



Update for FY 2012

Sector: Banking
Country: Jordan
Date: April 30, 2013

Share Price (JOD): 7.07
Target Price (JOD): 7.84
Upside: 10.9%
Recommendation: ACCUMULATE
Risk: Medium (Market)

Maintaining an ACCUMULATE rating and a Target Price of JOD 7.84 per share despite local challenges

Elevated Treasury Bond Yields and Holdings boost interest revenues

During 2012, Arab Bank registered an 8.72% increase in gross interest income, its main revenue driver, to reach \$1,765 million. Growth was mainly attributable to a 30% increase in income derived from Treasury bonds, amounting to \$504 million due to higher yields. On the other hand, interest income from direct credit facilities, which represent 62% of interest revenue, slipped by 1% to \$1,092 million as a result of FX losses. Arab Bank managed to increase its customer deposits by \$0.6 billion to reach \$29.4 billion, resulting in a 13% rise in interest expense of \$754 million to service these deposits.

Earnings grow on lower provisions and higher gains from Saudi Arabia

Arab Bank reported a favorable 15% gain in profits amounting to \$352 million for 2012, in line with our growth expectations but below our estimates of \$374 million. This performance resulted from several factors, starting with a \$55 million increase in Net Interest Income. The decline in Impairment provisions to \$347 million, from \$435 million a year before further contributed to higher gains. This reduction was justified by management since at current levels they cover 114% of faulty loans including that of Saad and Al Gosaibi. Finally, the Group's share of profits from associates continues to outperform growing by 10.8% to \$294 million driven by Arab National Bank in Saudi Arabia.

High FX and credit risk continue to hurt commercial activity

In the absence of political and economic stability, government spending is forecasted to be the main and sole driver of regional growth for bank assets. Commercial SME and corporate lending activity continue to face many obstacles, particularly increasing FX and credit risk. We therefore anticipate relatively flat growth in interest revenues at Arab Bank, estimated at \$1,754 million, with potential growth in earnings registered as a result of lower provisions taken during 2013.

Favorable rating despite local turbulence and low investment appetite

While Jordan continues to suffer from its political deadlock and unfavorable investment climate, we maintain an ACCUMULATE rating on Arab Bank as we view it as a well-diversified regional institution rather than a Jordanian Bank. However, the lack of liquidity and appetite for foreign investors to take on exposure to Jordanian equities will no doubt continue to affect the bank's share price, as it currently makes up about 25% of the Jordanian stock Exchange. Our target price is slightly revised down from \$8.00 issued in December 2012 to \$7.84 following the release of the bank's 2012 results and 2013 guidance. We value Arab Bank using a Dividend-Discount Model with a WACC of 12.8% and a 3% terminal growth rate.

Share Data

Bloomberg Symbol	ARBK.JR
Reuters Symbol	ARBK.AM
Market Cap (JODm)	3,775
Number of Shares (m)	534
Free Float	46.0%
Price-to-Earnings	10.97
Price-to-Book	0.50

Share Performance



1 Month Return	-0.56%
3 Month Return	-5.1%
6 Month Return	-0.14%
12 Month Return	-14.09%
52 Week Range	6.68 – 8.23

Performance and Forecasts

Contact Information:

Analyst: Youssef Chahine
youssef.chahine@blominvestbank.com

Head of Equities: Issa Frangieh
issa.frangieh@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

	2011	2012	2013e	2014f	2015f	2016f
Net Interest Income (USDm)	957	1,011	1,008	980	999	1,093
Net Income (USDm)	306	352	428	473	548	634
EPS (USD)	0.55	0.64	0.76	0.84	0.97	1.13
BVPS (USD)	14.01	14.12	13.63	13.50	13.59	14.52
ROA (%)	0.7	0.8	0.9	1.0	1.10	1.2
ROE (%)	4.1	4.7	5.7	6.2	7.1	7.8

PROJECTED INCOME STATEMENT

USDm	2011	2012	2013e	2014f	2015f	2016f
Interest Income	1,624	1,765	1,755	1,782	1,864	2,110
Interest Expense	(667)	(754)	(747)	(802)	(865)	(1,016)
Net Interest Income	957	1,011	1,008	980	999	1,093
Commission Income	322	323	335	343	353	365
Commission Expense	(19)	(21)	(21)	(22)	(22)	(22)
Net Commission Income	303	302	313	321	332	343
Other Revenue (includes financial assets)	99	57	77	95	113	134
Net Revenue	1,359	1,370	1,400	1,396	1,444	1,570
Loan Impairment Loss/Provision	(435)	(348)	(302)	(267)	(212)	(164)
Net Revenue After Provisions	924	1,023	1,097	1,128	1,231	1,406
Non-Interest Expense	(723)	(755)	(756)	(754)	(765)	(832)
Operating Income	202	268	342	375	467	574
Profits from Associates	266	294	312	330	351	372
Pretax Income	468	563	654	705	817	946
Income Tax Expense	(162)	(211)	(226)	(233)	(270)	(312)
Net Income	306	352	428	448	473	548
Minority Interest	(14)	(8)	(21)	(24)	(27)	(32)
Net Income Att. to Shareholders	292	344	407	449	520	602

Source: Arab Bank, BlomInvest

PROJECTED BALANCE SHEET

USDm	2011	2012	2013e	2014f	2015f	2016f
Assets						
Cash and Due from Central Bank	7,788	7,749	7,882	8,056	8,290	8,578
Due from Banks	4,261	4,943	5,059	4,884	4,712	4,917
Direct Credit Facilities	20,955	20,480	20,123	20,569	21,165	21,901
Total Investments	9,129	8,799	8,720	8,913	9,172	9,490
Investments in Subsidiaries/Associates	2,245	2,426	2,596	2,778	2,973	3,181
Other Assets	1,236	1,248	1,538	1,575	1,619	1,671
Total Assets	45,613	45,647	45,919	46,775	47,930	49,738
Due to Banks	4,323	3,836	3,453	3,142	2,891	2,659
Due to Customers	28,745	29,352	30,086	31,139	32,385	33,842
Cash margin	2,975	3,534	3,640	3,749	3,861	3,977
Borrowed funds	810	157	160	163	166	169
Other liabilities	1,103	1,068	1,120	1,184	1,179	1,138
Total Liabilities	37,956	37,947	38,458	39,377	40,482	41,786
Total Equity (att. to shareholders)	7,482	7,538	7,277	7,211	7,257	7,752
Minority Interest	174	161	184	187	192	199
Total Equity	7,657	7,699	7,460	7,398	7,448	7,951
Total Liabilities & Equity	45,613	45,647	45,919	46,775	47,930	49,738

Source: Arab Bank, BlomInvest

BLOMINVEST BANK s.a.l.

Research Department
Verdun, Rashid Karamah Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 747 802
research@blominvestbank.com

For your Queries:

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 747 802 Ext: 1234

Issa Frangieh, Head of Equities
issa.frangieh@blominvestbank.com
+961 1 747 802 Ext: 1208

Youssef Chahine, Analyst
youssef.chahine@blominvestbank.com
+961 1 747 802 Ext: 1248

Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%

Accumulate: Fair Value higher than Market Price by 10% to 20%

Hold: Fair Value ranges between -5% to +10% in relation to Market Price

Reduce: Fair Value lower than Market Price by 5% to 15%

Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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