

Jordan Petroleum Refinery Co. (JOPT)

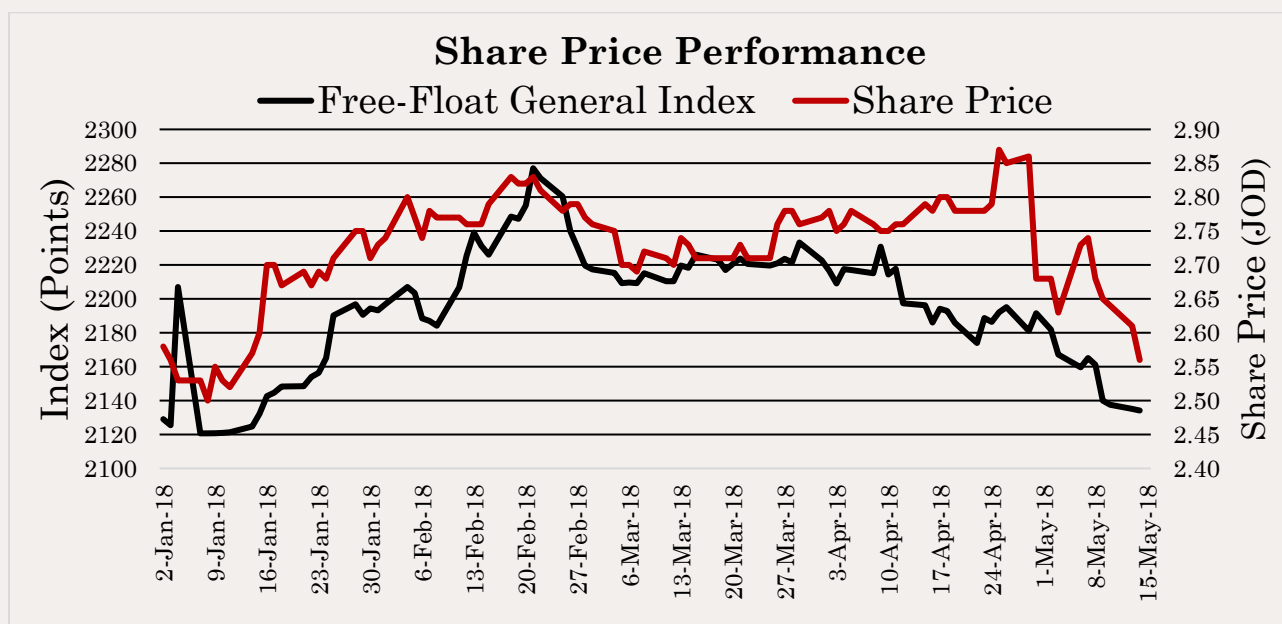
Initiation of Coverage
14 May 2018

12 Month Fair Value: JOD2.74
Recommendation: HOLD

Key Highlights

Ticker	JOPT
Share Price	JOD2.56
52-Week High	JOD3.63
52-Week Low	JOD2.50
Market Capitalisation (Mn)	JOD256
EPS 2017	JOD0.33
Trailing P/E (times)	7.78x
P/BV (based on 2017 BVPS)	1.20x

BVPS 2017	JOD2.14
Refinery and filling 2017 Sales (Bn)	JOD1.18
JOPT Marketing. Co. 2017 Sales (Mn)	JOD879.63
Gross Income from Sales 2017 (Bn)	JOD 1.80
Earnings Before Taxes (Mn)	JOD 39.18
Net Income 2017 (Mn)	JOD 32.93
ROA 2017 (%)	2.41%
ROE 2017 (%)	15.38%



- For the 2017 fiscal year, net profit was JOD32.93 million (2016: JOD34.07 million) with an EPS of JOD0.329 (2016: JOD0.341). For the three months ended March 31, 2018, the profit for the period was JOD8.01 million (Q1 2017: 7.86 million), up by roughly 2% compared to the same period in 2017.
- Like last year, this year JOPT's Board of Directors agreed to distribute cash dividends worth JOD20 million, for the previous financial year, which are equivalent to 20% of JOPT's JOD100 million par value.
- On the basis of our forecasts, we arrive at a 12-month fair value for the JOPT stock of JOD2.743 per share, offering only a 7.13% upward potential over its current price. Therefore, we initiate our coverage with a HOLD recommendation.

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1.0 INVESTMENT HIGHLIGHTS

- Jordan Petroleum Refinery (JOPT) is the one and only refinery in Jordan.
- JOPT's total assets for 2017 increased to JOD1.37 billion (2016: JOD 1.24 billion). It is estimated that JOPT's total assets reached JOD1.42 billion by the end of Q1 2018.
- In 2017, JOPT's share, in terms of value traded, within the utilities & energy sub-sector, was much higher than its two peers listed under in the Utilities and Energy subsector on Amman Stock Exchange.
- JOPT's expected profits are JOD34.95 million for 2018, and as a result, the expected EPS for 2018 is JOD0.35, giving a forecasted P/E ratio of 7.32x based on JOPT's current share price of JOD2.56.
- JOPT's Settlement of targeted income with the Government was JOD153.64 million and JOD155.04 million during 2015 and 2016, a major expense on its income statement. In 2017, it was much lower, JOD81.19 million.
- According to the 2016 and 2017 annual reports, JOPT's management decided to continue pursuing its fourth expansion project, which started over a decade ago. The Board of Directors chose this expansion initiative in the hopes of refining 120,000 barrels of crude oil a day, using the Arab light crude oil or Basra light crude oil. Moreover, a new appropriate technology has been adopted to convert heavy materials into lighter materials, which have greater value.
- During the Ordinary General Assembly meeting in April 2018, the Board of Director's proposal of paying cash dividends (20% of par value), worth 200 files per share, for a total of JOD20 million for the 2017 fiscal year, was approved. Other actions that were approved include the deduction of 10% of Jordan Petroleum Product Marketing Company's yearly net profits for the statutory reserve account, and the approval of allocating JOD7.84 million to the voluntary reserve account, in order to support the fourth expansion project.
- On this basis, our forecast leads to an estimated 12-month fair value for the JOPT stock of JOD2.743 per share, 7.13% higher than the current JOPT share price of 2.56 (May 14th, 2018).

2.0 UTILITIES & ENERGY SUB-SECTOR OVERVIEW

2.1 Sector Size & JOPT's activities

The publicly traded utilities and energy companies in Jordan consist of three players in total, as of the end of 2017. There are some other private companies operating in this sector as well, which have work as part of their core operations with these three companies. A big example is Manaseer Oil and Gas (part of Manaseer Group), which does not have an oil refinery. JOPT is the only refinery in Jordan, but it is not owned by Government. JOPT supplies petroleum products on a daily basis to Manaseer, and even Total S.A, two well-known energy companies.

As of the end of 2017, 250 service stations were supplied by the Petroleum Products Marketing Company, a main subsidiary of JOPT, 78 of which were in Amman. In addition, it supplied 115 gas distribution centres and 121 LPG warehouses.

For the purposes of this report, we will only use the two other publicly traded companies in JOPT's sub-sector as JOPT's comparables. These two companies are The Jordanian Electric Power (JOEP) and Irbid District Electricity (IREL).

The industry JOPT is operating in has high barriers to entry due to large capital outlays required in establishing refineries and/or opening gas stations, so the threat of new entrants is very low. Like barriers to entry, exit barriers are also high. Petroleum products are relatively undifferentiated, and industry growth is slow. JOPT's earnings growth expectations are low over the long-term. The number of suppliers for various products worldwide is limited. As for bargaining power of customers, we can divide customers into institutions (B2B) and consumers (B2C). Consumers have low switching costs as they have the power of simply purchasing petroleum products and services from other gas stations. As for large institutions, they are 'locked' with purchasing petroleum derivatives from the country's only refinery. For all industry players, the threat of substitutes is increasing over time with the emergence of renewable energy.

According to the Ministry of Energy and Mineral Resources, several renewable energy projects were constructed in Jordan during 2016 with many more expected in the future. For example, Masdar, the Middle East's largest exporter of renewable energy, based in Abu Dhabi, UAE, has completed the Tafila Wind Farm, which generates enough electricity to power 83,000 homes as stated in its 2016 annual report. Masdar is currently developing Baynouna Solar Energy Project. The plant will supply the annual energy needs of 110,000 homes. This project is due by the end of this year, 2018.

According to Ammon News, during 2017 in Jordan, 71,750 vehicles were cleared. Of the 71,750 vehicles, almost 34,000 were hybrid cars, and 6,000 were electric cars. The increasing demand for energy-saving vehicles by the Kingdom's citizens is driven in part because such vehicles consume much less fuel (or no fuel in the case of electric cars) than traditional cars, apart from being environmentally-friendly. Furthermore, in Jordan, any foreign vehicle that has been in existence for more than five years since the date of manufacture cannot be cleared (i.e. cannot enter Jordan). Oil prices worldwide have been on the rise for the past year. These developments above pose a serious threat to JOPT's future.

All these factors mentioned above are contributing to the reduction in demand for traditional cars, which in turn could reduce demand for fuel moving forward, although Jordan's population growth is and will probably remain positive in the future.

JOPT's main activities are crude oil refining and importing, transportation and distribution, LPG (Liquefied Petroleum Gas) filling and bottling, manufacturing of lube oil, and the manufacturing and packing of gas cylinders. JOPT also provides jet fuel for airlines, like Royal Jordanian airlines, and the manufacturing of mineral oils.

According to the 2016 and 2017 annual reports, JOPT's management decided to continue pursuing its fourth expansion project, which started over a decade ago. This project has three objectives; increase JOPT's capacity to produce more petroleum derivatives, improve the quality of its petroleum derivatives to be more in line with international standards, and convert any heavy fuel surplus oil into other useful and valuable petroleum products. Such products are available for sale to the market. The Board of Directors chose this expansion initiative so it can refine 120,000 barrels of crude oil a day, using the Arab light crude oil or Basra light crude oil (given that the pipeline for exporting Iraq's crude oil across Aqaba's port is currently under installation). Some reports indicated that the amount will actually be 150,000 barrels rather than 120,000. The prime ministry of Jordan already gave the green light for this project. The pipeline will be 1,350 kilometres long. Moreover, a new appropriate technology has been adopted to convert heavy materials into lighter materials, which have greater value.

During 2017 JOPT signed strategic agreements with two American companies, Honeywell UOP and KBR, and invited 15 international companies to assist with the Front End Engineering Design (FEED).

The Jordan Petroleum Product Marketing Company is expected to one, continue upgrading its existing gas stations, and two, add to its list new gas stations by sharing, renting, and building gas stations. Further, JOPT can establish new contracts with other gas stations to supply them with fuel at any time.

Oil and Gas

There are different types of crude oil. Light oil (high viscosity) and sweet oil (low sulphur content) are less costly to refine than high sulfur crude oil, and thus sell at a premium to the latter. Crude oil can be stored under the ground or in tankers with no expiration date. Most countries store crude oil as strategic reserves for future use. However, refined products, such as jet fuel, have shorter storage times. Demand for refined products is seasonal. During the spring and summer when travel by car is more common, the demand for gasoline usually increases. During autumn and winter when the weather is colder, the demand for heating fuel oil increases due to higher usage in buildings and households.

Demand & supply for gas depends on similar factors as those for crude oil, but relative to crude oil, seasonality in gas demand & supply due to weather is more common. Cold winters push up the demand for gas, not only for crude oil. During hot summers, air conditioning and cooling are used more often. Gas is a primary source of energy used in electrical power generation.

The strength of a refinery and its technology use will determine how much supply of crude oil is available. Once a well is drilled, crude oil is extracted. While crude oil can be stored for very long periods, refining usually begins after storage of only a few months to less than a year. The outputs of refining are petroleum products like diesel, gasoline, or jet fuel. These petroleum derivatives are then transported to their target destinations.

There is no doubt that the global push for the alternative sources of energy has slowed down the demand for oil. Governmental restrictions for oil exploration and production are increasing the cost of production

and decreasing its supply. Demand for oil is greatly affected by economic cycles and demand is expected to increase during economic booms, and decrease during economic busts.

Processing & Transportation

With minimal processing, natural gas can be used straight after being extracted from under the ground. This is certainly not the case with crude oil.

Natural gas needs to be cooled down into a liquid state before it can be transported aboard ships, which increases transportation cost, while crude oil can be transported at a relatively cheap cost on ships. Natural gas is, however, transported through a pipeline. *Associated gas* is gas produced in concurrence with the extraction of crude oil from the ground. Hence, the supply of associated gas is tied to the production of the crude oil. On the other hand, the supply of *unassociated gas* is not linked and concomitant to the production of crude oil since it is produced from formations that do not contain crude oil.

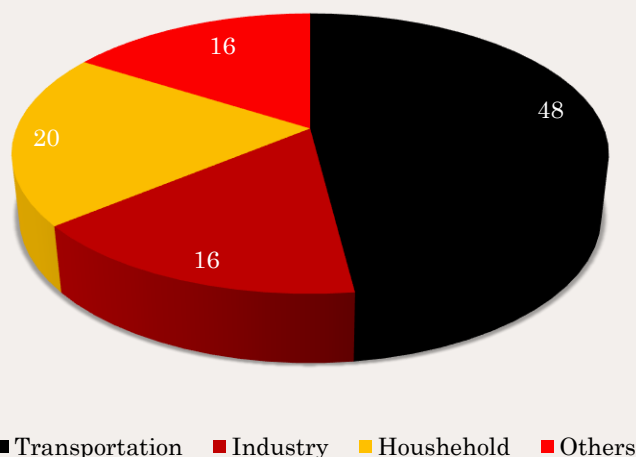
2.2 Performance of Utilities and Energy Sub-Sector

Consumption of Petroleum Products by Sector

The lack of stability in the Middle East and North Africa had an undesirable consequence on the Kingdom. Major global events, such as Brexit, and OPEC's decision in 2016 to limit oil output for the first time since 2008, have affected Jordan and its economy, and especially one of its major sectors, the utilities and energy sector. After the US pulled out of the Iran deal in early May 2018, oil prices went up.

In Jordan, the transportation sector consumes the most amount of energy, around half of the total. The household sector consumes around one fifth, and the industry sector one sixth. The remaining sectors such as commercial and agricultural sectors collectively consume one sixth of the total energy consumption. This has been the typical breakdown throughout the 2012-2016. For example, in 2012, the sectorial distribution was 47%, 17%, 22%, and 14 % in the transportation, industry, household, and 'other' sectors, respectively. In 2016, the breakdown was similar at 48%, 16%, 20%, and 16%, respectively, among the sectors.

Energy Consumption by Sector 2016



Source: The Ministry of Energy and Mineral Resources

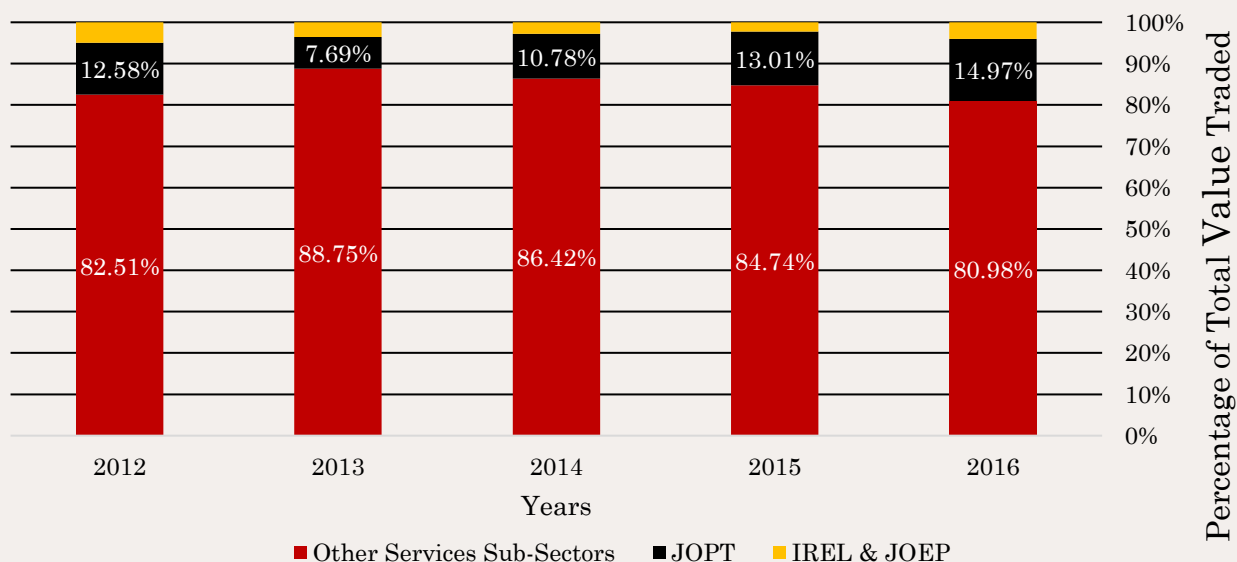
According to Amman Stock Exchange (ASE), the market is divided into the three sectors, financial, services, and industrial, each containing several sub-sectors. The utilities and energy sub-sector is listed as part of the services sector.

The total value of shares traded in the services sector fluctuated widely during the period of 2012-2016. In 2015, the total value traded in the services sector jumped to JOD723.46 million from JOD373.46 million in 2014. Then in 2016, it dropped down to JOD423.64 million. In whole, the services industry registered a CAGR of only 1.20% for the period 2012-2016 in terms of total value traded. The industrial sector's CAGR was the highest, 16.24%, and that of the total stock exchange (financial, industrial, and services) was 4.16%.

Furthermore, the services sector includes many other big sub-sectors besides utilities and energy, such as educational services, hotels and tourism, and transportation. In terms of value of shares traded, the utilities and energy sub-sector comprised around 19% of the services sector in 2016, while JOPT, by itself, comprised roughly 15% of the total services sector (JOD63.40 million out of JOD423.64 million), emphasizing that JOPT is not only a major player in utilities and energy sub-sector, but also in the services sector. The total value traded in 2016 was JOD2,329.47 million, over half of which was in the financial sector, around 30% in the industrial sector, while the services sector came in last at 18%.

JOPT has increased its share of the services sector from 12.58% in 2012, to 14.97% in 2016, increasing its share by a CAGR of 4.45%, as shown in the following table:

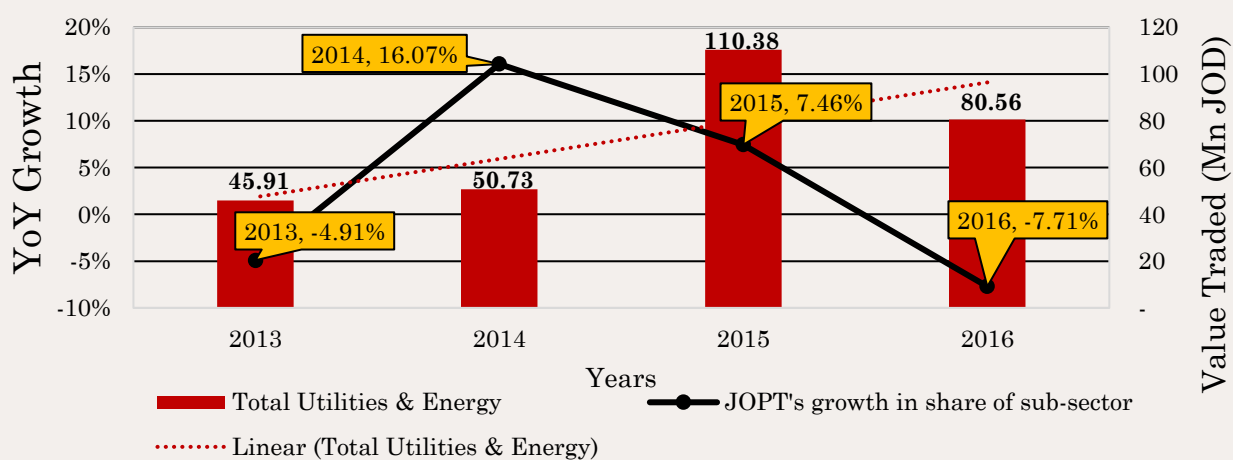
Breakdown of Services Sector by Value Traded



Source: Amman Stock Exchange (ASE)

Although the Jordanian economy has been sluggish for the past few years, JOPT was still be able to maintain and even improve its share, in terms of value traded, in the sector it is operating in as well as in ASE as a whole. JOPT increased its share in the utilities and energy sub-sector from 71.90% in 2012 to 78.70% in 2016, yielding a CAGR of 2.28%.

Value Traded in Utilities & Energy Sub-Sector



Source: Amman Stock Exchange (ASE)

Financial highlights of the Utilities and Energy Companies:

Peer Company	Total Assets	Equity	Net Profit		
	2017	2017	2015	2016	2017
The Jordanian Electric Power	1,070,206,048	118,364,857	22,809,0	12,733,647	7,893,337
Irbid District Electricity (IREL)	336,581,707	17,747,047	3,352,879	8,552,899	5,590,009
Jordan Petroleum Refinery	1,368,290,164	214,137,190	31,347,66	34,066,43	32,927,297
Total	2,775,077,919	350,249,094	57,509,6	55,352,97	46,410,643

Source: Securities Depository Commission

In 2017, all three companies' profits decreased from the previous year. JOEP's profits dwindled over the past three years, and IREL's profits were volatile. In total, profits decreased year after year from JOD57.51 million in 2015 to JOD55.35 million in 2016, and to JOD46.41 in 2017.

In Q1 2018, out of all three companies, JOPT is the only company that earned profits (JOD8.01 million). Both IREL and JOEP incurred losses.

Historically, Saudi Arabia has been the nation which Jordan imports the most from, in terms of value. But in 2016, China surpassed Saudi Arabia as imports from Saudi Arabia decreased dramatically while imports from China increased simultaneously over the three-year period from 2014-2016. Jordan imported JOD1,910.1 million worth of products and services from China in 2016, and JOD1,651.1 million from Saudi Arabia. In 2016, USA and Italy remained and number three, and four, respectively. Once the 2017 figures are released, it will become clear whether this trend is continuing or not.

Jordan's trade balance improved in 2016. Exports decreased by 4.1%, but imports decreased even more, by 6.2%. Generally, Crude Oil and Petroleum Products are two of Jordan's main imports. Total imports were JOD13,637.0 million in 2016, of which crude oil was JOD648.6 million and petroleum products were JOD578.9 million, making up a substantial portion of the Kingdom's imports for that year, as was the case prior to 2016.

The 2012-2016 CAGR of oil and petroleum imports was -26.67%, while that of total imports was only -1.92%. Combined, crude oil and petroleum products imports declined from JOD4,244.3 million in 2012 to JOD3,699.1 million in 2013. In 2014, the combined total of both increased by 10.41% to JOD4,084.3 million. Afterwards, the amount of crude oil and petroleum products decreased by 53.10% and by 35.92% in 2015 and 2016, respectively. In 2016, JOD1,227.5 million was the total value of oil and petroleum imports.

JOPT's net sales (and subsequently its cost of sales) followed this trend. JOPT's net sales and cost of sales both increased slightly in 2014, but then decreased significantly in 2015 and 2016.

JOPT's imports declined from 3.46 million tons in 2015 to 2.97 million tons in 2016, and again down to 2.80 million in 2017.

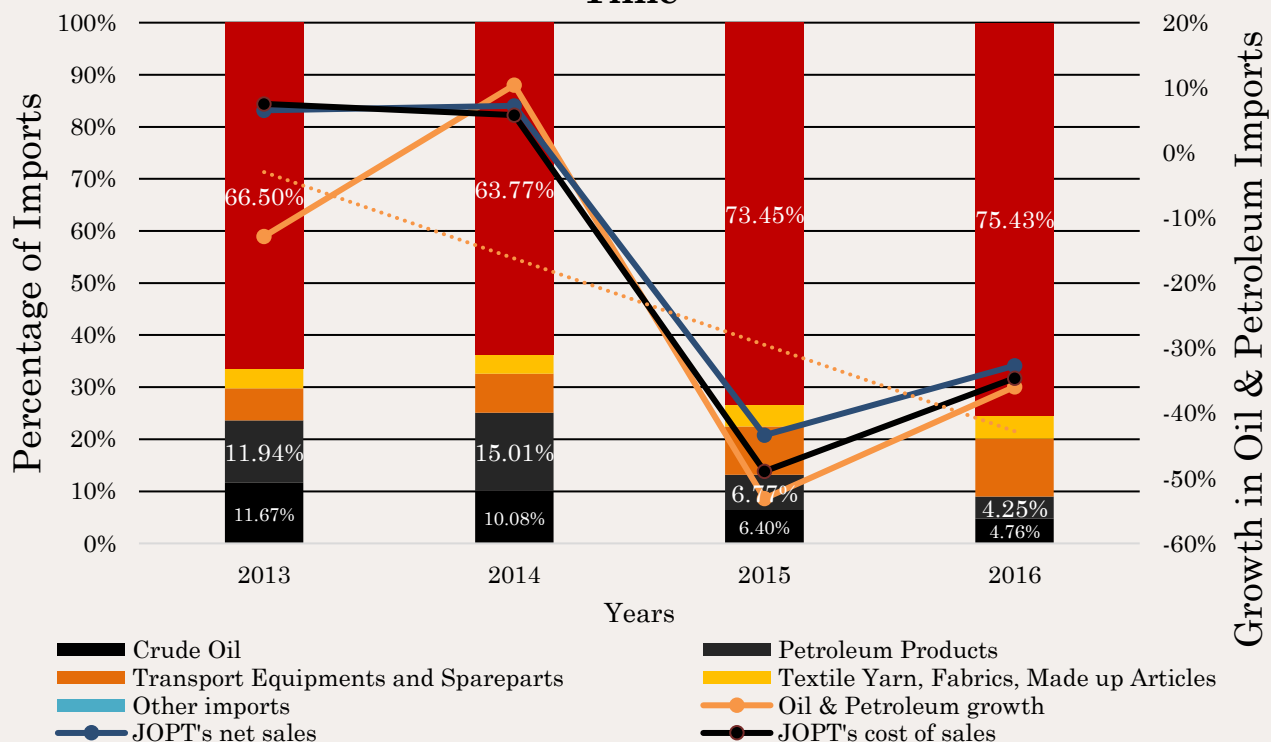
As for petroleum products, such as LPG, Diesel, Fuel Oil, and Gasoline, JOPT imported 1.95 million tons of these products in 2016. This is a 39.56% decrease in the quantity of imported products, from 2015, in tons. In 2017, the figure decreased even further to 1.32 million tons.

When it comes to production of different petroleum products, JOPT produced only 2.79 million tons in 2016, compared to 3.21 million tons the previous year. In 2017, the figure was 2.60 million tons.

As for Lubricating Oils, JOPT produces over 100 different grades of lube oil under the trade name 'Jopetrol'. In 2016, 17.47k tons of lube oil were produced, 2.99% less than the amount produced during the previous year. In 2017, the amount produced was 15.20% less, 14.81k tons,.

All of the above are negative indicators for JOPT's business. Nonetheless, during the four year period 2014-2017, JOPT has been increasing its profit margin despite its severe drop in revenues. The margins of the other two peers were volatile showing no clear trend during the same time period.

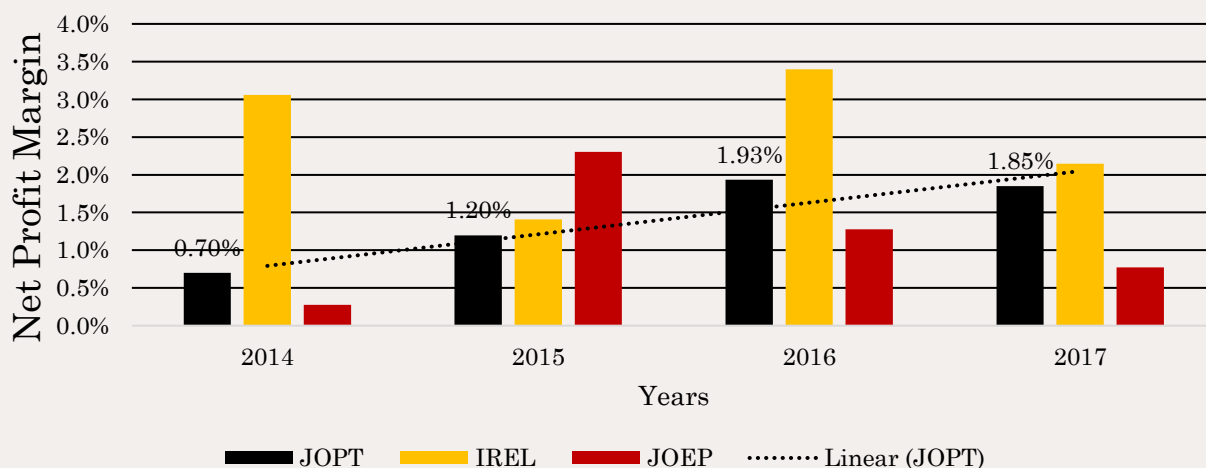
Imports VS. JOPT's Sales and Cost of Sales Over Time



Sources: Central Bank of Jordan, Jordan Petroleum Refinery Co.

Utilities & Energy Sub-Sector Profitability

Profitability Over Time



Source: Securities Depository Commission

3.0 COMPANY OVERVIEW

3.1 Company Background

The Jordan Petroleum Refinery Co. Ltd "JOPT" was established in 1956 with a capital of JOD4 million and has been registered as a public shareholding company since that year. Capital has increased over time reaching JOD100 million in 2017. The last increase was in 2016 worth JOD25 million.

JOPT operates through its multiple offices in Jordan and through Jordan Petroleum Products Marketing Company. JOPT has twenty subsidiary companies. Its major subsidiary is:

- Jordan Petroleum Products Marketing Company, a company that was established in 2013 with total assets over JOD215 million including assets of the remaining nineteen subsidiaries. It owns a transport fleet consisting of 65 tankers, 139 trailers, and 138 semi-trailers. In 2017, its paid up capital was increased to JOD55 million by JOPT. Many of JOPT's subsidiaries did not report any revenues during 2017 because they were under renovation.

JOPT's main customers include government institutions, filling stations, and airline companies. As for lube oil customers, they include the Armed forces, Royal Jordanian Air Force, the Potash Co., the Phosphate Mining Co., Jordan Steel Company, Aqaba Railway Corporation, and National Electric Power Company.

As mentioned above, JOPT's paid-up capital was increased steadily over the years. Throughout 2005 to 2012, paid-up capital remained at JOD32 million. Capital was increased to JOD40 million in 2013, then to JOD62.5 million in 2014, before increasing it to JOD75 million in 2015, and finally to JOD100 million in 2016. The paid-up capital remained JOD100 million since it was increased by JOD25 million in 2016.

Besides supplying gas stations with petroleum products and selling lube oil, JOPT owns refuelling stations in three airports, Queen Alia International Airport, Amman Civil Airport, and King Hussein International Airport in Aqaba.

JOPT does benefit from being the sole refinery and having a large network of gas stations in most areas in Jordan. But, as for prices of petroleum derivatives, they are directly set by the government, which means JOPT has no discretion on setting the price for the vast majority of its products.

In 2017, JOPT launched a new service of delivering diesel to consumers within 24 hours of their request. This service is useful in the winter and autumn seasons when heating is required in households and commercial buildings. Apart from creating a new revenue stream, this is considered an improvement in JOPT's customer service. It is worth mentioning that diesel sales decreased by a third during 2016, and by almost half during 2017, so this marketing move could help restore diesel sales back to their normal levels in the future.

At the end of 2017, JOPT had 100 million listed shares. Jordan Electric Power had around 83.57 million, while Irbid District Electricity had 8 million listed shares only.

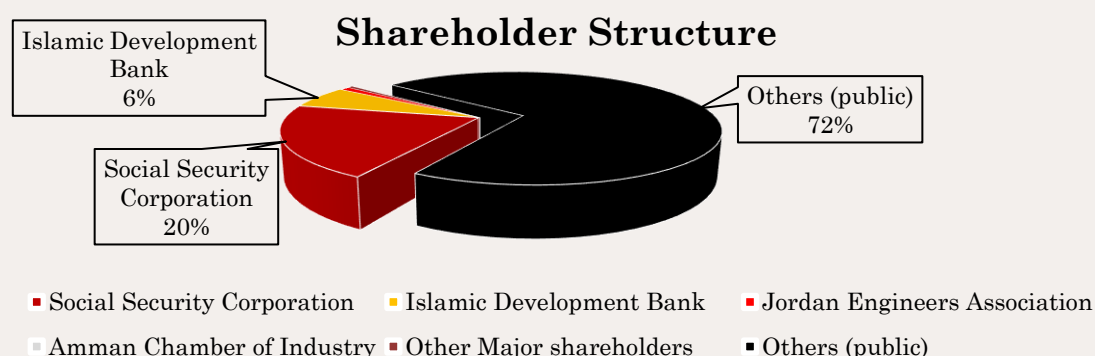
JOPT purchases crude oil from Aramco in Saudi Arabia. As for oil derivatives, besides Aramco, JOPT purchases from well-known companies such as Sabic, Gulf Interstate, and Shell. Base Oil and additives are purchased from companies like Chevron (French) and Exxon Mobil, USA.

3.2 Shareholder Structure

JOPT's major shareholders are Social Security Corporation, owning a fifth of the shares, and the Islamic Development Bank, which owns nearly 6%.

Like Jordanian Electric Power (JOEP), JOPT is not tightly held while Irbid District Electricity (IREL) is tightly held.

Free Float of JOPT has hovered around 70% during the past 10 years.



As of May 14th, 2018

Source: Securities Depository Commission

3.3 Board of Directors

Company/Member Name	Number of Seats	Ownership
Social Security Corporation	2	20,140,624
Islamic Development Bank	1	6,250,000
Jordan Engineers Association Retirement Fund	1	913,500
Others:		
Amman Chamber of Industry	1	625,312
Bassam Rashad Rashid Sinokrot	1	472,358
Abdul Rahim Fathi Salim Al Bekaie	1	28,393
Omar Ashraf Ali Kurdi	1	25,000
Waleed Mqzal Dawood Asfour	1	33,822
Alaa Aref Saad Al Bataineh	1	6,666
Nabih Ahmed Mahmoud Salameh Al-Zeinat	1	6,301
Khair Abdullah Ayad Abu Saileik	1	4,350
Samaha Company for Finance and Investment	1	500
Total	13	28,506,826

As of May 14th, 2018

Source: Securities Depository Commission

The Board's termination date is April 29th 2019.

3.4 Subsidiaries and Affiliates

3.4.1 Details of Subsidiaries

JOPT owns directly and indirectly twenty subsidiaries whose operations are consolidated within its financial results, as of March 31st, 2017:

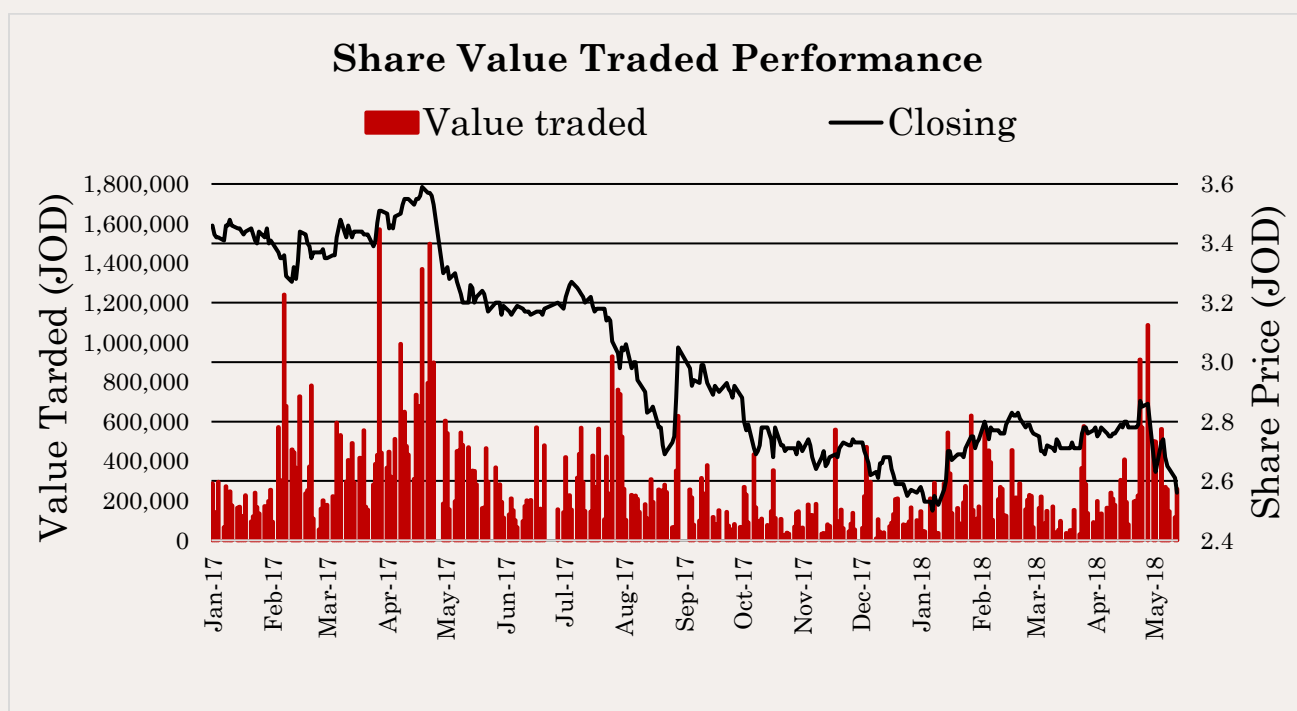
Company Name	Paid-Up Capital (JOD)	Percentage Ownership (%)	Location
Jordan Petroleum Products Marketing Company	55,000,000	100%	Amman
Jordan Liquefied Petroleum Gas Manufacturing and Filling Company	4,000,000	100%	Amman
Jordan Lube - Oil Manufacturing Company	3,000,000	100%	Amman
Nuzha and Istiklal Fuel and Oil Station Company	5,000	60%	Amman
Al-Markzeya Fuel Trade Station Company	10,000	89%	Amman
Al-Karak Central Fuel Station Company	5,000	60%	Al Karak
Al-Khairat Fuel Station Company	5,000	60%	Al Karak
Rawaby Al-Qwirah Fuel and Oil Station Company	5,000	60%	Al Aqaba
Al-a'on for marketing and Distribution Fuel products Company	1,005,000	60%	Amman
Qaws Al-Nasser managing Fuel Stations Company	3,000	60%	Irbid
Al-Tariq Al-Da'ari for fuel Company	5,000	60%	Amman
Al-Muneirah Station for Fuel and Oil Company	5,000	60%	Amman
Al-Ramah Modern Station Fuel Company	5,000	60%	Amman
Al-Wadi Al-A'blad Gas station	5,000	60%	Amman
Jordanian German Gas stations Company	125,000	60%	Amman
Al-Tanmwleh Al-A'ola Gas Stations	5,000	60%	Amman
Al-Shera'a Gas Station	5,000	95%	Amman
Al-Kamel Gas Station	5,000	60%	Amman
Al-Qastal Gas Station	5,000	60%	Amman
Taj Amon Gas Station	5,000	60%	Amman

Some of the subsidiaries are performing while others are not. Some of the non-performing subsidiaries are under renovation, which explains why they are non-performing.

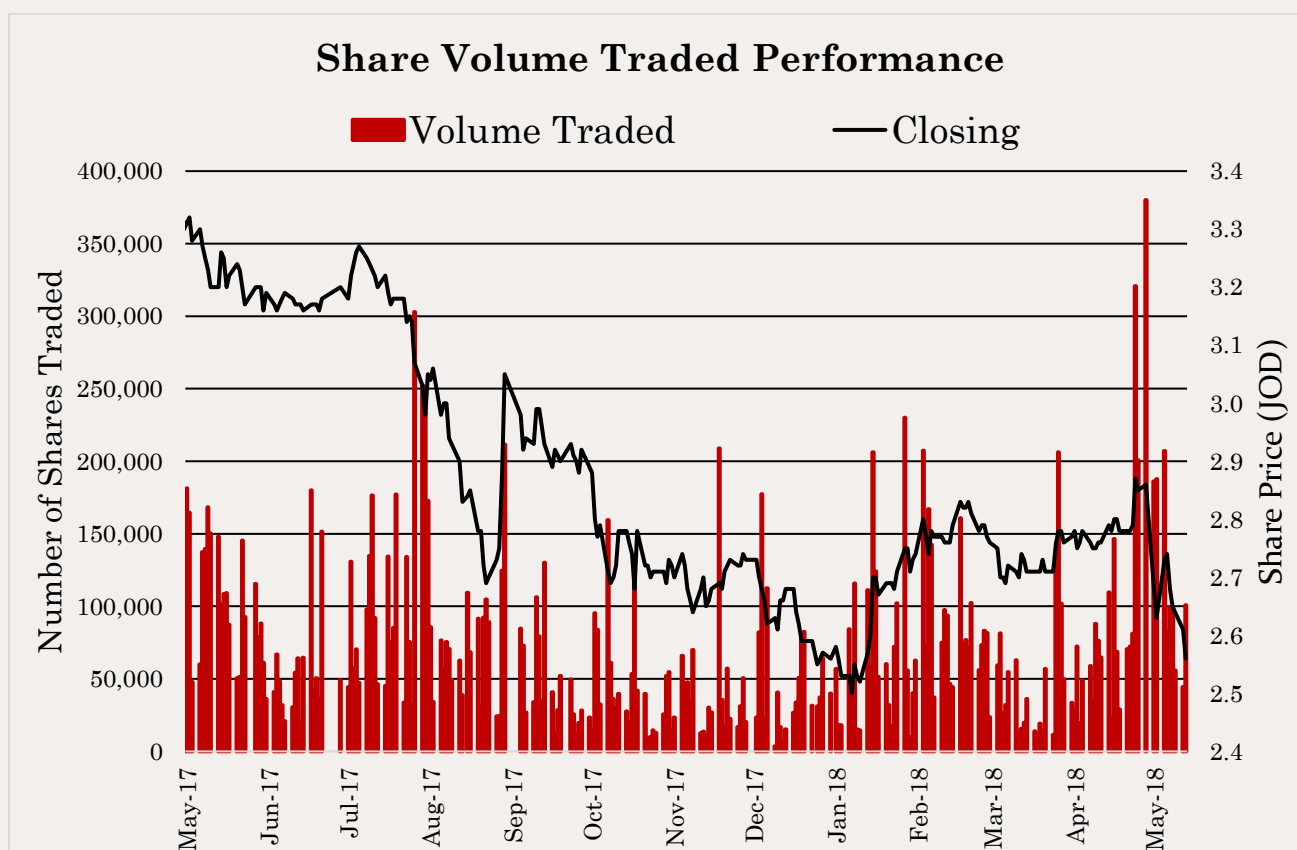
During 2008, JOPT established two subsidiary companies wholly owned by JOPT, for the purposes of splitting the activities of producing lube oil and filling gas. These companies are the Jordan Liquefied Petroleum Gas Manufacturing and Filling Company, and Jordan Lube Oil Manufacturing Company. In 2017, JOPT increased the capital of Jordan Petroleum Products Marketing Company to JOD 55 million.

3.5 Share Performance

JOPT's 2017 high and low were JOD3.63 JOD2.53, respectively. JOPT reached a high of JOD3.63 during mid-April 2017 before dropping severely in the following months. JOPT closed at JOD2.53 on the 31st of December 2017. Since the beginning of 2018, JOPT has been going up and was stabilizing in the JOD2.75-2.80 range, especially during April, prior to the annual dividend payment. After JOPT disbursed out dividends during the second week of May, the stock price fell, which is normal and expected. It closed at JOD2.74 on the 7th of May, one day before the disbursement of dividends, and at JOD2.56 on the 14th of May, dropping every day for the past week.



Source: Amman Stock Exchange, interpreted by Jordinvest



Source: Amman Stock Exchange, interpreted by Jordinvest

JOPT	Period Total			Daily Average (Per trading day)		
	Trading Value (JOD)	# of Transactions	Trading Volume (# of Shares)	Trading Value (JOD)	# of Transactions	Trading Volume (# of Shares)
2018*	20,533,832	9,922	7,492,792	220,794	107	80,568
2017	66,261,039	27,841	20,662,041	269,354	113	83,992
2016	63,404,686	25,148	16,272,867	259,855	103	66,692
2015	94,133,248	35,231	18,442,612	384,217	144	75,276

*Up to May 14th 2017

Source: Amman Stock Exchange, interpreted by Jordinvest

2018 JOPT Trading Days: 93 (up to and including May 14th)

2017 JOPT Trading Days: 246

2016 JOPT Trading Days: 244

2015 JOPT Trading Days: 245

There are three elements to examining share performance. First, the total number of transactions in the utilities and energy market by the three companies in 2016 is 31,525, of which, 25,148 came from trading JOPT's shares (nearly 80%). Second, the value of JOPT's shares traded, in JOD, was also around 80% of the total in the market (JOD63.40 million out of JOD80.56 million). Third, the turnover ratio of JOPT's shares was 16.27%, much higher than JOEP's and IREL's turnover ratios of 8.25% and 0.73%, respectively.

In 2017, the turnover ratio of JOPT's shares was 20.66%, much higher than that of JOEP's and IREL's ratios of 11.13% and 0.29%, respectively. In April 2018, JOPT's shares had a turnover ratio of 2.03%, while JOEP's and IREL's ratios were 3.00% and 0.07%, respectively.

Moreover, the trading activity in 2016 improved slightly after dropping in terms of both volume and number of shares traded the previous year, 2015. The daily average trading value was JOD259.86k in 2016, much lower than that value in 2015 of JOD384.22k. But, daily average trading volume of 66.69k in 2016 was lower than it was in 2015, 75.28k.

In 2017, however, trading activity improved as evidenced by three metrics, daily trading value, daily number of transactions, and daily trading volume. Daily trading value increased by JOD9.50k, daily number of transactions by 10 transactions and daily trading volume by 17.30k shares.

In 2017, daily average of trading volume and of traded shares was JOD11.85 million and 6.95 million shares, respectively, during 246 trading days.

So far this year, up until mid-May 2018, trading activity, on a daily basis, is weaker in comparison to prior years as evidenced by the three elements.

3.6 SWOT Analysis

Strengths
Has a large network of gas stations in Jordan
The one and only refinery in Jordan
Produces various types petroleum derivatives serving different business and consumer segments of the market
Most of its products have relatively inelastic demand
Profile of senior management and Board of Directors

Weaknesses
Lack of meaningful presence on social media
Some portions of the website are stale
Extremely levered as evidenced by its high debt-to-equity ratio
Up until recently, dividend policy was not properly aligned with earnings
Significant percentage of revenues are reliant on the needs of electricity generating Companies

Opportunities
Growth through mergers and/or acquisitions of smaller gas stations or of companies in the energy sector
Organic growth by adding new marketable petroleum products to its line
Innovating by adding new services to consumers at its gas stations or online
Establishing a mobile application for users
Cooperating with restaurants/shops in order to drag more customers into the gas stations
Growing demand for charging outlets for electric cars (which could be placed inside JOPT's gas stations)
Opening new gas stations in both rural and high traffic areas
Embracing the production of renewable energy into its operations

Threats
Political instability of countries in where JOPT's trade partners reside
Foreign market players reducing JOPT's market share either by opening refineries or by other means (possible to some extent, but unlikely)
Economic slowdown negatively affecting the frequency of purchases of petroleum derivatives from JOPT
Increased usage of electric and hybrid cars in Jordan, as well as solar energy in commercial buildings and households
Continuous developments in alternative sources of energy via government directives, thereby reducing demand for petroleum derivatives (similar to the point above)
Stricter government policies and environmental regulations
Environmental activism
Natural disasters causing catastrophic effects on JOPT's facilities

4.0 KEY PERFORMANCE INDICATORS

(Values in JOD unless otherwise stated)	2013	2014	2015	2016	2017
Major Figures					
Net Sales (excluding Lube-oil factory)	4,278,302,798	4,588,712,925	2,582,266,445	1,729,317,216	1,718,983,013
Earnings before Tax (EBT)	32,129,028	38,940,615	42,055,514	46,080,055	39,181,460
Net Profit	28,235,326	32,429,758	31,347,665	34,066,432	32,927,297
Total Assets	1,765,784,380	1,798,635,967	1,283,198,686	1,243,232,980	1,368,290,164
Shareholders' Equity	124,689,693	148,965,489	169,572,988	197,071,070	214,137,190
Paid-up Capital (JD's)	40,000,000	62,500,000	75,000,000	100,000,000	100,000,000
Development of JOPT's Production of Oil Products (Thousand ton)					
Gasoline	663	634	653	583	557
Kersone	34	63	91	97	54
White Spirit	N/A	N/A	N/A	N/A	N/A
Diesel	980	930	1,058	909	844
Liquefied Petroleum Gas (LPG)	78	91	80	81	78
Fuel oil	900	812	885	599	563
Jet fuel (Aviation Turbine Fuel, Avtur)	325	318	257	287	279
Asphalt	12	160	183	232	222
Oil Derivative Petroleum Product YoY JOPT Growth Sales					
Gasoline	1.22%	2.23%	11.1%	7.8%	-11.1%
Kersone	-22.6%	-22.68%	85%	16.2%	-16.0%
White Spirit	N/A	N/A	61.9%	50.4%	-49.2%
Diesel	-9.4%	17.33%	-31.7%	-32%	-45.4%
Liquefied Petroleum Gas (LPG)	-2.2%	0.58%	12.1%	0.32%	3.4%
Fuel oil	6.4%	21.54%	-16.4%	-64.1%	-17.3%
Jet fuel (Aviation Turbine Fuel, Avtur)	-5.8%	-3.96%	-8.5%	11.3%	14.4%
Asphalt	13%	53.17%	13.6%	28%	-4.1%
Growth in Gross Income and Net Profits					
Growth in Gross Income	6.58%	7.13%	-43.28%	-32.20%	0.91%
Growth in Net Profits	30.87%	14.86%	-3.34%	8.67%	-3.34%
Financial Ratios					
Dividends Per Share	0.25	0.18	0.10	0.20	0.20
Dividend Payout Ratio	35.417%	34.690%	23.925%	58.709%	60.740%
Dividend Yield Per Share	5.155%	4.045%	2.353%	5.848%	7.813%
ROA	1.599%	1.803%	2.443%	2.740%	2.406%
ROE	22.644%	21.770%	18.486%	17.286%	15.377%
Valuation Ratios					
EPS	0.706	0.519	0.418	0.341	0.329
Book Value Per Share (BVPS)	3.117	2.383	2.261	1.971	2.141
P/E Ratio (times)	6.871	8.576	10.168	10.039	7.775
P/B Ratio (times)	1.556	1.867	1.880	1.735	1.195

5.0 PERFORMANCE ANALYSIS

5.1 Balance Sheet

Just as the oil and petroleum imports into Jordan declined during the past few years, so did JOPT's sales and cost of sales, which ultimately shrunk its balance sheet. Its assets dropped by a CAGR of 2.27% over the six year period 2012-2017. This is normal and expected due to the external events that affected the entire economy, and specifically the utilities & energy sub-sector.

(in JOD)	2012	2013	2014	2015	2016	2017
Assets	1,534,883,696	1,765,784,380	1,798,635,967	1,283,198,686	1,243,232,980	1,368,290,164
Liabilities	1,431,437,096	1,641,094,687	1,649,670,478	1,113,625,698	1,046,161,910	1,154,152,974
Equity	103,446,600	124,689,693	148,965,489	169,572,988	197,071,070	214,137,190

In 2016, JOPT's total assets dropped for a variety of reasons. One is the decrease in accounts receivables by JOD54.54 million, from JOD904.68 million to JOD850.14 million. The debit balance of the ministry of finance was JOD 187.87 million compared to JOD347.49 million the previous year. Also, the debit balance of Royal Jordanian was JOD68.89 million compared to JOD98.19 million the previous year. Other government bodies' debit balances decreased to JOD288.10 million from JOD295.95 million. Value of checks for collection increased from JOD14.62 million to JOD36.76 million.

Major Accounts	
Account	Increase/(Decrease) in 2016
Ministry of Finance	(159,622,366)
Other Government Bodies	(7,844,815)
Royal Jordanian	(29,307,306)
Value of checks for collection	22,139,036
Sum of Other Changes to Accounts Receivable and Other Debit Balances	120,098,752
Accounts Receivable and Other Debit Balances (in JOD)	(54,536,699)

Source: Jordan Petroleum Refinery Co.

Deferred tax assets decreased by JOD5.46 million. Intangible assets decreased by exactly JOD3 million due to accumulated amortization. Investment property – net, and advances to purchases investments, combined, decreased by JOD2.37 million. On the other hand, Crude Oil, finished oil products and supplies increased by JOD15.03 million. Crude oil, finished oil products and supplies were JOD424.44 million in 2012, dropping every year until JOD205.09 million in 2015, before the increase to JOD 220.12 million in 2016. Property, plant, and equipment increased by JOD7.08 million. Cash on hand and at banks increased by JOD3.42 million.

The purchase and/or sharing of new fuel stations increased land and property & equipment balances, leading to an increase of fixed assets by JOD7.08 million in 2016, from JOD119.52 million to JOD126.60 million.

In 2017, assets increased by JOD125.06 million. Crude oil, finished oil products and supplies went up by JOD96.75 million, supplies by JOD12.71 million, and property & equipment by JOD23.63 million. Deferred

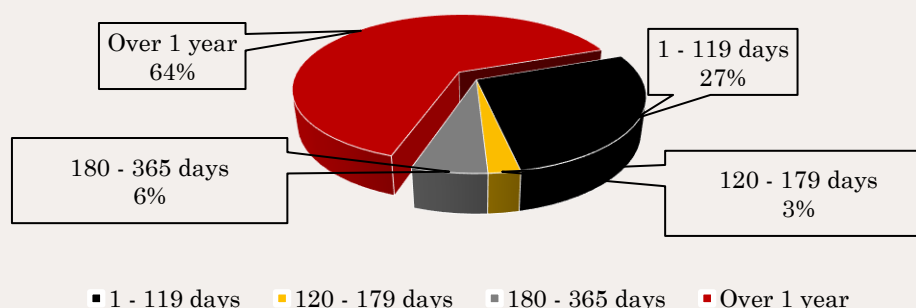
tax assets decreased by JOD330.86k, intangible assets by JOD3.00 million, cash on hand and at the banks by JOD3.72 million, and net investment property by JOD530.98k.

As for liabilities, both current and non-current liabilities increased in 2017, by JOD105.51 million and JOD2.48 million, respectively, for a total of JOD107.99 million.

Current liabilities due to banks went up by JOD108.63 million. Accounts payable and other credit balances dropped by JOD1.83 million, finance lease obligation-current portion by JOD1.45 million, and provision for income tax by JOD2.74 million, while Products Marketing Company license-current portion remained the same at JOD4.28 million.

Non-current liabilities went up mainly because of the increase in finance lease obligation-non-current portion by JOD7.13 million, from JOD0.87 million to JOD8.00 million, an enormous jump. Fees payable to Ministry of Energy for Products Marketing Company license-non-current portion was eliminated during the year. It was JOD4.28 million the previous year. Loans due to death, end-of-service indemnity, and compensation fund, decreased by JOD395.20k.

Aging of Accounts Receivable



Source: Jordan Petroleum Refinery Co.

Up until Q1 2018, nearly two thirds of JOPT's accounts receivable had a maturity exceeding one year, and one quarter had a maturity of less than four months, as seen in the pie chart above.

Assets by Sector

By sector, the JOD125.06 million increase in total assets mentioned above came from all three sectors. Refinery and filling of gas cylinders sector's assets increased by nearly JOD35 million, while that of Jordan Petroleum Products Marketing Company increased by over JOD74 million, and that of the Lube-oil factory by almost JOD16 million.

(in JOD)	2016	2017	Increase/(Decrease) in assets
Refinery and filling of gas cylinders	1,057,198,504	1,092,179,563	34,981,059
Lube-oil factory	16,097,918	32,002,835	15,904,917
Jordan Petroleum Products Marketing Company	165,576,094	239,648,870	74,072,776
Other	4,360,464	4,458,896	98,432
Total Assets	1,243,232,980	1,368,290,164	125,057,184

Source: Jordan Petroleum Refinery Co.

5.1.3 Shareholders' Equity

The shareholders' equity of JOPT has increased each year since 2007, when it was only JOD62.22 million. Shareholders' equity was growing only a few millions per year from 2007-2010, but then the increases became steeper, starting from 2010 to 2011 when the increase was JOD11.70 million. Since 2011, the change was around JOD22 million per year, on average. From 2014 to 2015, the change in equity was JOD20.61 million. The year 2015 witnessed the lowest dividends per share in many years of JOD0.10 per share. Because cash dividends in 2015 for the 2014 fiscal year were relatively lower than they were during the previous two years, a worthy portion of profits were shuffled into retained earnings, leading to a substantial increase in shareholders' equity.

JOPT also distributes free shares to its shareholders. For example, in 2015, free shares were JOD25 million, so total dividends (cash and stock) for the year were JOD32.50 million. In 2014, free shares were JOD12.5million.

From 2015 to 2016, the change in shareholders' equity was an outstanding JOD26.11 million, JOD25 million of which came from the capital increase. The statutory reserve was increased by JOD4.58 million, from JD35.93 million to JOD40.51 million, coming from the deduction of 10% of net income. Decreases of retained earnings were JOD1.39 million in 2016, while that of voluntary reserves was JOD1.94 million, and lastly net financial assets decreased by JOD137.38k only. In 2016, JOD1.94 million was transferred from voluntary reserve to retained earnings.

The JOD20 million cash dividends paid during 2016 for the 2015 FY were the highest amount of cash dividends paid by JOPT ever (although profits were also the highest ever at JOD 34.01 million).

In 2017, shareholders' equity went up to JOD204.46 million from JOD192.26 million, a JOD12.20 million increase. Paid-up capital was not increased this year. It remained at JOD100 million. JOPT transferred 10% out of the yearly net profit after tax of Jordan Petroleum Marketing Company into the statutory reserve account while setting aside a little bit less than JOD8 million for the fourth expansion project in the voluntary reserve account. JOD20 million were paid in cash dividends for the previous fiscal year, and this year another JOD20 million were paid for 2017.

As for non-controlling interest, it went up by JOD4.87 million, from JOD4.81 million to JOD9.68 million. In total, total owners' equity increased by JOD17.07 million; JOD4.87 from the increase in non-controlling interest, and JOD12.20 million from the increase in total shareholders' equity.

5.2 Income Statement

5.2.1 Revenues

Table 5210:

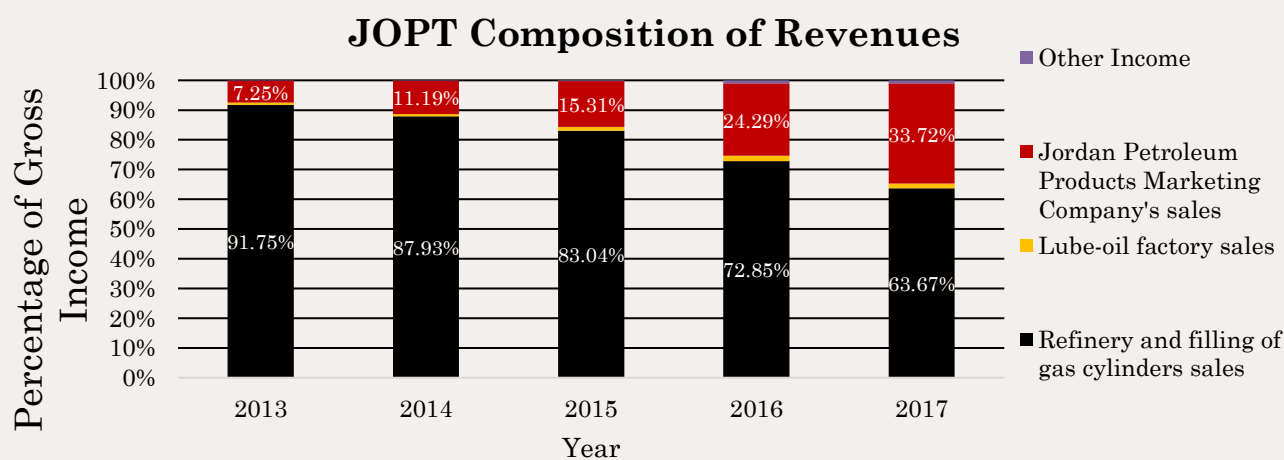
(in JOD, before taxes)	2013	2014	2015	2016	2017
Refinery and filling of gas cylinders sales	4,311,277,307	4,401,025,646	2,265,573,626	1,342,002,992	1,178,323,427
Lube-oil factory sales	34,163,147	35,414,782	35,908,443	32,750,498	28,613,664
Jordan Petroleum Products Marketing Company's sales	313,404,490	518,030,580	521,010,990	603,891,310	879,633,622
Less: Sales tax and special tax	(346,378,999)	(330,343,301)	(204,318,171)	(216,577,086)	(308,312,424)
Sales - Net	4,312,465,945	4,624,127,707	2,618,174,888	1,762,067,714	1,778,258,289
Operating Income and Other Income:	8,723,838	5,135,271	7,570,453	18,236,068	18,198,767
Gross Income	4,321,189,783	4,629,262,978	2,625,745,341	1,780,303,782	1,796,457,056

Source: Jordan Petroleum Refinery Co.

Table 5211:

(in JOD, after taxes)	2013	2014	2015	2016	2017
Refinery and filling of gas cylinders sales	3,964,898,308	4,070,682,345	2,180,359,448	1,296,924,310	1,143,795,291
Lube-oil factory sales	34,163,147	35,414,782	35,908,443	32,750,498	28,613,664
Jordan Petroleum Products Marketing Company's sales	313,404,490	518,030,580	401,906,997	432,392,906	605,849,334
Other	0	0	0	0	0
Sales - Net	4,312,465,945	4,624,127,707	2,618,174,888	1,762,067,714	1,778,258,289
Operating Income and Other Income:	8,723,838	5,135,271	7,570,453	18,236,068	18,198,767
Refinery and filling of gas cylinders sales	7,399,394	5,122,634	6,767,019	17,397,006	16,772,363
Lube-oil factory sales	15,321	12,637	264,991	39,075	107,835
Jordan Petroleum Products Marketing Company's sales	1,309,123	0	538,443	799,987	1,318,569
Gross Income	4,321,189,783	4,629,262,978	2,625,745,341	1,780,303,782	1,796,457,056

Source: Jordan Petroleum Refinery Co.



Source: Jordan Petroleum Refinery Co.

JOPT's net sales have decreased significantly over the past few years. There was a significant increase from 2013 to 2014, but in 2015 net sales were slashed by almost half. Net sales decreased from JOD2.62 billion to JOD1.76 billion in 2016 as a result of reduced quantities sold, especially to electricity companies. The decrease in price and quantities of imported petroleum products resulted in a decrease of cost of sales by JOD804.58 million.

Jordan Petroleum Products Marketing Company's contribution to net sales has been increasing significantly. In 2013, it was only 7.25%. In 2017, it was 33.72% of gross income. Refinery and filling of gas cylinders sales has decreased in both absolute and percentage forms from during the past five years.

Change in EBT 2016:

The increase in JOPT's marketing company's Earnings Before Taxes (EBT) and lube-oil factory's EBT more than offset the decrease in refinery and filling gas cylinders' EBT, resulting in an improvement of earnings before taxes for the year by JOD4.02 million, as shown in the following table:

(in JOD)	2015	2016	Increase/(Decrease) in EBT
Refinery and filling of gas cylinders EBT	22,497,649	21,549,097	(948,552)
Lube-oil factory EBT	13,135,945	13,293,578	157,633
Jordan Petroleum Products Marketing Company's EBT	6,339,688	11,170,209	4,830,521
Other EBT	82,232	67,171	(15,061)
Earnings before taxes (EBT)	42,055,514	46,080,055	4,024,541

Source: Jordan Petroleum Refinery Co.

Change in EBT 2017:

In 2017, earnings before taxes decreased severely, as shown in the following table:

(in JOD)	2016	2017	Increase/(Decrease) in EBT
Refinery and filling of gas cylinders EBT	21,549,097	15,990,790	(5,558,307)
Lube-oil factory EBT	13,293,578	11,404,627	(1,888,951)
Jordan Petroleum Products Marketing Company's EBT	11,170,209	11,707,066	536,857
Other EBT	67,171	78,977	11,806
Earnings before taxes (EBT)	46,080,055	39,181,460	(6,898,595)

Source: Jordan Petroleum Refinery Co.

Imports and Production:

In 2016, imported petroleum products decreased by almost 40% to 1.95 million tons from 3.23 million tons the previous year. In 2017, imported petroleum products decreased even further to 1.33 million tons. The usage of both diesel and fuel oil by electricity & generating companies in 2016 slumped. This in turn affected the volume of JOPT's sales.

Net sales of oil derivative petroleum products decreased by 1.60 million tons from 6.26 million tons in 2015, to 4.66 million tons in 2016, and to 3.74 million tons in 2017.

As seen in the table below, net sales decreased by 32.7% in 2016, as the sales of diesel and fuel oil dropped by 32%, and 64.1%, respectively. While the sales of the remaining six products increased, it was not enough to compensate the decrease in sales from these two major products.

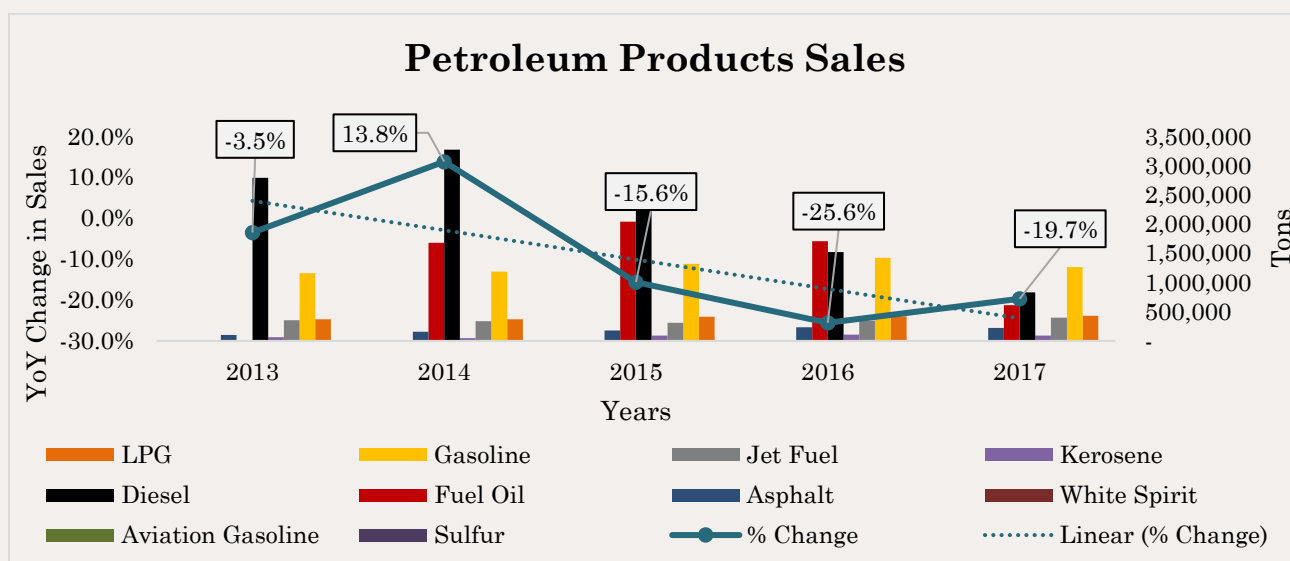
Item number	Oil Derivative Petroleum Product	2016 Product Sales (Tons)	2016 Increase/(Decrease) In Sales
1	Gasoline	1,422,448	7.8%
2	Kersone	105,244	16.2%
3	White Spirit	1,680	50.4%
4	Diesel	1,520,600	(32%)
5	Liquefied Petroleum Gas (LPG)	416,842	0.32%
6	Fuel Oil	611,321	(64.1%)
7	Jet Fuel	346,526	11.3%
8	Asphalt	231,408	28%
		Sales – Net	(32.7%)

Source: Jordan Petroleum Refinery Co.

Item number	Oil Derivative Petroleum Product	2017 Product Sales (Tons)	2017 Increase/(Decrease) In Sales
1	Gasoline	1,422,448	(11.1%)
2	Kersone	105,244	(16.0%)
3	White Spirit	1,680	(49.2%)
4	Diesel	1,520,600	(45.4%)
5	Liquefied Petroleum Gas (LPG)	416,842	3.5%
6	Fuel Oil	611,321	(17.3%)
7	Jet Fuel	346,526	14.4%
8	Asphalt	231,408	(4.1%)
		Sales – Net	0.92%

Source: Jordan Petroleum Refinery Co.

Net sales increased by only 0.92% in 2017, as the sales of major products, in number of tons, dropped meaningfully. In fact, the sales of six products out of eight decreased. In absolute terms, total product sales (of all 10 products) amounted to 6.52 million and 7.42 million tons in 2013 and 2014, respectively, but then decreased to 6.26 million tons in 2015, and down again to 4.66 million tons in 2016. In 2017, they were only 3.74 million tons.



Source: Jordan Petroleum Refinery Co.

5.2.2 Expenses

As JOPT's volume of sales dropped, so did its cost of sales. Nonetheless, the gross margin, excluding operating income & other income, increased from 1.55% 2014 to 11.19% in 2015, and again to 13.70% in 2016. In 2017, the gross margin went down to 10.65%.

Cost of sales were slashed in half from JOD4.55 million in 2014 to JOD2.33 million in 2015, and again to JOD1.52 million in 2016. In 2017, they increased slightly to JOD1.59 million.

Bank interest and commissions were cut in half during 2015 too, from JOD65.43 million in 2014 to JOD31.37. The downward trend continued in 2016 where interest expenses were only JOD17.59 million, as a result of the lower interest rates on the loans. In 2017, they went up to JOD21.19 million.

A significant income statement item, selling and distribution expenses, decreased from JOD72.79 million in 2014 to JOD66.86 million the following year, then to JOD51.59 million in 2016, before reaching JOD50.89 million in 2017.

In 2016, general & administrative expenses increased by only JOD323.10k to reach JOD15.17 million. This increase was less than the increase the previous year, which was by JOD3.53 million, from JOD11.32 million to JOD14.85 million in 2015. In 2017, these expenses went down to JOD12.49 million.

The largest line item on the income statement is the settlement of targeted income with the government. In 2016, this item was an outstanding JOD155.04 million. It was JOD 153.64 million in 2015. This year it was only JOD81.19 million because JOPT's earnings for the year, before taxes and settlement with the government, were JOD80.74 million less than they were last year.

Moreover, this line item is calculated as the profit for the year, after deducting several expenses in order to reach JOPT's targeted income after tax for the year, which is JOD 13.73 million. The amount recorded for the government's account is the figure that is needed for the yearly profit to reach the targeted profit, after tax.

Calculating Settlement with the Government			
(in JOD)	2016	2017	Difference
Earnings before tax & settlement with the government	201,119,684	120,375,655	(80,744,029)
Minus:			
Lube Oil Factory earnings after tax	11,432,477	9,807,980	(1,624,497)
Jordan Petroleum Products Marketing Company's earnings after taxes	8,900,861	9,386,224	485,363
Target' profit	13,733,093	13,733,093	-
Income tax for the year	9,641,364	6,254,163	(3,387,201)
Income tax for prior years	2,372,257	-	(2,372,257)
Settlement with the government	155,039,632	81,194,195	(73,845,437)

The profit for the year 2016 before tax and before settling the profits was JOD120.38 million (2016: JOD201.12 million). Lube Oil Factory's earnings after tax, Jordan Petroleum Products Marketing Company's earnings after tax, income tax for the period, and income tax expense related to prior years, are all deducted from JOPT's earnings before tax & settlement with the government. The targeted profit for the year is JOD13.73 million. Like the items above, the targeted profit is deducted to end up with the final figure, settlement with the government.

Other expenses, besides the ones mentioned above, are mostly provisions. These items fluctuated widely during the past five years, 2013-2017. For example, in 2016, the amount recovered from doubtful debts was JOD33.45 million, a huge reduction of non-cash charges. Since most other expenses items canceled out each other, and some expenses were relatively constant, such as amortization of intangible assets, the amount recovered from doubtful debts, JOD33.45 million, contributed significantly to the reduction of total expenses from 2016 to 2015. Including settlement with the government expense, JOPT's expenses decreased by JOD45.21 million in 2017.

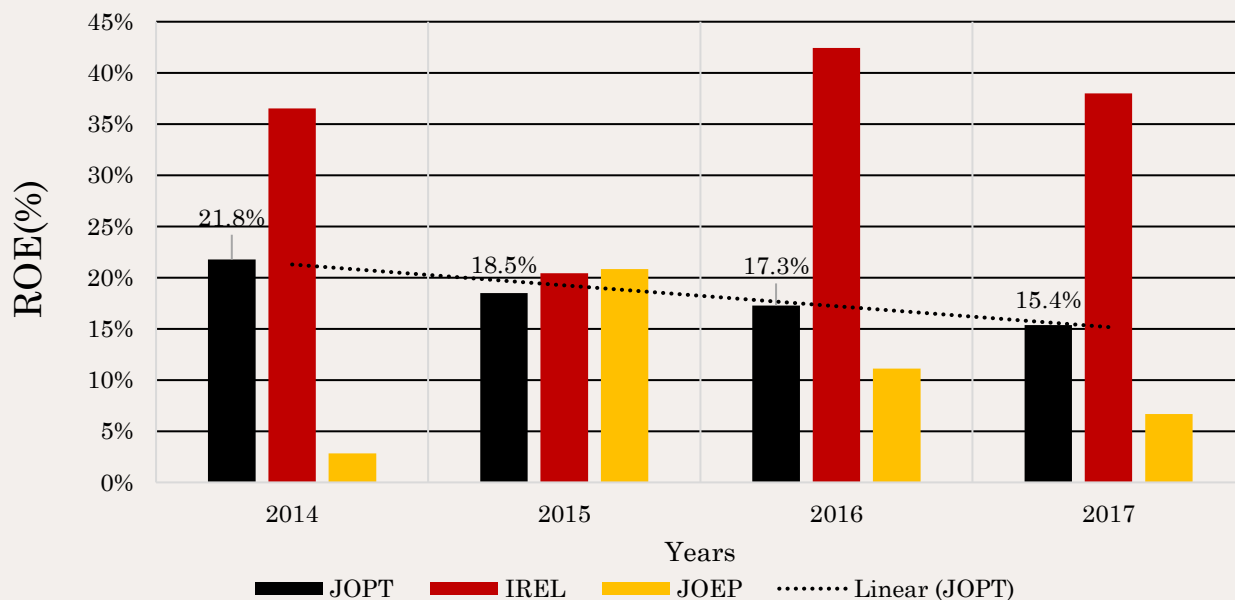
5.2.3 Net Income

JOPT earned a record net profit of JOD34.07 million in 2016, up by JOD2.72 million from the previous year. JOPT broke its own record of JOD32.43 million net profit in 2014, despite the severe drop in sales resulting from lower demand by the market. In 2017, profits dropped to JOD32.93 million.

On a before tax basis, JOPT's earnings slumped to JOD39.18 million in 2017 from JOD46.08 million in 2016, but because the income tax provision in 2017 was lower than that of 2016, and because there were no income taxes due to prior years in 2017, net profit was not that much lower in 2017.

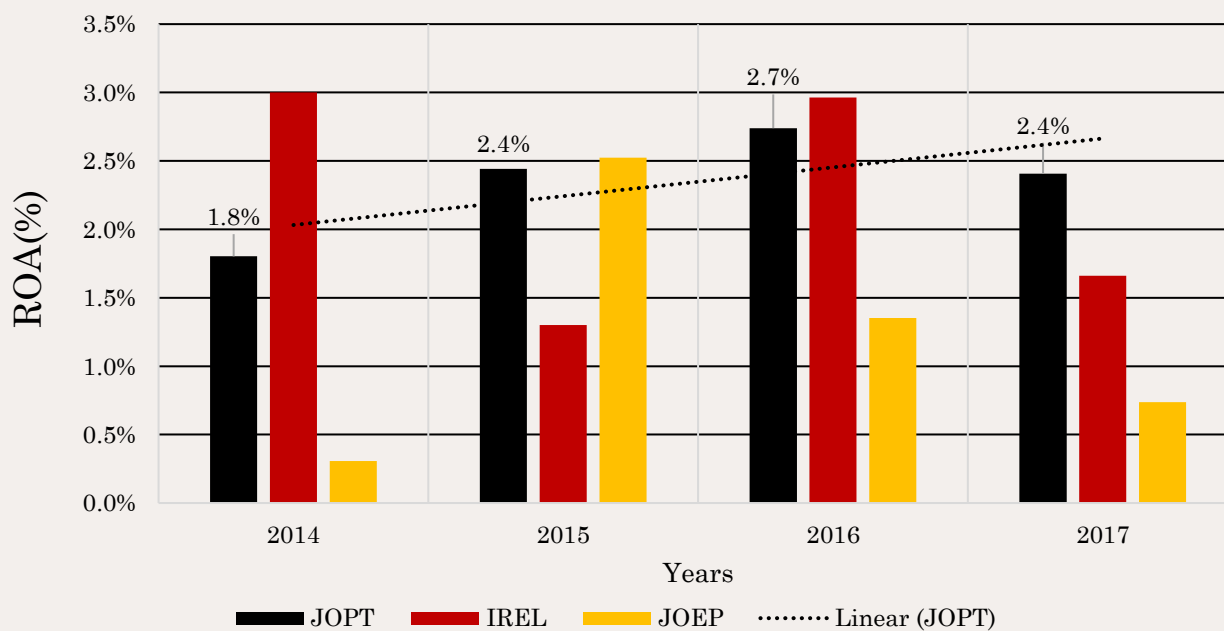
In 2017, JOPT's ROA was 2.41%, near its historical average, while its ROE of 15.38% was slightly lower than usual. In fact, JOPT's ROE has been trending downwards for the past few years.

Return on Equity



Source: Securities Depository Center

Return on Assets



Source: Securities Depository Center

P/E and P/BV Ratios

JOPT's P/BV ratio has decreased since 2007 when it was 3.81 times, to 1.74 times in 2016, and to 1.12 in 2017. Its book value per share has remained almost the same since that time, but as mentioned earlier in this report, the market value of its share has been dropping year over year. The market price was JOD7.41 in 2007. These days the stock price is struggling to trespass JOD3.00.

In the same vein, JOPT's P/E ratio has been declining since 2007. Both the stock price and EPS have been dropping simultaneously for the past few years, the stock price even more so, resulting in a P/E ratio decline.

6.0 VALUATION

The valuation is based on the target payout ratio adjustment model with some mild adjustments. JOPT's earnings are expected to increase and the current payout ratio of 60.740% (2016: 58.709%) is below the expected target long-term payout ratio, which we assume to be 70%. We believe that the number of years over which the adjustment to the payout ratio will take place is six years. Between 2018 and 2023, the payout ratio will gradually move up to 70%.

The payment date of the declared cash dividends occurred before the release of this report, and as a result, the JD20 million cash dividends paid are excluded for the computation of equity value. The stock price fell immediately once the payment was disbursed to shareholders.

JOPT usually pays out dividends to its shareholders during May (payment date) of every year. Cash dividends are expected to increase during the next six years. After 2023, dividend growth will be minimal. The model assumes that yearly cash dividends will start growing at 2% a year in perpetuity after 2023. Given the long-term future growth prospects of the oil & gas industry, any growth rate above 2% is hard to justify.

An absolute valuation model was solely used because there are a lack of comparable companies in the market. Since JOPT has a history of cash dividend payments, we can forecast future dividends that JOPT will distribute to its shareholders using past dividend policy.

The uncertainty regarding the recommendation is low to medium.

6.1 Dividend Discount Model (DDM)

JOPT's management usually distributes dividends in multiples of 10 fils (e.g. 200 fils in 2016 & 2017 and 100 fils in 2015). Senior management is highly likely to continue distributing dividends in multiples of one piaster (10 fils). In the forecast below, the projected dividends per share are *smoothed* to multiples of one piaster, and are adjusted to hit a target payout ratio of 70% over the next few years. The cash dividend worth JOD20.00 million paid in May 2018 for the 2017 financial year is not included in the computation of share value because these cash dividends have already been disbursed to shareholders.

The average dividend payout ratio during the period 2005-2016 was 56.19%. This year it is 60.74% given a DPS of JOD0.20 and an EPS of JOD0.33. Beyond 2023, if both the EPS and DPS of JOPT go up by 2% a year, the dividend payout ratio will remain stable around 70%. During the next six years, average EPS growth is expected to be 1.93% while that of DPS is expected to be 4.47%, pulling up the dividend payout ratio (numerator growth [DPS] > denominator growth [EPS]) from 60.74% in 2017 to 70.39% in 2023.

Year	Earnings Per Share (JOD/Share)	Dividends Per Share (JOD/Share)	Cash Dividends	Net Income	Dividend Payout Ratio (%)	Paid-Up Capital (JOD)
	FY end	Paid the following year	Paid the following year	FY end	DPS/EPS	FY end
2023f	0.369	0.260	27,300,000	38,784,559	70.389	105,000,000
2022f	0.352	0.250	26,250,000	36,991,566	70.962	105,000,000
2021f	0.349	0.240	25,200,000	36,609,853	68.834	105,000,000
2020f	0.344	0.240	25,200,000	36,134,645	69.739	105,000,000
2019f	0.339	0.230	24,150,000	35,579,142	67.877	105,000,000
2018f	0.350	0.220	22,000,000	34,954,795	62.938	100,000,000
2017	0.329	0.200	20,000,000	32,927,297	60.740	100,000,000
2016	0.341	0.200	20,000,000	34,066,432	58.709	100,000,000
2015	0.418	0.100	7,500,000	31,347,665	23.925	75,000,000
2014	0.519	0.180	11,250,000	32,429,758	34.690	62,500,000
2013	0.706	0.250	10,000,000	28,235,326	35.417	40,000,000
2012	0.674	0.150	4,800,000	21,574,410	22.249	32,000,000
2011	0.683	0.150	4,800,000	21,853,669	21.964	32,000,000
2010	0.405	0.300	9,600,000	12,975,249	73.987	32,000,000
2009	0.339	0.250	8,000,000	10,854,768	73.700	32,000,000
2008	0.241	0.200	6,400,000	7,724,317	82.855	32,000,000
2007	0.137	0.120	3,840,000	4,397,811	87.316	32,000,000
2006	0.144	0.120	3,840,000	4,598,881	83.499	32,000,000
2005	0.211	0.160	5,120,000	6,741,876	75.943	32,000,000

Stage1						Stage2	
2018	2019f	2020f	2021f	2022f	2023f	2024f	Terminal Value
Cash Dividends Paid (JOD)							
20,000,000	22,000,000	24,150,000	25,200,000	25,200,000	26,250,000	27,300,000	294,292,961
PV of Stage1 Cash Dividends (excluding May 2018 payment)						JOD 103,194,916	
PV of Terminal Value						JOD 171,058,917	
May 2018 Dividend						JOD 20,000,000 (excluded from calculations)	
Estimated Equity Value						JOD 274,253,833 <u>(Post May 2018 Dividend)</u>	
Outstanding Number of Shares						100,000,000	
Price Per Share (estimated intrinsic value)						<u>JOD 2.74</u>	

Input Assumptions
Risk-free rate of 5.3% based on the average rate offered by CBJ on 5-year Bonds
Aswath Damodaran's estimate of ERP by country:
Jordan:
Moody's sovereign rating (local currency): B1
S&P sovereign rating (local currency): B+
Country Default Spread = 4.62%

Country Risk Premium = 5.19%
Adjusted Beta for JOPT using the Blume method = 0.60
Cost of Equity= 11.462%
A cash dividend perpetual (terminal) growth rate of 2.0%

Sensitivity Analysis

Price of JOPT Stock (JOD)		Terminal Growth Rate				
Current Price=2.56		0%	1%	2%	3%	4%
Cost of Equity	9.5%	2.93	3.17	3.47	3.86	4.40
	10.5%	2.65	2.84	3.06	3.35	3.73
	11.5%	2.42	2.56	2.74	2.96	3.24
	12.5%	2.22	2.34	2.48	2.65	2.87
	13.5%	2.05	2.15	2.27	2.40	2.57

Prices in the green and red cells are in the BUY and SELL ranges, respectively.

Holding the cost of equity constant, the perpetual growth rate needed to place the stock in the BUY range is 2.36%, and the perpetual growth rate inferred by the current stock price is less than zero. The assumed growth rate is 2.00%. Since the inferred growth rate (<0%) is lower than the assumed growth rate (2%), the stock is undervalued, and the intrinsic value is 7.13% higher than the current stock price of JOD2.56.

The intrinsic value of the stock is not high enough to be categorized in the BUY range (value should be at least 10% higher than the current market price).

6.2 Relative Valuation

Company	Paid-Up Capital (JOD)	Total Assets	Equity	Net Income	Share Price	P/B (times)	P/E* (times)
Ticker	2017	30/4/2018	30/4/2018	30/4/2018	14/5/2018	14/5/2018	14/5/2018
JOPT	100,000,000	1,418,682,839	211,790,766	8,014,377	2.56	1.21	7.99
IREL	8,000,000	354,887,203	17,023,561	(723,486)	11.14 (9/5/2018)	5.24	N/A
JOEP	83,572,965	1,094,705,079	103,444,504	(14,920,353)	1.37	1.11	N/A

*Calculated based on annualised Q1 2018 results

6.2.1 P/E Ratio

Because there are only two comparable companies, both of which have a history of incurring losses, including during the past quarter, Q1 2018, performing a relative valuation will not result in an accurate valuation of JOPT.

6.2.2 P/BV Ratio

For similar reasons expressed above, a relative valuation based on the P/BV ratio will not be possible.

Guide to Analyst Recommendation

- **Buy**
Reflects potential estimated total return of +10% within the next 12 months for a stock.
- **Hold**
Reflects potential estimated total return of +/-10% within the next 12 months for a stock.
- **Sell**
Reflects potential estimated total return of -10% or more within the next 12 months for a stock.

Contacts

If you have any questions about this equity research report, please send an email to research@jordinvest.com.jo with the subject "JOPT".

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