we expect normalization in provisioning on back of declining NPL ratio and decreasing cost of risk.

Exhibit 06: Asset and funding base dynamics

NPL (JD mn) and NPL / Gross loans ratio



NPL Coverage ratio



Source: Company reports

BoB's acquisition to provide geographical diversification and increase non-interest income

Improvement in asset quality due to recovery in Jordanian economy would result in banks reporting lower impairment charges going forward

Burgan Bank (BB) sold its stake in BoB to JOKB (~53.4% as of December 2023), citing strategic reallocation of assets. The transaction resulted in an increase in CET1 ratio of BB by 70bps. In our view, this transaction is strategic and has enabled BB to focus more on Kuwait's operations which is expecting a strong demand of credit (~KD 6.5bn) from the retail mortgage segment driven by the new mortgage law.

While, the challenges in Iraq are substantial, its economy is on a path to recovery (FY25 GDP growth forecasted at 5.3%) with significant room for growth in banking and financial services (bank account ownership at ~19.0% against MENA average of ~48.0%). Further, the country risk for BoB is negated by high capital adequacy (52.0% in FY22) and dominance of high yielding sovereign bonds in its asset portfolio (~38.5% of its total assets), as well as robust share of commission and fee income (representing ~61.0% of its net interest and commission income).

JOKB stands to gain from geographical diversification in Iraq and an increase in non-interest income potential. In FY23, on account of BoB's acquisition, JOKB's commission income increased by ~8.5x.

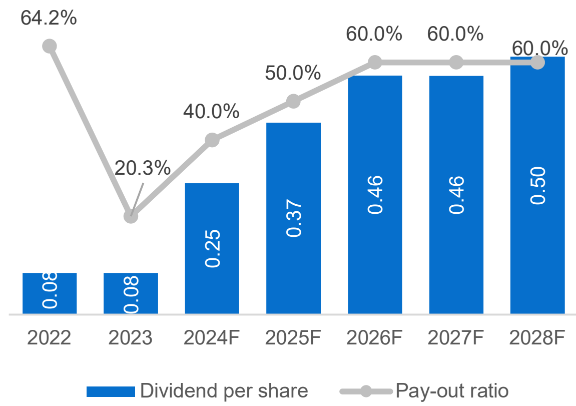
JOKB's pay-out ratio to increase due to recent spurt in earnings

Despite a ~3.2x increase in EPS in FY23, JOKB has paid a constant dividend per share constant of JD 0.08, resulting in a drastic drop in dividend payout ratio (from 64.2% to 20.3% in FY23). Further, as compared to peers, JOKB has provided the lowest dividend yield of 3.2% against its peer average of 6.4% on a TTM basis.

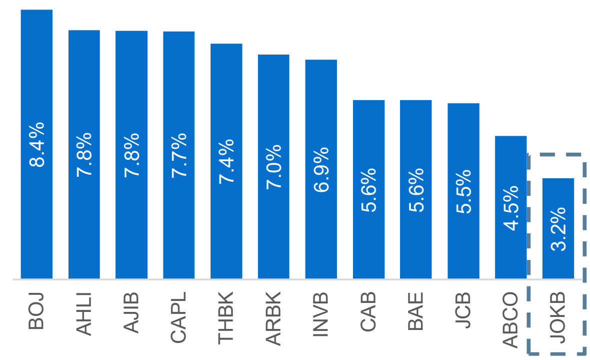
Going forward, strong growth in EPS (7.0% CAGR from FY24 to FY28) is expected to provide sufficient cash flows, eventually leading to an increase in pay-out ratio to be at a level of more than 50.0% through FY28.

Exhibit 07: Dividend Matrices

Dividend per share (JD) and pay-out ratio



Dividend Yield (TTM)



Source: Company reports, Bloomberg

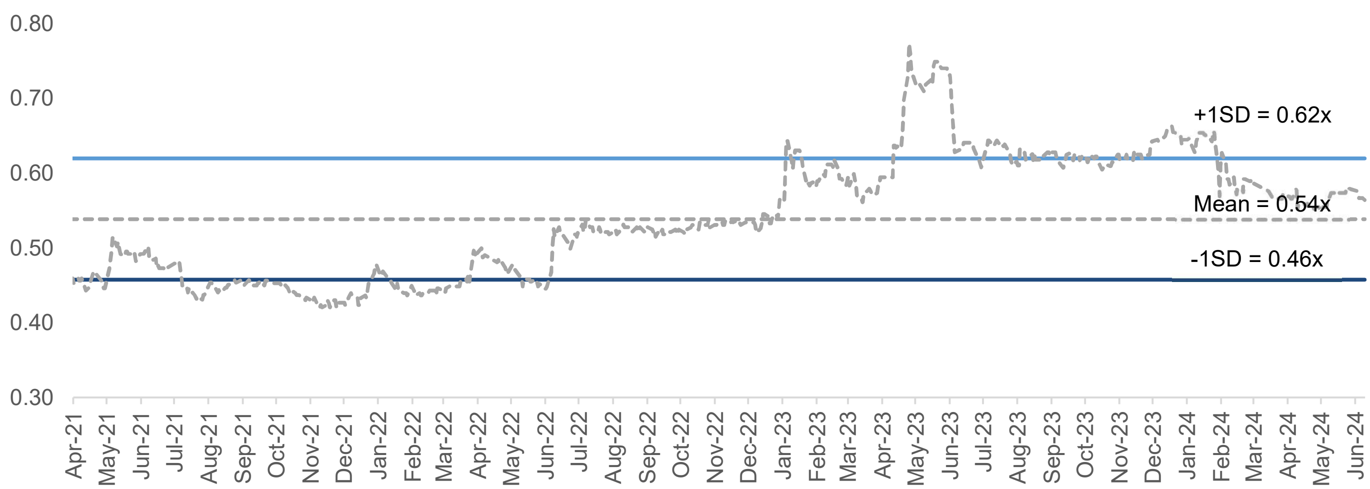
Valuation & Recommendation

Upside of 37.3% from CMP of JD 2.51 per share

JOKB has emerged as a geographically well-diversified bank with its expanded presence in Jordan, Iraq and Cyprus through its subsidiary and new acquisition (BoB). The ~53.4% stake of BoB is expected to create synergies and give JOKB a competitive advantage in the market as it widens its customer base, improve digital channels, increase asset size and have better pricing power.

We recommend an Overweight rating on the shares of JOKB with a target price of JD 3.45 per share, translating to an upside of 37.3% from the last close of JD 2.51 per share. We expect the bank to continue growing the loan book at a CAGR of 5.5% between FY24 and FY28F. The C/I ratio is expected to remain below 35% over the next three to five years on the back of the bank's continuous efforts on digitization and cost rationalization. The stock corrected by ~2.3% YTD and has underperformed Amman Stock Exchange General Index which has been stable YTD. However, we anticipate a potential upside of 37.3% due to continued mispricing of the shares.

Exhibit 08: JOKB PB trend



Source: Bloomberg

Our 12-month target price estimate is based on a weighted average of Justified PB (33.3%), Relative PE (33.3%) and Relative PB (33.3%) methodologies.

Exhibit 09: Valuation summary

Methodology	Weightage	JD per share
Justified PB multiple	33.3%	3.63
Relative P/E	33.3%	3.34
Relative P/B	33.3%	3.37
Target valuation		**3.45**
Current market price (JD)		2.51
Upside / (Downside)		37.3 %

Source: BHM Capital Estimates

Target price estimated at JD 3.63 per share based on a justified PB multiple of 0.8x

RoAE, CoE and terminal growth rate, contribute to a justified PB multiple of 0.8x. The justified PB multiple and FY24F book value per share of JD 4.8, leads to a target price estimate of JD 3.63 per share.

Exhibit 10: Justified PB valuation

Justified P/B	
ROAE (Sustainable)	12.0%
Cost of Equity	14.8%
Terminal growth rate	3.0%
Target P/BV	0.8x
Book value per share FY24F	4.8
Value per share (JD)	**3.63**

Source: Company reports, BHM Capital Estimates

Cost of equity calculations considers the yield of the 10-year Jordanian bond, weighted average of 3 years' beta (asset weight of Jordan and Iraq) based on the daily price performance of the stock, vis-à-vis the Amman stock exchange index. Terminal growth rate is assumed at 3.0%, considering the average GDP growth rate for Jordan & Iraq over the next 5 years.

Sensitivity analysis (JD per share)

		Return on Equity (Average FY24 to FY28)				
		1.0%	2.0%	3.0%	4.0%	5.0%
Cost of Equity	13.8%	4.09	4.03	3.96	3.88	3.79
	14.3%	3.93	3.87	3.79	3.70	3.58
	14.8%	3.79	3.72	**3.63**	3.52	3.40
	15.3%	3.66	3.58	3.48	3.37	3.23
	15.8%	3.53	3.45	3.34	3.23	3.08

Peer valuation yields a target price of JD 3.34 (based on relative PE multiple) and 3.37 (based on relative PB multiple) per share

For relative valuation, we have considered Jordan banks as a peer group for JOKB. Based on JOKB's market cap of USD 533mn, we have selected peers in the range of ~USD 100mn to ~USD 4.0bn.

Based on the relative PE multiple method, our target price estimate basis the FY23 EPS of JD 0.39 and target PE multiple of 7.6x, the shares are valued at JD 3.34 per share. In the PE method, we have incorporated the value of OCI investments, i.e., Al Quds Bank (10.0%), BHM Capital (10.0%), Gulf Bank Algeria (10.0%), MEPS (19.77%) and Al Ehrerafiah (19.98%) stake in JOKB.

Additionally, based on FY24F book value per share of JD 4.75 and target PB multiple of 0.7x, the shares are valued at JD 3.37 per share.

Exhibit 11: Relative valuation

	PE multiple	PB multiple
Weighted average multiple	7.63x	0.71x
Discount / Premium	-	-
Applied multiple	7.63x	0.71x
EPS and Book value per share (JD)	0.39	4.75
Value of OCI investments (JD per share) *	0.33	NA
Value per share (JD)	**3.34**	**3.37**

Source: BHM Capital Estimates

Note: Value of OCI investments has been derived using a mark to market approach for JOKB stake in BHM capital (10%) and Al Quds Bank (10%); For Gulf Bank Algeria (10%), MEPS (19.77%) and Al Ehrerafiah (19.98%) we have derived the valuation based on MENA peers PB multiple

Exhibit 12: Valuation of OCI Investments

	Al Quds Bank	BHM Capital	Gulf Bank Algeria	MEPS	Al Ehrerafiah
Ticker	QUDS PS Equity	BHMCAPIT UH Equity	NA	NA	NA
Total Market Cap (JD 000)	72,873	112,803	248,550	4,425	25,311
% Stake held by JOKB	10%	10%	10%	19.8%	20.0%
MTM value of Stake (JD 000)	**7,287**	**11,280**	**24,855**	**875**	**5,057**
Book value of equity (DZD '000)			39,632,200	NA	NA
Book value of equity (JD '000)			210,051	3,740	21,390
PB ratio (MENA region)			1.2x	1.2	1.2
PB valuation			**248,550**	**4,425**	**25,311**

Source: Bloomberg
Note: MENA peer's multiple for Gulf Bank Algeria, MEPS and Al Ehrerafiah

Exhibit 13: Peer table (as of July 14, 2024)

Banks	Country	Market Cap (USD mn)	P/E (x)	P/B (x)	ROE (%)	ROA (%)	NPM (%)
Jordan Kuwait Bank	Jordan	533	7.4	0.6	11.7%	1.4%	21.4%
Jordanian Peers							
Arab Bank Plc	Jordan	3,860	4.7	0.4	8.4%	1.3%	29.1%
Housing Bank for Trade And F	Jordan	1,511	7.7	0.8	10.9%	1.6%	31.2%
Jordan Islamic Bank	Jordan	1,126	12.8	1.5	11.5%	1.1%	35.2%
Capital Bank of Jordan	Jordan	712	6.1	0.9	14.8%	1.1%	19.4%
Bank of Jordan	Jordan	607	9.8	0.9	8.7%	1.5%	26.1%
Bank Al Etihad	Jordan	508	8.2	0.7	8.6%	0.6%	17.6%
Cairo Amman Bank	Jordan	339	7.7	0.5	7.2%	0.8%	20.0%
Jordan Ahli Bank	Jordan	294	11.1	0.6	5.8%	0.6%	15.3%
Arab Jordan Investment Bank	Jordan	275	11.0	0.9	8.6%	0.8%	22.6%
Safwa Islamic Bank	Jordan	264	12.7	1.2	9.6%	0.6%	22.6%
Invest Bank Co	Jordan	206	5.7	0.7	12.4%	1.4%	28.0%
Jordan Commercial Bank	Jordan	164	10.0	0.7	7.0%	0.9%	19.2%
Arab Banking Corp/Jordan	Jordan	104	22.1	0.4	2.0%	0.2%	10.8%
Weighted average* (Jordanian peers)			**7.6**	**0.7**	**9.5%**	**1.2%**	**27.2%**
MENA Peers							
National Bank of Ras Al-Khai	UAE	2,903	5.6	1.0	19.4%	2.6%	40.5%
Al Ahli Bank of Kuwait	Kuwait	2,404	14.9	1.2	8.4%	0.8%	23.8%
Burgan Bank	Kuwait	2,250	18.9	0.8	4.5%	0.6%	19.0%
Sharjah Islamic Bank	UAE	1,964	9.1	1.2	14.8%	1.4%	47.7%
Al Salam Bank BSC	Bahrain	1,494	11.6	1.5	13.0%	1.0%	36.3%
Warba Bank KSCP	Kuwait	1,315	23.9	1.3	5.5%	0.4%	30.8%
Banque Intl Arabe De Tunisie	Tunisia	1,167	10.9	1.7	16.4%	1.5%	23.4%
National Bank of Oman Saog	Oman	1,098	7.8	0.8	9.4%	1.2%	39.8%
Kuwait International Bank	Kuwait	981	18.4	0.9	5.6%	1.6%	26.2%
Attijari Bank	Tunisia	744	10.2	2.1	21.2%	1.9%	31.2%
Bank Nizwa	Oman	604	12.6	0.9	7.1%	1.1%	30.8%
Credit Agricole Egypt	Eypt	501	3.9	1.6	48.3%	6.4%	51.7%
Banque De Tunisie	Tunisia	445	8.0	1.0	13.7%	2.3%	36.8%
Weighted average* (MENA peers)			**12.4**	**1.2**	**12.7%**	**1.5%**	**32.8%**

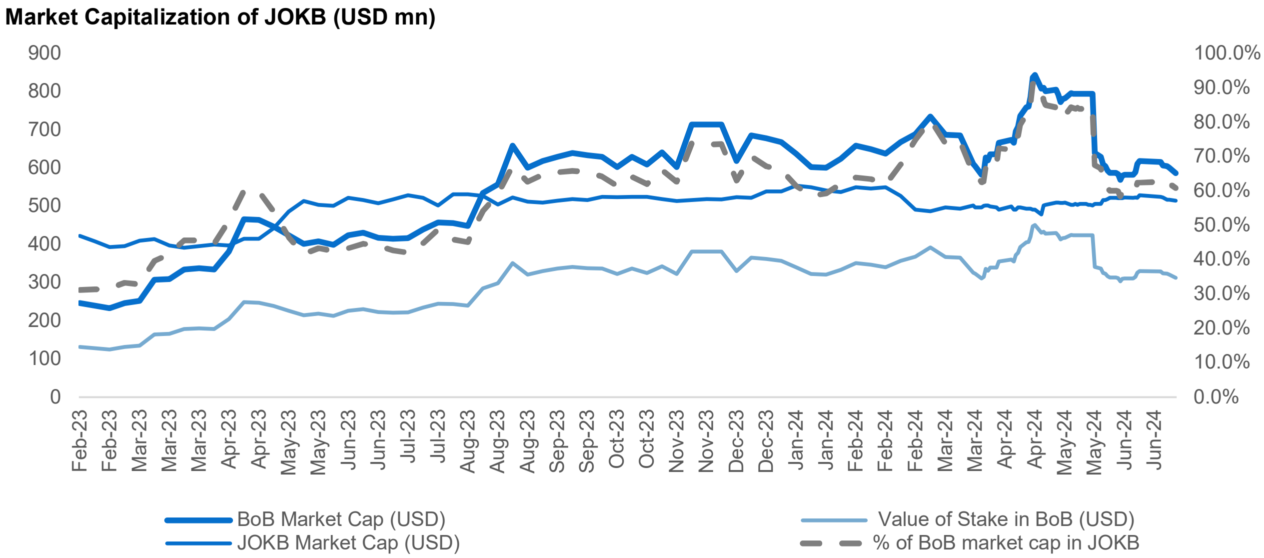
*Source: Bloomberg, *weighted average based on market cap*

JOKB's market capitalization is reflective of the increased value post-acquisition

Since acquisition, the value of JOKB's stake in BoB increased in value by ~2.4x times

Following the acquisition, BoB's market capitalization increased from ~USD 247mn (February 2023), to ~USD 580mn as of July 14, 2024. Consequently, JOKB's stake in BoB was valued at ~USD 310mn, representing ~58.1% of its total market capitalization. Therefore, we assert that the market has factored the increased value of BoB to a great extent.

Exhibit 14: JOKB valuation and Value of Stake in JOKB



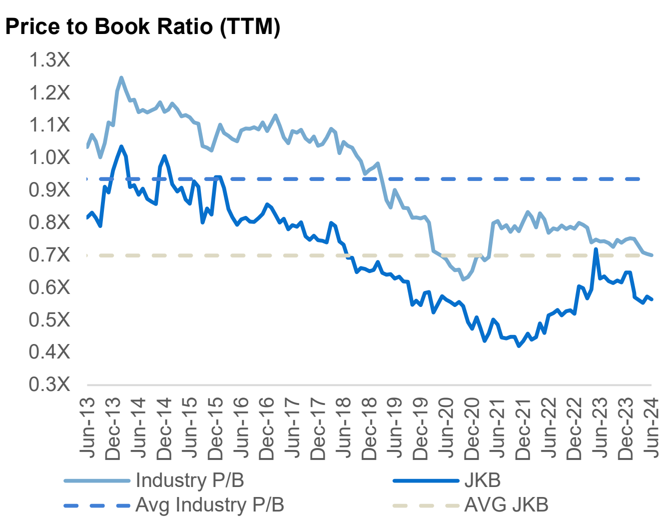
Note: Stake assumed to be constant at 53.4%, Source: Bloomberg

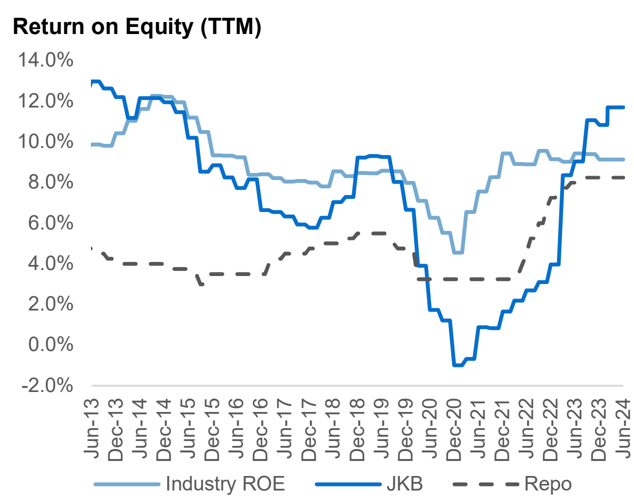
JOKB has historically traded below its peers, however recent improvements in ROE demand upward rerating

ROE above industry average to advocate for a revaluation in terms of multiples

JOKB has historically traded at an average P/B ratio of 0.70, 25.2% lower than the industry average of 0.94. This can be majorly attributed to the bank's relative underperformance as indicated by consistently lower ROE as compared to peers. However, post October 2020, the ROE of JOKB has been on an upward trajectory. Currently, on a TTM basis ROE stands at 11.7%, surpassing the industry average of 9.5%, justifying a valuation more consistent with its peers.

Exhibit 15: JOKB valuation matrices as compared to industry peers





Source: Bloomberg

Risks to valuation

Although not as affected as rest of the MENA region, headwinds from geopolitical challenges continue to put pressure on the banking sector of Jordan

Resilient economy maintaining stability and growth:

Jordan has witnessed real GDP growth rate of 3.7% in 2021 and 2.4% in 2022 post COVID-19 pandemic. Yet, structural constraints continue to weigh on labor market outcomes, and the decline in labor force participation persists. Unemployment is still high at 21.5% as of Q4 2023, remaining above its pre-COVID-19 average of 18.8%, with youth (unemployment at ~50.0%) being the most affected.

Tightening Monetary Policy:

However, with these challenges, Jordan also has contained inflation with prices increasing by an average of 2.1% in FY23, supported by monetary policy tightening and lower commodity prices. Furthermore, fiscal consolidation continues to build on growing domestic revenues, leading to an overall narrowing of the fiscal deficit which is expected to decline to 1.1% of GDP in 2024 and government's net debt/GDP is expected to decline to 78.9% in 2027 from 79.4% in 2024. Foreign Currency Reserves was at USD 14.3bn as of April 2024 an increase of 2.9% from USD 13.9bn in March 2024.

Anchored to US fed, the interest rate reversal expected to begin in H2 FY24: Jordan's central bank largely follows policy decisions taken by US Federal Reserve (Fed), as the currency is pegged to the USD. CBJ announced that the monetary tightening policy has ended and the reduction in interest rates will begin starting from H2 FY24, approximately by 25 basis points in each quarter.

Geopolitical tensions in the region:

Jordan has a record of maintaining economic and political stability despite significant external shocks including social instability in the region, but these shocks have led to lower growth and significant government debt build-up. Tourism sector is expected to be affected the most, considering conflicts in the neighboring countries. A prolonged or expanded conflict, even if it does not involve Jordan directly, could weaken growth prospects, increasing the challenges for fiscal consolidation. MENA region's geopolitical environment (including exposure in Palestine where JOKB has stake in Al Quds bank) has remained vulnerable in the past. Persistent tensions in the region be detrimental to bank's credit growth and profitability. This could have a major impact on our target price estimates.

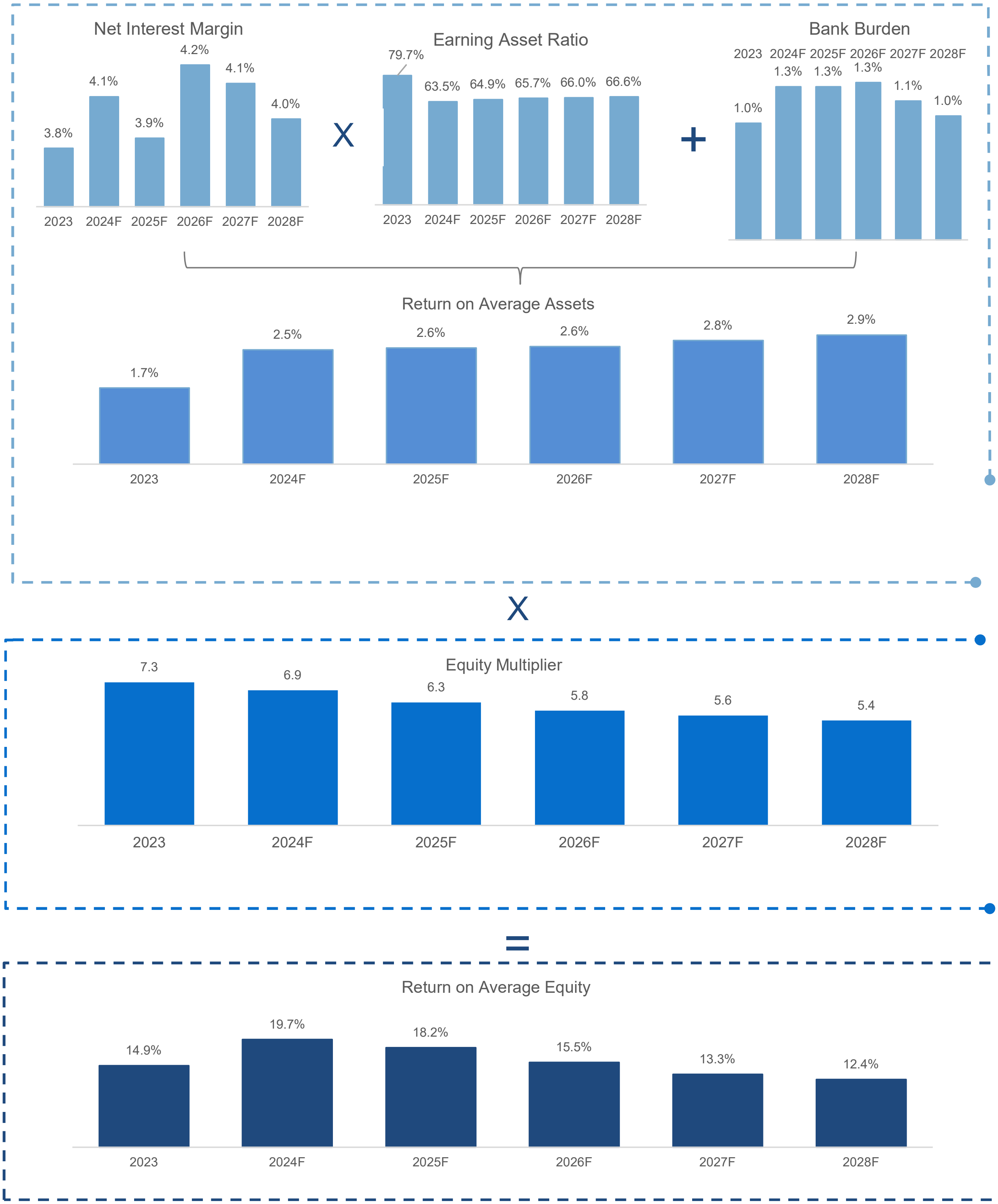
High mix of corporate book:

As of FY23, the corporate portfolio constitutes about 58.5% of the total loan book. Corporate books are typically cyclical in nature which has kept the bank vulnerable to business cycles and asset quality peaks. However, the bank is focused on reducing its exposure to corporate book going forward.

Exposure to Iraq:

The bank has exposure to Iraq through its recently acquired subsidiary BoB. Any escalation of conflict in Iraq might result in significant losses for the bank.

Exhibit 16: DuPont Analysis



Source: Company reports

Jordan Kuwait Bank - Overview

JOKB was incorporated in 1976 and evolved as a major banking player in Jordan banking sector with its evolution over a period of time. In mid-1997, the bank changed its strategic goal and slogan to “More than just a bank” and accordingly changed its development plan. The bank’s services were expanded to include the provision of investment advisory, legal services, financial engineering, insurance, brokerage and other services that global financial institutions require, turning the bank into a one-stop customer service provider with integrated offering to individual and institutional clients. Broadly, the services are broken down into different segments which are Retail, Corporate and SMEs, Private Banking, Treasury and Investment.

JOKB operates in Jordan, Cyprus and Iraq. JOKB is running its operations since the last 48 years

The bank operates with 60+ branches located throughout Jordan and 4 branches in Palestine and a branch in Cyprus enabling the Bank’s clients to carry out all their financial transactions inside and outside of Jordan. The Bank’s paid-up capital was gradually increased from JD 5.0mn at establishment to JD 150.0mn in FY20.

JOKB completed the consolidation of BoB financials within the group figures and is working on providing banking services in-house such as credit review, trade finance activities and other services in order to make more cost savings.

Credit Ratings Table

Capital Intelligence Ratings has affirmed JOKB’s standalone Rating (BSR) of 'BB-', Core Financial Strength (CFS) rating of 'BB', and Extraordinary Support Level (ESL) of Moderate. The Outlook for LT FCR and BSR is Stable.

Rating Agency	Capital Intelligence
Date	July 2nd 2024
FC Rating LT	BB-
FC Rating ST	B
Outlook	Stable

Segmental overview

JOKB conducts its business through four segments:

Corporate segment constitutes the highest in the total loan book of JOKB

Retail banking segment includes individual customers’ deposits, credit facilities including real estate mortgage, credit cards and other services. In FY23 the retail banking generated an interest income of JD 58.9mn contributing 23.3% to the total interest income. Around ~42.0% of the retail segment credit constitutes of real estate mortgages.

Corporate banking includes accepting deposits, and granting credit facilities and other specialized banking services to corporate customers. In FY23 corporate banking generated an income of JD 90.8mn contributing 35.9% to the total income. Corporate segment being the largest in the total loan book, constitutes ~58.5% of the total gross loans.

Treasury segment provides trading and treasury services, as well as management of the bank’s fund. In FY23 treasury department generated JD 75.9mn in income (30.0% of the total interest income).

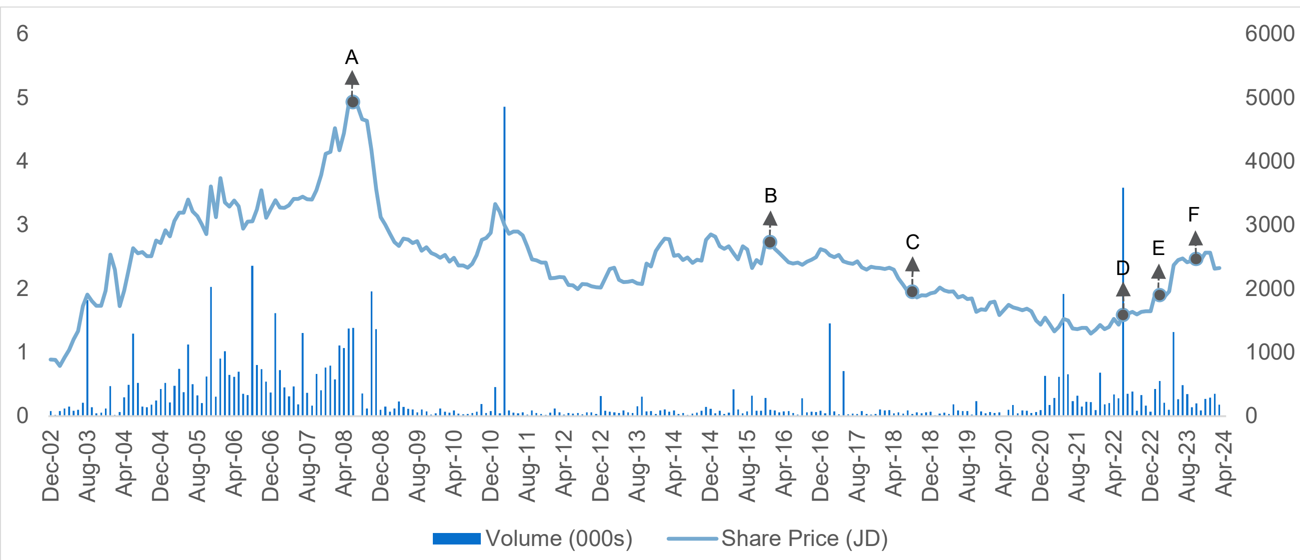
Others segment includes financial brokerage services and financial leasing services. Financial brokerage services involve brokerage and financial consultation services and financial leasing services involve leasing services and real estate development projects.

Exhibit 18: Historical Timeline and acquisition history of JOKB

Year	Key Development
1976	Established in 1976 as Jordanian public limited shareholding company with a paid-up capital of JD 5.0mn
1978	The bank underwent an initial public offering on the Amman Stock Exchange under the ticker symbol of JOKB
1995	Witnessed the Bank's first expansion abroad with the inauguration of its Nablus branch in Palestine
2002	Acquired UFICO, a brokerage and financial services company operating in Jordan
2008	KIPCO transferred share of the United Gulf Bank in JOKB's capital to Burgan Bank to strengthen relationship of JOKB with Group banks (**Event A** – refer price chart below)
2010	Inaugurated 50th branch by end of 2010 along with Bank's first Branch in Cyprus
2011	Acquired 100% stake of Ejara Finance Leasing Company, the company provides leasing services to in-house customers of the bank
2015	KIPCO becomes the majority shareholder of JOKB with ~51.0% stake to allow Burgan bank to meet capital ratios required under Basel III and strengthen balance sheet (**Event B** – refer price chart below)
2018	Acquired 10% of Al Quds Bank and merged its branches in Palestine with Al Quds Bank (**Event C** – refer price chart below)
2019	Collaboration with Western Union to launch a remittance service at preferential pricing
2020	Entered strategic partnership with Mastercard to foster digital payment innovations in Jordan
2022	UFICO, a subsidiary of JOKB, acquired Al Mawared Brokerage (subsidiary of Invest Bank) and Arab Financial Investment Company (AFIN), offering local and foreign brokerage services (**Event D** – refer price chart below)
2023	UFICO announced the completion of the acquisition procedures for the entire share capital of EFG Hermes / Jordan in November'23, 2023. This acquisition is for the strategic collaboration between the company and EFG Hermes Holding (Egypt) in Jordan
2023	Acquired stake in BoB to expand its presence in the region (**Event E** – refer price chart below) Sold 66.97% in BHM Capital to Ethmar International Holding (**Event F** – refer price chart below)

Source: Company Reports

Exhibit 19: Price and Volume chart with major events



Source: Bloomberg, Company Reports and News

Exhibit 20: Major subsidiaries

Subsidiary Company	United Financial Investments	Ejara Leasing Company	Bank of Baghdad
Year of Acquisition	2002	2011	2023
JOKB Ownership %	78.46%	100.0%	53.4%
Company Activity	Brokerage, Investment banking, Asset Management and Financial Services	Leasing services to Banking & Financial Services	Private Commercial Bank
Country of operations	Jordan	Jordan	Iraq

Note: Ownership as of December 2023, Source: Company reports

Apart from Jordan and Iraq, the bank also has presence in UAE, Palestine and Algeria, through its OCI investments.

Exhibit 21: OCI investments

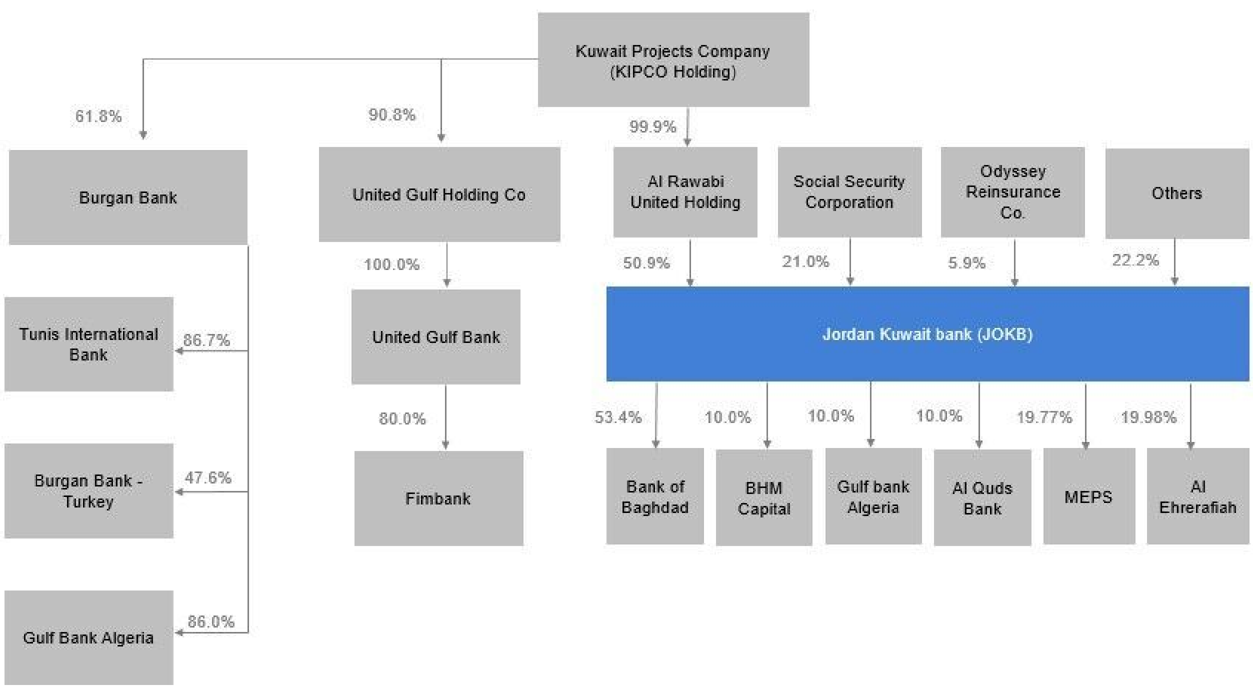
Investment Company	Al Quds Bank	Gulf Bank Algeria	BHM Capital Financial Services	MEPS	AL Ehrerafiah
JOKB Ownership %	10.0%	10.0%	10.0%	19.77%	19.98%
Company Activity	Bank	Bank	Financial Services	Payments Service Provider	Real Estate Investment Company
Country of operations	Palestine	Algeria	UAE	Jordan	NA

Source: Company reports

Shareholding structure

Kuwait Projects Company Holding (KIPCO), the main shareholder of Al Rawabi United Holding Co. holds a large share over the years. Other key shareholders of the bank include major local family holdings including Social Security Corp., Fairfax Financial Holdings Ltd., Hellman & Friedman LLC and Kuwait Wealth Holding Ltd., among others.

Exhibit 22: KIPCO's Group Structure in Banking



Note: Others in JOKB include Fairfax Financial Holdings, Hellman and Friedman, Kuwait Wealth Holding, etc.

Source: Company Reports FY23

Key Management Personnel

In March 2024, JOKB reformed the committee and made changes to the board appointing new Chairperson H.E. Sheikha Adana Nasser Sabah Al-Ahmad Al-Sabah.

H.E. Sheikha Adana Nasser Sabah Al-Ahmad Al-Sabah – Chairperson

- In March 2024, Sheikha Dana Naser Sabah Al-Ahmad Al- Sabah was appointed as the Chairperson of JOKB's board.
- She is also the Group Chief Executive Officer of KIPCO and the founder and chair of the board of trustees of the American University of Kuwait and the chairperson of the United Education Company. She holds board positions with Gulf Insurance Group, OSN, and Kamco Invest
- She holds a Bachelor's degree in English Literature, College of Arts, Kuwait University, 1996 and a Doctorate of Humane letters, Dartmouth College USA, 2017

Haethum S. Buttikhi– Chief Executive Officer

- Mr. S. Buttikhi has worked for more than 21 years with JOKB, majorly in Retail and Private banking divisions until he was appointed CEO in FY21
- Academically, he holds Bachelor's degree in Political Science & International Relations from Kent University, U.K.

Source: For more details on the executive management, please refer to the link

KIPCO Overview

JOKB's largest shareholder, Kuwait Projects Company Holding (KIPCO), which was incorporated in 1975, is an investment holding company based in Kuwait with over USD 38.7bn in assets as of H1 FY23. The conglomerate has ownership interests in more than 60 companies in over 20 countries across the MENA region. Its primary areas of business include financial services, media, real estate, and manufacturing. KIPCO's financial service interests include holdings in commercial banks, insurance companies, asset management and investment banking.

Exhibit 23: KIPCO presence in MENA and Timeline

Country	Banking Subsidiary
Kuwait	Burgan Bank
UAE	Burgan Bank Financial Services
Jordan	Jordan Kuwait Bank
Turkey	Burgan Bank - Turkey
Algeria	Gulf Bank Algeria (via Burgan Bank)
Iraq	Bank of Baghdad (via Jordan Kuwait Bank)
Malta	Fimbank
Tunisia	Tunis International Bank (Via Burgan Bank)

Year	Key Development
1988	KIPCO acquired 94% stake in United Gulf Bank
1995	KIPCO acquired material stake in Burgan Bank and Al Ahli Bank of Kuwait
2008	KIPCO increased stake in United Gulf Bank, Gulf Insurance Company and Burgan Bank Burgan Bank acquired 43.8% stake in JOKB from United Gulf Bank to increase its shareholding to 51.1%
2009	By the end of 2009, Burgan Bank had ownership interests in three regional banks - Burgan Bank Algeria, BoB and JOKB
2010	Burgan Bank acquired majority stake in Tunis International Bank with effective shareholding of 86.6%
2012	Burgan Bank acquired 99.3% stake in Eurobank Tekfen, now known as Burgan Bank – Turkey
2013	Acquired a controlling stake of 49% in Fimbank, Malta via Burgan Bank and UGB
2015	KIPCO acquired 51.0% stake in JOKB from Burgan Bank
2023	JOKB acquired BoB from Burgan Bank

Source: Company Reports

BoB Overview

BoB had 35 branches in Iraq and 1 branch in Lebanon as of FY23

At the beginning of FY23, JOKB acquired a majority stake in BoB (~53.4% held as of December 2023). Established in 1992, BoB offers banking services and is one of the largest private commercial banks in Iraq. The services include commercial real estate and construction loans, credit services, letters of credit and trade finance, in addition to the services to the individual customers which include savings accounts, housing loans, personal loans and auto loans. BoB has total of 35 branches in Iraq and is the member of KIPCO. It has total assets worth of IQD 2.7tn and shareholders' equity of IQD 474bn as of FY23.

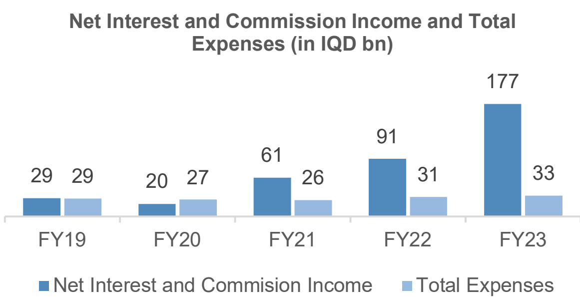
Credit Ratings Table

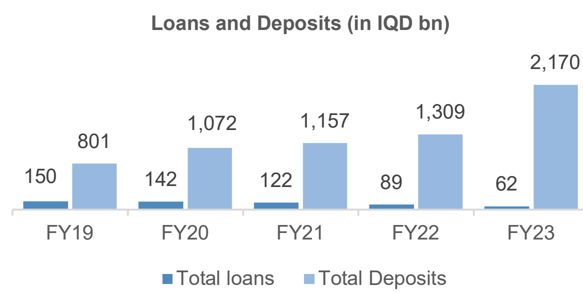
Capital Intelligence Ratings has affirmed BoB Standalone Rating (BSR) of 'B', Core Financial Strength (CFS) rating of 'BB-', and the Outlook for BSR is Stable.

Exhibit 24: BoB credit ratings

Rating Agency	Capital Intelligence
Date	March 2024
Rating	B
Outlook	Stable

Exhibit 25: BoB income, loans and deposits





Source: Company Reports

BoB has a wider scope of improvement with an opportunity to enhance its infrastructure and operations

Iraq's Banking sector remains underpenetrated providing JOKB immense opportunities. Banking in Iraq is dominated by State Owned Banks (SOBs) accounting for ~80.0% share in total banking assets and ~88.0% share in total deposits. However, these banks exhibit lack of modern financial infrastructure worsened by absence of core banking systems and weak corporate governance (for e.g., two largest banks Rasheed and Rafidain Bank with last audited financial statements in FY14). Hence, tapping into Iraqi market to bridge the gap for unbanked / underbanked population is an attractive opportunity

Financial analysis

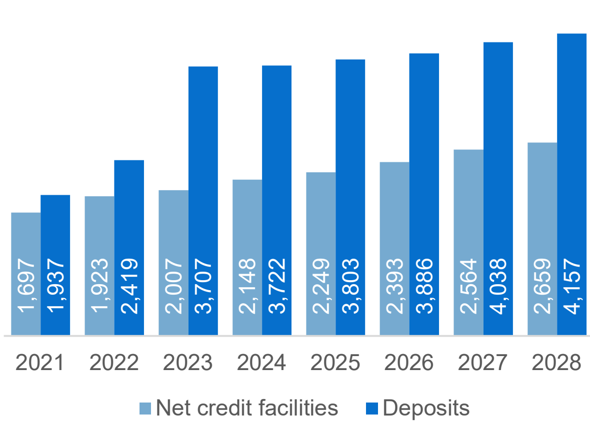
JOKB is projecting to grow the loan book at a CAGR of 5.5% with its focus shifting to retail and SME lending, away from corporate segment

Net credit facilities is expected to grow at a CAGR of 5.5% between FY24 and FY28. Currently, JOKB's majority of loan book has corporate segment exposure of ~58.5%, followed by retail segment (~23.9%), SMEs (~9.8%) and government (~7.9%). JOKB is shifting its focus from corporate segment to retail and SME lending (corporate loan book in FY18 was more than 60.0%), since these segment have better pricing opportunities. In anticipation of the upcoming interest rate reversal from the peak, targeting retail and SME segment can be a mitigating strategy to control pressures on margins and profitability going forward. Furthermore, JOKB is being supported by external funding in the SME segment, which provide the bank with liquidity with low to zero cost in order for the bank to lend it with preferential rate.

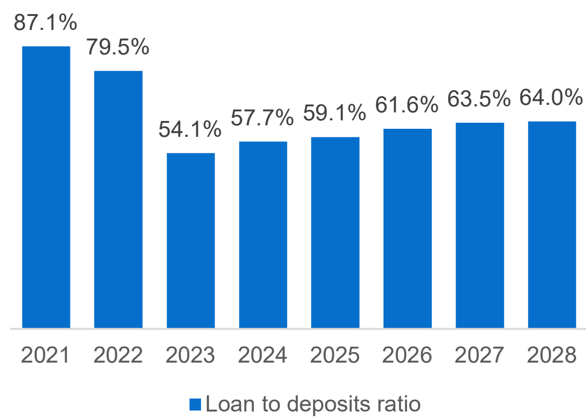
In FY23, the bank's deposit base grew by 53.3% largely driven by strong growth in current & demand deposit (+137.9%) which constitutes to around 44.9% of the total deposits and time and notice deposits (+12.3%) accounting for 46.6% of the total deposits. Going ahead, customer deposits are expected to grow at a CAGR of 2.8% through FY28.

Exhibit 26: Net loans, deposits and Loans to deposits ratio

Net credit facilities and deposits (JD mn)



Loans to deposits ratio



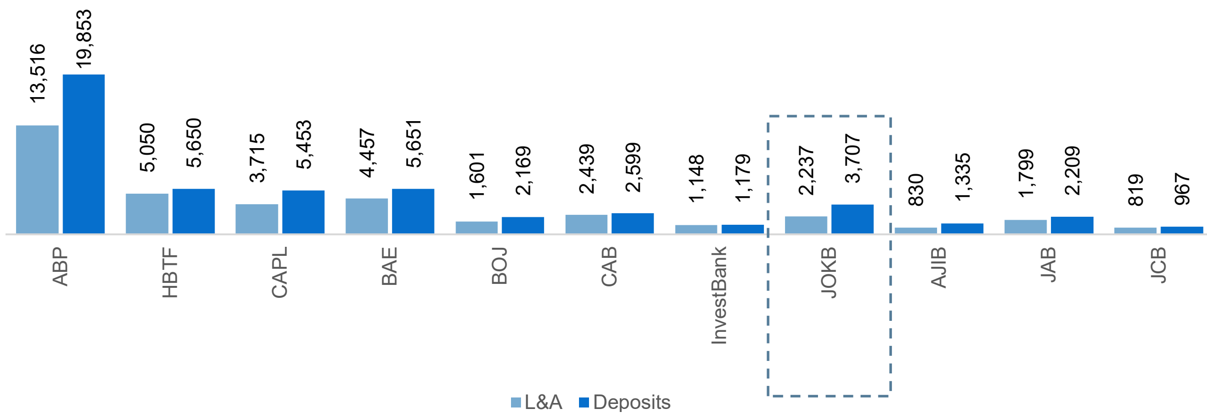
Source: Company reports, BHM Capital Estimates

JOKB is likely to face challenges gaining market share in other parts of MENA as banks in UAE, KSA, Qatar are well established and big in size

JOKB's loan book grew by 6.3% CAGR from FY19 to FY23 and deposits grew at a pace of 18.7% CAGR during the same period

Deposits continued to grow due to the rising interest rate environment favorable for term deposits. JOKB's deposits grew faster (+18.7% CAGR from FY19 to FY23) than aggregate bank deposits which grew to JD 49.4bn (+6.4% CAGR from FY19 to FY23)

Exhibit 27: L&A and deposits – FY23 (JD mn)



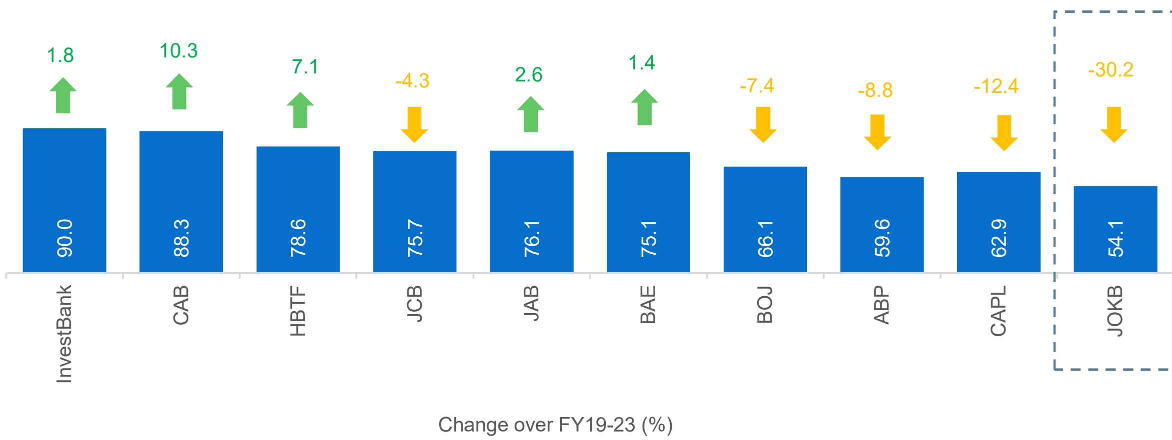
Source: Management inputs

JOKB has witnessed a declining trend of LDR over the years

Despite experiencing stronger loan and deposit growth, the bank witnessed a declining LDR over the years, placing it in a less favorable position compared to aggregate banks in Jordan

JOKB reported a decline of 30.2% points in LDR ratio to 54.1%, since FY19 to FY23, the highest of all. Aggregate LDR declined to 67.1% in FY23 (-5.2% points from FY19 to FY23.

Exhibit 28: Loan to deposits ratio – FY23 (%)



Source: Management inputs

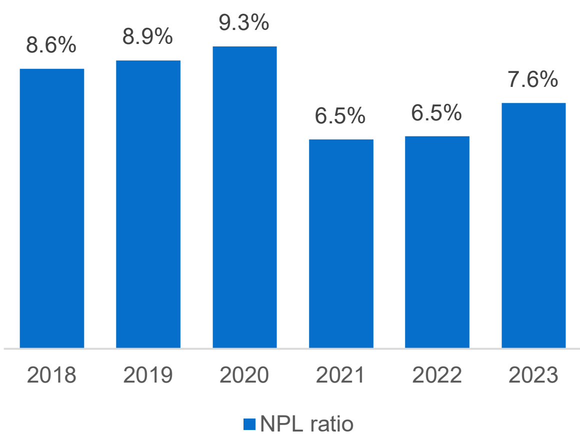
Asset quality to improved in FY22, before deteriorating in FY23

NPL / Gross loans ratio is expected to improve as the bank diversifies its operations geographically and by segment

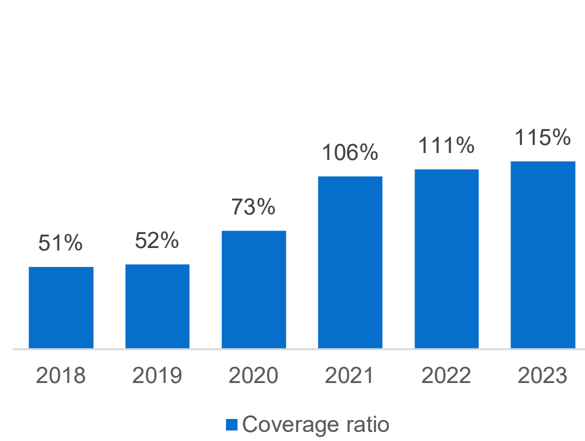
The bank's asset quality has improved in the last few years (from 9.3% in FY20 to 6.5% in FY22), before deteriorating in FY23 (7.6%) due to the bank facing major challenges for re-pricing assets, coupled with the macro-economic instability created due to conflicts in the region. JOKB reported coverage ratio at 115.5% in FY23.

Exhibit 29: Asset quality trend

NPL ratio



Coverage ratio



Source: Company reports, BHM Capital Estimates

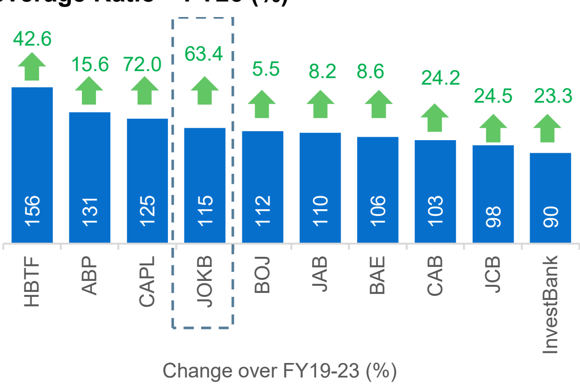
JOKB loan book improved its quality and has increased its cover over NPL over the years

JOKB reported an increase in the coverage ratio and improvement in bad loans

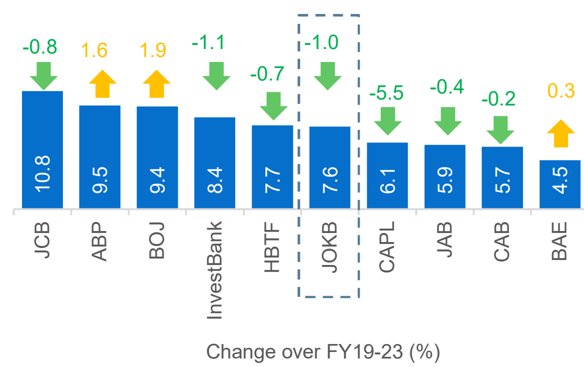
JOKB reported an increase in the coverage ratio by 63.4% points since FY19 till FY23. Asset quality improved on an aggregate level as most of the banks reported an decline in bad loans. JOKB witnessed a decline in NPL/Gross Loans ratio by 1.0% points since FY19 to FY23.

Exhibit 30: Coverage ratio and NPL / Gross loans

Coverage Ratio – FY23 (%)



NPL/Gross Loans – FY23 (%)



Source: Management inputs

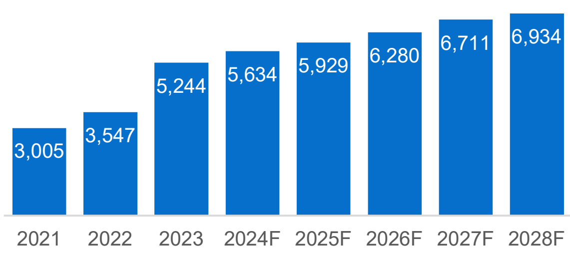
Consolidation of BoB's books has uplifted JOKB's asset size by 1.5x in FY23

Post BoB consolidation, the asset base increased 1.5x and is expected to steadily grow at a CAGR of 5.3%% from FY24 - FY28

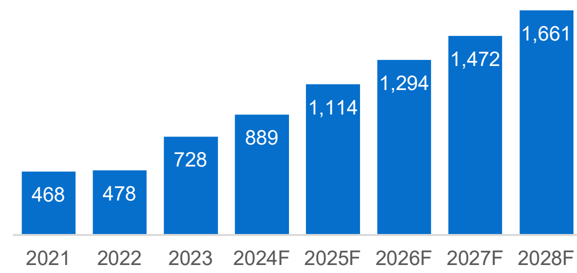
The Bank's total assets are expected to reach ~JD 6.9bn in FY28 from ~JD 5.2bn in FY23. Consolidation of BoB's assets remains the primary driver for growth in assets. JOKB is likely to continue making investments such as the recent Madfooatcom investment (an online, real-time bill presentment and payment system) made in March 2024, in which JOKB purchased a 5.0% stake. These investments are made with an intent to diversify beyond its core operations. Total shareholders' equity (including non-controlling interests) is expected to reach JD 1.7bn in FY 2028 from JD 728mn in FY23.

Exhibit 31: Key balance sheet line items

Total Assets – JD mn



Total Equity – JD mn



Source: Company reports, BHM Capital Estimates

NII grew at a pace of 10.0% CAGR from FY18 to FY23

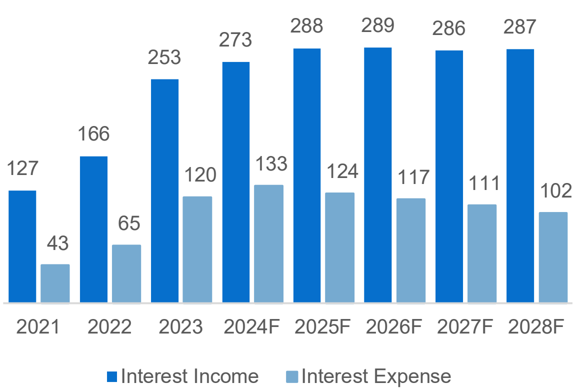
In anticipation of interest rate cycle reversal in H1 FY24, JOKB may face pressure on margins

NII increased at a CAGR of 10.0% from FY18 to FY23 and is expected to grow moderately (CAGR 7.2%) over the coming years. This slowdown in increase is due to contracting interest rates by CBJ in line with US Fed rate. However, churning of the loan portfolio by shifting its focus from corporate segment to retail and SME lending is expected to yield higher, mitigating the profitability and margins of JOKB.

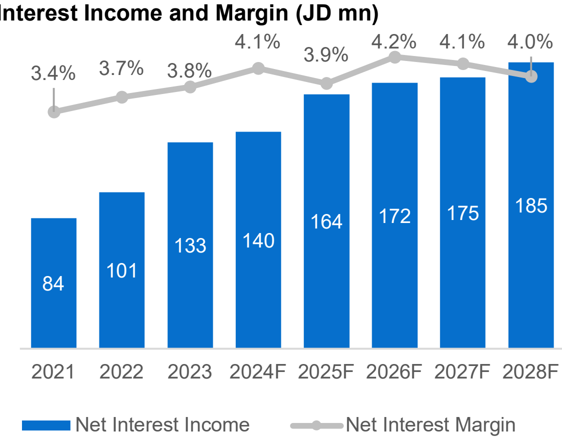
Around 40.0% of the total interest bearing liabilities are time and notice deposits (high cost instruments), followed by current and demand deposits (~38.6%). The cost of funds for JOKB was 3.3% in FY23 and is expected to smoothen down to 2.3% until FY28 along with the reversal of the interest rate cycle.

Exhibit 32: Net interest income and margins

Interest Income and Interest Expense (JD mn)

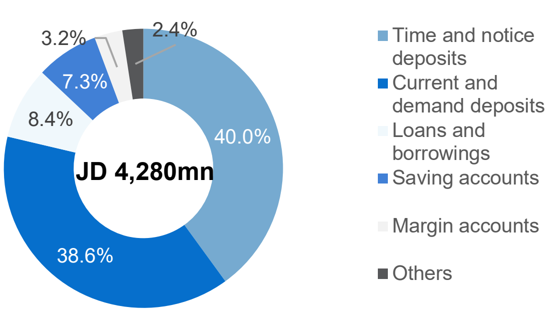


Net Interest Income and Margin (JD mn)

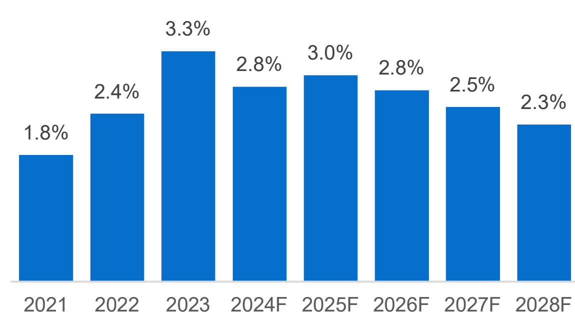


Source: Company reports, BHM estimates

Total interest bearing liabilities – (FY23 %)



Cost of funds



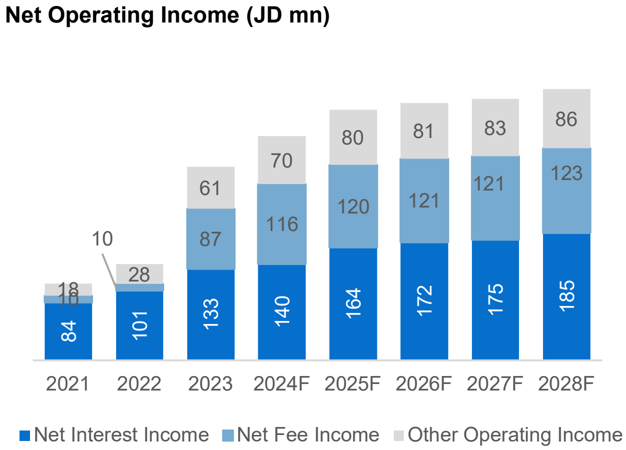
Source: Company reports, Bloomberg

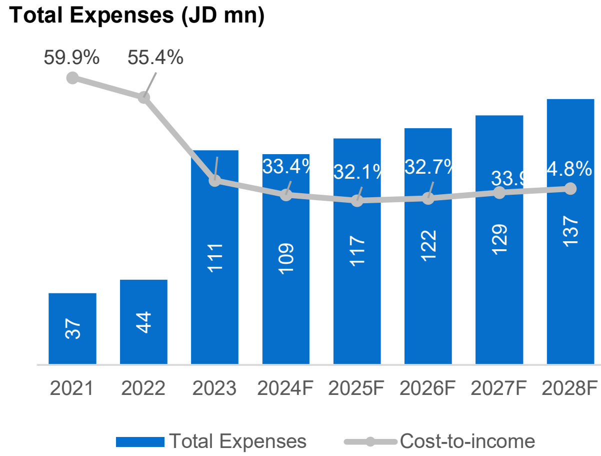
BoB's acquisition and improvement in the economic environment of Jordan to drive growth in the fee and commission income

JOKB reported a surge in net fees and commission income and is anticipating traction to remain strong

JOKB's net fees and commission income surged 8.5x in FY23 and it constitutes to ~30.9% of the net operating income (previously 7.3% in FY22). This is due to the consolidation of BoB's asset and other investment that JOKB is making, which is improving the bank's fee collection on the back of diversified operations.

Exhibit 33: Income and expenses trends





Source: Company reports, BHM Capital Estimates

Digitization efforts to improve operating efficiencies. C/I ratio be maintained below ~35.0%

Cost-to-Income to gradually decline on the back of digitization initiatives and acquisition synergies

With continuous efforts towards digitalization and streamlining operational processes, JOKB is anticipating improvement in its cost efficiency.

JOKB has improved its profitability and margins over the years; Its margin is medial to its peers

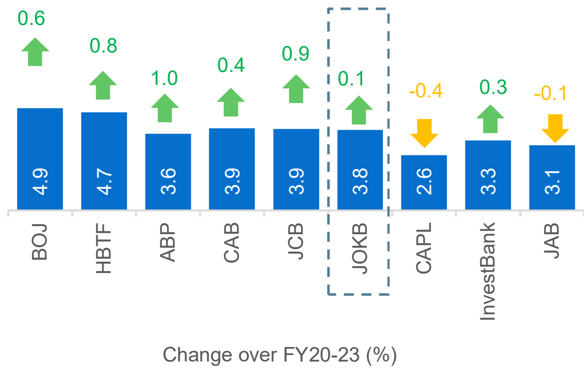
JOKB's profitability and margin has been improving along with the overall sector due to increasing interest rate scenario post COVID-19

NIM for JOKB has improved by 0.1% points over the period of last four years post COVID-19 pandemic as the CBJ increased the benchmark interest rate. The profitability and margins are likely to be pressurized.

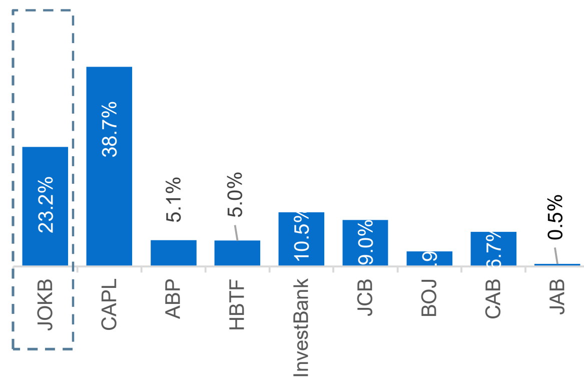
JOKB merger with BAE is expected to create synergies due to improved competitive advantage backed by larger size, increased customer base, better pricing power, etc. This is likely to put the consolidated bank with an advantage of higher profitability and margins.

Exhibit 34: NIM and Operating income growth – FY23 (%)

NIM – FY23 (%)



Operating income growth – FY19 to FY23 CAGR (%)



Source: Management inputs

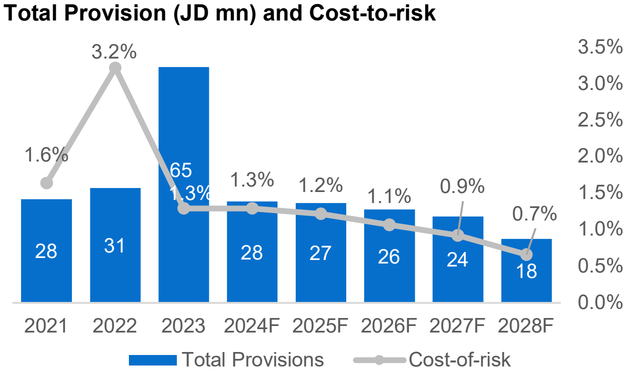
Provisioning increased 2x along with the increase in NPL in FY23 and profitability improved for the year

The provision for expected credit losses increased 2.0x from JD 31.5mn in FY22 to JD 64.5mn in FY23. JOKB reported higher impairment charges as the NPL increased by 22.9% YoY in FY23. With an increase in the impairments, the coverage ratio also increased to 115.5% in FY23 (+4.8% points YoY).

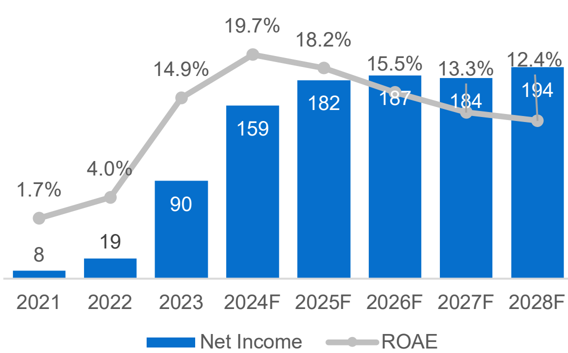
RoAE improved by 11.0% points in FY23 to 14.9% from 4.0% in FY22. Whereas, RoAA improved by 1.5% points in FY23 to 2.0% from 0.6% in FY22.

Exhibit 35: Provisioning and bottom line

Total Provision (JD mn) and Cost-to-risk

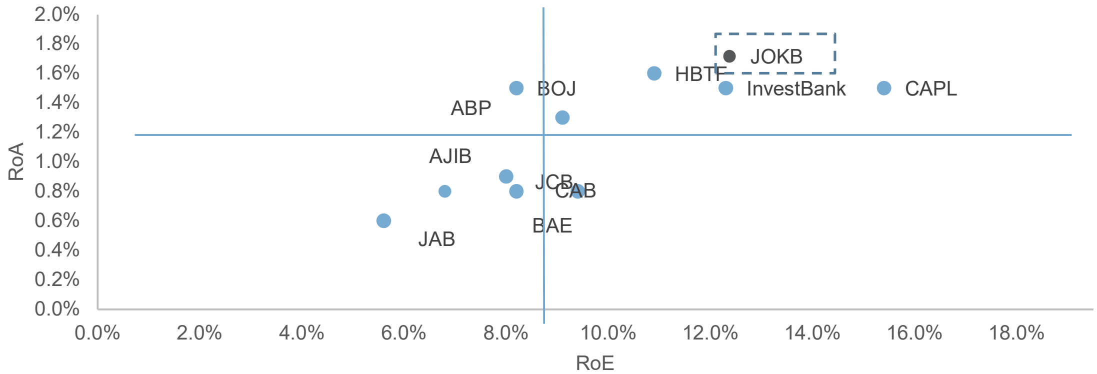


Net Income (JD mn) and ROAE



Source: Company reports, BHM Capital Estimates

Exhibit 36: ROA and ROE of Jordanian Banks – FY23 (%)



Source: Management inputs

Macroeconomic Overview

Economic activity in Jordan has rebounded since the COVID-19 pandemic, driven by increasing investment by ~1.0% in FY23 (slower than ~3.0% in FY22), gradual monetary easing and positive spillovers from regional activity. Annual real GDP growth, averaging 1.3% during FY20-FY21, increased to 2.6% in FY23, the highest since FY16.

Jordan economy withstood the geopolitical shocks in FY23 and has a B+/B rating with a stable outlook

Exhibit 37: Jordan macroeconomic profile

	2021	2022	2023	2024F	2025F
GDP Growth %	3.7%	2.4%	2.6%	2.6%	3.0%
Inflation	2.3%	4.4%	2.0%	2.7%	2.4%
Fiscal Deficit (JD in bn)	2.48	2.45	2.65	2.91	2.13
Public Debt (JD in bn)	29.51	31.70	33.0	34.7	36.2
Fiscal Deficit / GDP	7.6%	7.0%	7.3%	7.7%	5.3%
Public Debt / GDP	89.8%	91.8%	91.2%	91.4%	90.3%

Source: IMF WEO April 2024 Database

Inflation has been effectively contained, with prices showing a modest average increase of 2.0% in FY23, and the expectation is an average of 2.5% from FY24 to FY27. Notably, real GDP growth has begun to outpace population growth, marking a positive shift from JOD 2.8k in FY22 to JOD 2.9k in FY23 after over a decade of consistently declining per capita incomes. The debt-to-GDP ratio declined in FY23 to 91.2% as exhibited in the table above, and continued progress is contingent on the authorities' effectiveness in reducing losses at state-owned enterprises (SOEs).

Unemployment rate in Jordan estimated to be 21.5% in FY23, lower than 24.1% in FY21

However, Jordan's unemployment rate which decreased from 24.1% in FY21 to around 21.5% in FY23 still remains above the pre-pandemic level of 19.1% in FY19. Despite the government's reform aimed to enhance the medium term economic activity and job creation particularly in the private sector, the unemployment rate remains higher compared to pre-pandemic levels.

Key Drivers: Jordan's economy saw recovery in most sectors but was mainly driven by the improved performance in the manufacturing (19.7%), transportation (9.5%), agricultural (5.4%), and construction (3.2%) sectors in FY23. The local bank's credit expansion further contributed to an increased added value in the commercial, tourism, hotel, and restaurant sectors. With very limited natural resources to derive revenues from, the country has focused on several sectors to boost the economy. One such example is the financial sector which contributed 8.4% to GDP in FY23. Jordan is one of the most committed countries to financial reforms within MENA (privatization, tax reforms, opening of the banking sector) etc.

Outlook: Jordan's economic outlook in FY24 remains contingent upon the continued recovery of tourism and growth in non-service sectors. The country remains vulnerable to rising energy and food prices, as well as disruptions in the global supply-chain, due to its high import dependency.

The Government of Jordan (GoJ) is actively implementing structural reforms to drive the country's growth and development. Through its Economic Modernization vision, the government is committed to ensuring sustainable growth particularly through private investment and foreign direct investment. In January 2023, Investment Promotion Strategy 2023-26 was approved which focuses on priority sectors such as Information and Communications Technology (ICT), logistics, chemicals, mining, healthcare, and real estate. This strategy aims to enhance investor experiences through a specialized electronic platform, streamlining communication, registration, and licensing processes. The Public Private Partnerships (PPP) amendment was adopted in July 2023 which seeks to expedite processes and establish a dedicated PPP unit under the Ministry of Investment. Legal reforms are also underway to promote youth employment and increase female labor-market participation.

The short-term growth outlook for Jordan appears relatively stable; however, uncertainties persist, depending on the successful implementation of reforms, growth in key sectors and the conditions in neighboring countries

S&P affirmed Jordan’s credit rating

Jordan’s credit rating was affirmed at ‘B+ (long-term) / B (short-term)’ by S&P, driven by government’s structural reforms

In March 2024, rating agency S&P affirmed Jordan’s sovereign credit rating at ‘B+/B’ with a ‘Stable’ outlook, citing rating strengths such as Jordan's good relations with donors and multilateral institutions as seen with the latest IMF lending program approved on 10th Jan 2024 and consistently higher-than-pledged support from the U.S. Congress. The agency also took a note of heightening regional tensions, which is weighing on Jordan's tourism, exports and curbing trade.

The agency further expects Jordan's budgetary imbalances to gradually moderate, but still-modest growth and lingering financial problems at state-owned enterprises will keep net general government debt elevated, at ~80.0% of GDP over FY24-FY26, with a marginal decline expected in FY27. More structurally, the government's fiscal consolidation and tight monetary conditions in the wider economy will drag on demand and hence imports. This will likely narrow Jordan's current account deficit-to-GDP ratio to a projected 4.5% on average over FY24-FY27, from an average of 6.4% over FY20-FY23.

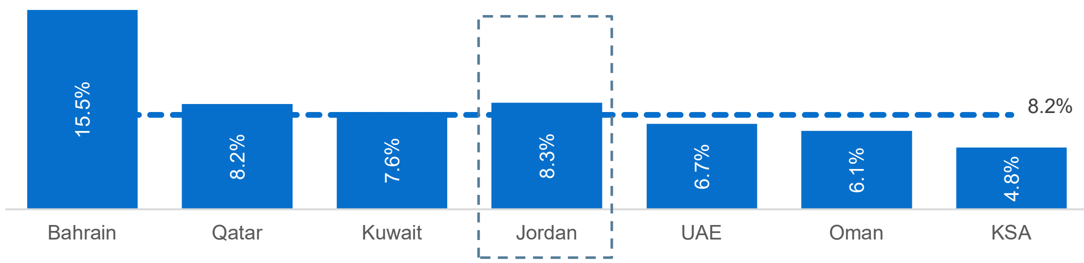
Jordan Banking Sector Overview

Jordan's financial sector contributed 8.3% to the overall GDP in FY22

Jordan's financial sector fuel economic growth

Jordan's financial sector contributed ~8.3% to the overall GDP during FY22 (vs. ~7.1% a decade ago), which was lower compared to the average of 8.2% seen in MENA countries. In FY23, financial sector grew by 3.3% YoY, outpacing the overall GDP (current prices) growth of 2.9% YoY, indicating banking sector's strength in making a direct and substantial contribution to fuel the national economy. Further, the banking sector remains operationally efficient; for instance, according to Association of Banks in Jordan, credit growth of 10.0% by local banks has the potential to increase GDP by up-to 2.7%.

Exhibit 38: Financial sector contribution to GDP (MENA – FY22)



Source: Statistical authority websites

Jordan's central bank implemented rate hikes to address inflation and introduced Green Finance Strategy to transition towards green and sustainable economy

Central bank initiatives to curb inflation and maintain financial stability

The Central Bank of Jordan, similar to its global counterparts, announced a series of measures to address the economic challenges caused due to COVID-19. The measures are strategically aimed at managing inflation, maintaining financial stability and promoting overall economic growth.

Exhibit 39: Measures from central bank

Measure	Description
Rate hikes	• Increased interest rates by 500bps on all monetary policy instruments, and by 525bps on the overnight deposit window from Dec'2020 till date
MSME	• Launched a project in partnership with German International Cooperation (GIZ) to enhance financial inclusion for Micro, Small and Medium Enterprises (MSMEs) • The project focuses on providing access to innovative financial products and services, addressing the challenges faced by MSMEs, particularly those led by women
National financial inclusion strategy	• Presented vision for the National Financial Inclusion Strategy (2023-2027) to contribute effectively in achieving the goals of economic modernization vision
Banking supervision	• Signed new appendix attached to the 2004 MOU with the Central Bank of Egypt focusing on the field of Banking Supervision • The new appendix covers financial technology innovations and activities as well as areas of supervision for electronic payment system and services
Green finance strategy	• Launched the Green Financing Strategy (2023-2028) in cooperation with the World Bank to transition towards green and sustainable economy • This strategy covers the banking sector, insurance companies and microfinance companies

Source: News articles

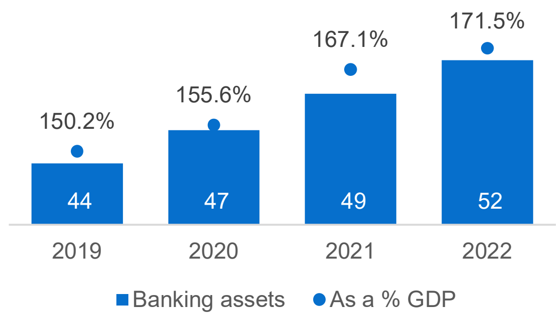
Banking assets in Jordan have grown at a CAGR of 5.3%, outpacing the economy (2%) between FY19 and FY22

Consistent growth in Jordan's commercial banking assets

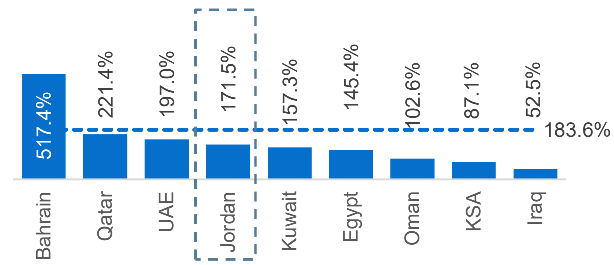
Banking assets in Jordan have grown at a CAGR of ~5.3% during FY19 to FY22 to reach JD 51.9bn. Accordingly, banking asset penetration (as a % of GDP) has increased from 150.2% in FY19 to 171.5% in FY22. This aligns fairly with the average of the comparable MENA countries.

Exhibit 40: Banking asset penetration

Jordan banking assets (JD bn) penetration



MENA banking assets penetration – FY22



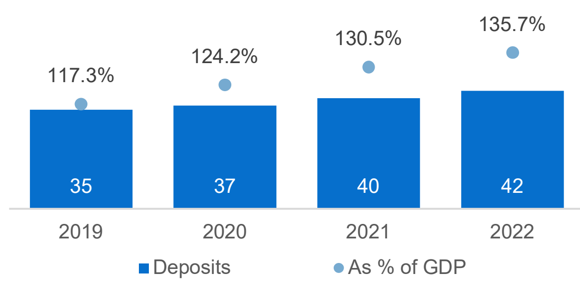
Note: MENA average constitutes Bahrain, Qatar, UAE, Kuwait, Jordan, Oman, Egypt, KSA and Iraq, Source: Central banks of respective countries

Deposits in Jordan have grown in line with the GDP

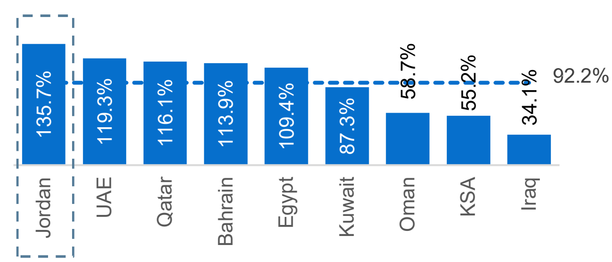
Banking deposit penetration in Jordan has increased from 117.3% in FY19 to 135.7% in FY22, while overall deposits have grown at a CAGR of 6.0% in the same period. Further, amid rising interest rates time deposits have remained in favor, as indicated by a CAGR of 9.2% during FY20 to FY22.

Exhibit 41: Deposits penetration

Jordan banking deposits (JD bn) penetration



MENA banking deposits penetration ratio – FY22



Source: Central banks of respective countries

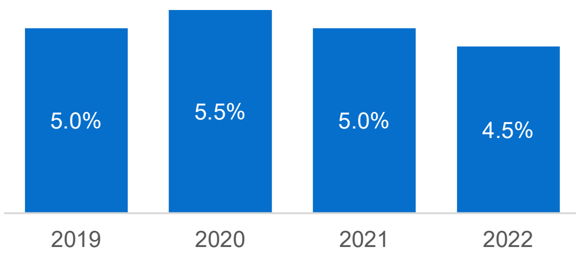
Asset quality of Jordanian banks has improved because of declining NPL ratio and high provision coverage

Asset quality rises amid credit expansions

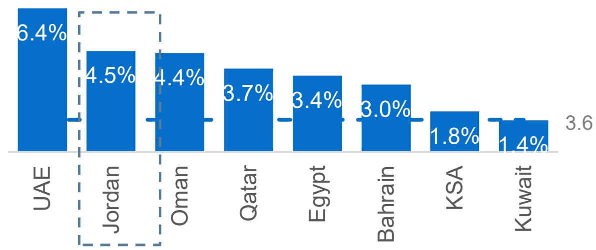
Aggregate NPL ratio in Jordan's banking sector saw an improvement from 5.5% in FY20 to 4.5% in FY22. The asset quality of Jordanian banks has improved since the pandemic mainly because of credit expansions.

Exhibit 42: Asset quality metrics

NPL ratio – Jordan banking sector



NPL Ratio – MENA banking sector FY22



Source: Central Bank of Jordan Financial Stability Report FY22

CAR of Jordanian banking sector (17.3% in FY22) stands considerably above the Central Bank of Jordan's (12.0%) and Basel III (10.5%) minimum requirements. The average CAR of banking sectors of major MENA economies stood at ~19.1%. Thus, capital adequacy levels of Jordan's banking sector are lower when compared with the regional average.

Annexures

Income Statement of JOKB

Income Statement (JD mn)	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Interest Income	152	136	127	166	253	273	288	289	286	287
Interest Expense	(62)	(51)	(43)	(65)	(120)	(133)	(124)	(117)	(111)	(102)
Net Interest Income	**90**	**85**	**84**	**101**	**133**	**140**	**164**	**172**	**175**	**185**
Fees Income	11	8	10	10	87	116	120	121	121	123
Non-Interest Income	**22**	**15**	**18**	**28**	**61**	**70**	**80**	**81**	**83**	**86**
Total operating income	**123**	**108**	**112**	**140**	**281**	**326**	**364**	**374**	**380**	**394**
Total expenses	(30)	(31)	(37)	(44)	(111)	(109)	(117)	(122)	(129)	(137)
Pre Provision Profit	**65**	**49**	**45**	**62**	**186**	**217**	**247**	**252**	**251**	**257**
Loan loss charges	(14)	(46)	(28)	(31)	(65)	(28)	(27)	(26)	(24)	(18)
Profit Before Tax	**47**	**(6)**	**12**	**27**	**122**	**189**	**220**	**226**	**227**	**239**
Income Taxes	(17)	2	(4)	(9)	(32)	(30)	(37)	(40)	(43)	(45)
Profit After Tax	**30**	**(4)**	**8**	**19**	**90**	**159**	**182**	**187**	**184**	**194**
Minority Interest	0	0	0	(0)	(31)	(64)	(71)	(71)	(69)	(70)
Net Income	**30**	**(5)**	**8**	**18**	**59**	**95**	**111**	**116**	**115**	**125**
EPS (JD)	0.30	(0.03)	0.05	0.12	0.39	0.64	0.74	0.77	0.77	0.83

Source: Company reports, BHM Capital Estimates

Balance Sheet of JOKB

Balance Sheet (JD mn)	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Cash & Cash Equivalent	402	362	317	481	1,613	1,639	1,691	1,730	1,932	1,935
Interbank lending	134	137	142	123	0	0	0	0	0	0
Investments	405	488	574	734	1,264	1,486	1,622	1,751	1,866	1,994
Net loans	1,574	1,567	1,697	1,923	2,007	2,148	2,249	2,393	2,564	2,659
Intangible assets	1	2	6	7	12	15	29	25	25	24
Fixed Assets	27	29	34	36	80	90	97	96	96	96
Other Assets	213	226	235	243	269	256	241	285	229	226
Total Assets	**2,756**	**2,810**	**3,005**	**3,547**	**5,244**	**5,634**	**5,929**	**6,280**	**6,711**	**6,934**
Customer deposits	1,866	1,878	1,937	2,419	3,707	3,722	3,803	3,886	4,038	4,157
Margin Accounts	82	74	93	118	140	151	153	157	162	168
Interbank borrowing	141	174	167	107	70	231	232	304	380	377
Loans and borrowings	102	128	239	297	363	365	323	323	323	273
Other Liabilities	60	56	51	67	132	148	159	173	181	181
Total Liabilities	**2,296**	**2,353**	**2,537**	**3,069**	**4,517**	**4,746**	**4,815**	**4,985**	**5,239**	**5,273**
Share capital	100	150	150	150	150	150	200	200	200	200
Statutory reserve / Others	277	227	231	223	217	230	241	253	254	257
Retained earnings	80	75	79	95	143	232	323	417	522	640
Other	2	4	8	8	104	101	104	106	109	108
Minority Interest	0	0	0	2	113	176	247	318	387	457
Total Equity	**460**	**456**	**468**	**478**	**728**	**889**	**1,114**	**1,294**	**1,472**	**1,661**
Total Equity & Liabilities	**2,756**	**2,810**	**3,005**	**3,547**	**5,244**	**5,634**	**5,929**	**6,280**	**6,711**	**6,934**
BVPS (JD)	4.60	3.04	3.12	3.17	4.10	4.75	5.78	6.51	7.23	8.03

Source: Company reports, BHM Capital Estimates

Key Ratios

Key Ratios	2021	2022	2023	2024F	2025F	2026F	2027F	2028F
Asset Quality								
Cost of Risk (CoR)*	1.7%	1.6%	3.2%	1.3%	1.2%	1.1%	0.9%	0.7%
Margins								
Asset Yield	5.2%	6.0%	7.2%	7.7%	7.5%	7.4%	7.0%	6.5%
Funding Cost	1.8%	2.4%	3.3%	2.8%	3.0%	2.8%	2.5%	2.3%
NIM	3.4%	3.7%	3.8%	4.1%	3.9%	4.2%	4.1%	4.0%
Capital Adequacy (%)								
CAR	18.9%	17.1%	18.2%	19.4%	22.7%	24.8%	26.7%	28.7%
Total RWA (JD mn)	2,468	2,789	3,370	3,672	3,823	3,942	4,069	4,203
Liquidity Ratios (%)								
Customer Deposits to Equity	4.1	5.1	6.0	5.2	4.4	4.0	3.7	3.5
Loans to Deposit	87.1%	79.5%	54.1%	57.7%	59.1%	61.6%	63.5%	64.0%
Loans/Assets	56.5%	54.2%	38.3%	38.1%	37.9%	38.1%	38.2%	38.3%
Income statement ratio %								
Fees Income / Total Income	8.6%	7.3%	31.5%	35.6%	32.9%	32.4%	32.0%	31.3%
Cost to Income Ratio	59.9%	55.4%	36.6%	33.4%	32.1%	32.7%	33.9%	34.8%

**CoR calculated as Provision for ECL / net loans*

Source: Company reports, BHM Capital Estimates

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Investment Ratings Guide

Overweight	The target price for the next 12 months is 15% above the current price
Neutral	The target price in the next 12 months is between -15% and 15% of the current price
Underweight	The target price for the next 12 months is 15% below the current price
Not Rated	No investment rating has been assigned yet