

Aramex PJSC

Higher international shipping volume and cost control measures supported profitability

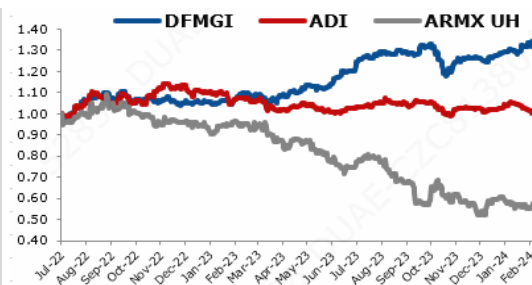
Current Price
AED 2.64

Target Price
AED 3.10

Upside/Downside (%)
+17%

Rating
BUY

- International shipping volume recorded the highest quarterly volume of 7.8 Mn shipments in 1Q24.
- Freight forwarding revenue grew mainly due to double-digit growth in volume across all the products, including sea, air, and land freight.
- EBITDA grew 18.3% YOY to AED 181 Mn in 1Q24, and EBITDA Margins grew from 10.7% in 1Q23 to 11.8% in 1Q24.
- The GCC and MENAT region stood as a primary contributor and accounted for 39% and 18%, respectively, of total revenue in 1Q24.
- Net debt declined from AED 543 Mn in 4Q23 to AED 502 Mn in 1Q24.



1Q24 Net Profit higher than our estimate

Aramex PJSC (Aramex/the Company) net profit grew from AED 24 Mn in 1Q23 to AED 47 Mn in 1Q24, higher than our estimate of AED 38 Mn. The increase in net profit is primarily driven by growth in revenue and EBITDA coupled with lower impairments on financial assets partially offset by higher cost of sales, and increase in S&M and administrative expenses.

P&L Highlights

Aramex's revenue grew 7.6% YOY to AED 1,541 Mn in 1Q24, mainly due to new customer acquisitions, seasonality, and the Company's growing focus on sales specialization. Revenue from the freight forwarding segment rose 3.4% YOY to AED 399 Mn in 1Q24. The increase in revenue is mainly attributable to double-digit growth in volume across all the products, including sea, air, and land freight. Revenue from the courier segment grew 10.5% YOY to AED 1,026 Mn in 1Q24, primarily due to 44% YOY growth in international express shipping owing to demand from ecommerce and banking sectors. International shipping recorded the highest quarterly volume of 7.8 Mn shipments in 1Q24. Furthermore, volumes from domestic express rose 6.5% YOY to AED 26.2 Mn in 1Q24 owing to demand from GCC, MENAT and Oceania. Logistics and supply chain revenue declined marginally 0.4% YOY to AED 107 Mn in 1Q24. However, excluding the impact of currency translation, revenue grew 1.0% YOY in 1Q24. Moreover, revenue from the other services segment declined 11.5% YOY to 10 Mn in 1Q24. Moreover, the cost of services increased 6.7% YOY to AED 1,145 Mn in 1Q24. Resultantly, gross profit grew 10.4% YOY to AED 395 Mn in 1Q24 with an increase in gross margin from 25.0% in 1Q23 to 25.7% in 1Q24 owing to operational efficiency and cost optimization initiatives. Selling and marketing expenses grew 13.5% YOY to AED 81 Mn in 1Q24. Administrative expenses grew

Stock Information

Market Cap (AED, Mn)	3,865.22
Paid Up Capital (Mn)	1,464.10
52 Week High	3.11
52 Week Low	1.93
3M Avg. daily value (AED)	4,552,718

1Q24 Result Review (AED, Mn)

Total Assets	5,801
Total Liabilities	3,313
Total Equity	2,489
EBITDA	181
Net Profit	47

Financial Ratios

Dividend Yield (12m)	3.61
Dividend Pay-out (%)	106.82
Price-Earnings Ratio(x)	25.23
Price-to-Book Ratio (x)	1.56
Book Value (AED)	1.70
Return-on Equity (%)	6.08

Stock Performance

5 Days	2.72%
1 Months	1.93%
3 Months	14.78%
6 Months	21.66%
1 Year	-14.56%
Month to Date (MTD%)	1.93%
Quarter to Date (QTD%)	8.64%
Year to Date (YTD%)	15.28%

4.5% YOY to AED 219 Mn in 1Q24, mainly due to annual employee compensation adjustments. Net impairment loss on financial assets declined from AED 13 Mn in 1Q23 to AED 6 Mn in 1Q24. Moreover, other income reported a profit of AED 3 Mn in 1Q24 compared to a loss of AED 1 Mn in 1Q23. Resultantly, operating profit grew significantly from AED 63 Mn in 1Q23 to AED 92 Mn in 1Q24. Furthermore, total EBITDA grew 18.3% YOY to AED 181 Mn in 1Q24, and EBITDA Margins grew from 10.7% in 1Q23 to 11.8% in 1Q24. Finance income declined from AED 2 Mn in 1Q23 to AED 1 Mn in 1Q24, while finance cost grew 2.9% YOY to AED 31 Mn in 1Q24 due to the higher benchmark rates. Share of results of joint ventures and associates amounted to AED 1 Mn in 1Q24. Income tax expenses increased 44.4% YOY to AED 16 Mn in 1Q24 owing to the introduction of corporate tax in the UAE.

Balance Sheet Highlights

ARAMEX's gross debt declined from AED 1.11 Bn in 4Q23 to AED 1.07 Bn in 1Q24. Net debt declined from AED 543 Mn in 4Q23 to AED 502 Mn in 1Q24. The Company's cash and cash equivalent stood at AED 571 Mn in 1Q24, down from AED 575 Mn in 4Q23. ARAMEX generated AED 208 Mn in cash flow from operations in 1Q24 as compared to AED 127 Mn in 1Q23.

Target Price and Rating

We maintain our BUY rating on ARAMEX with an unchanged target price of AED 3.10. The Company's share price rose 6.6% since our last rating. ARAMEX experienced significant growth in the bottom line, driven by higher revenue and EBITDA growth in 1Q24. The growth in revenue was primarily attributed to higher volume in the freight forwarding and courier segment coupled with new customer wins in 1Q24. The Company's strong emphasis on operational efficiency and cost optimization supported the margins in 1Q24. ARAMEX's gross and EBITDA margin grew 65 bps YOY and 106 bps YOY to 25.7% and 11.8%, respectively in 1Q24. Despite the global shipping challenges, the freight forwarding and courier segment witnessed an increase in volume in 1Q24. International shipping volume recorded the highest quarterly volume of 7.8 Mn shipments in 1Q24, primarily due to demand from the ecommerce and banking sectors. The Company expects international shipping volume to decline in 2Q24 and 3Q24 as compared to 1Q24 and 4Q23, primarily due to the seasonality. Whereas for the domestic express, the Company continue to focus on increasing its market share in key markets and recovering volumes in Oceania. ARAMEX's freight forwarding volume recorded double-digit growth in land, sea, and air freight in 1Q24. The Company intends to increase its sales efforts in key markets such as GCC, MENAT, and Africa which will further support its volume going forward. The logistics and supply chain solutions business were affected due to currency devaluation. ARAMEX is focusing on product rebalancing within the segment to overcome these challenges in the logistics segment. Additionally, Aramex benefits from its strategically diversified geographical footprint. The GCC and MENAT region stands as the primary contributor and account for 39% and 18%, respectively of the Company's revenue in 1Q24. Furthermore, ARAMEX strengthened its presence in Saudi Arabia by opening a regional office, which will boost the company's logistics segment. Moreover, the company has maintained a strong balance sheet with a healthy cash balance, which will support its inorganic growth going forward. Thus, based on our analysis, we assign our BUY rating on the stock.

Aramex - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	8.1	15.1	17.9	24.3	31.1	23.8
PB (x)	1.5	1.5	1.5	1.6	1.6	1.7
EV/EBITDA	4.3	4.9	5.4	7.4	7.3	6.5
Dividend yield	6.0%	6.0%	4.7%	4.7%	3.6%	4.8%

FABS Estimates & Co Data

Aramex – P&L

AED Mn	1Q23	4Q23	1Q24	1Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Rendering of services	1,431	1,524	1,541	1,524	1.1%	7.6%	1.1%	5,694	6,015	5.6%
Costs of services	-1,073	-1,135	-1,145	-1,150	-0.4%	6.7%	0.9%	-4,267	-4,505	5.6%
Gross Profit	358	389	395	373	5.9%	10.4%	1.7%	1,427	1,510	5.8%
Selling & Mktg exp	-71	-81	-81	-81	0.4%	13.5%	0.6%	-308	-319	3.3%
Administrative expenses	-209	-213	-219	-221	-1.0%	4.5%	2.8%	-845	-872	3.2%
Impairment loss on fin. assets	-13	-4	-6	-4	51.3%	-51.6%	51.3%	-20	-20	0.0%
Other income, net	-1	15	3	5	-33.3%	NM	-79.7%	13	14	5.6%
Operating profit	63	106	92	72	28.2%	46.7%	-13.0%	267	313	17.3%
EBITDA	153	197	181	169	7.3%	18.3%	-8.0%	628	698	11.2%
Finance income	2	3	1	3	-66.6%	-58.2%	-62.4%	8	9	5.6%
Finance costs	-30	-33	-31	-27	14.7%	2.9%	-3.7%	-128	-108	-15.6%
Share of results of JVs	0	1	1	2	-54.6%	NM	-46.1%	6	9	61.9%
Profit before income tax	35	78	63	49	27.3%	77.0%	-19.2%	152	222	45.9%
Income tax expense	-11	-1	-16	-11	38.8%	44.4%	NM	-23	-53	135.1%
Profit for the period	25	77	47	38	23.9%	91.5%	-39.0%	130	169	30.3%
NCI	0	0	0	0	NM	NM	NM	-1	0	NM
Net Profit	24	77	47	38	22.7%	94.8%	-39.4%	129	169	30.8%

FABS estimate & Co Data

Aramex - Margins

	1Q23	4Q23	1Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	25.0%	25.5%	25.7%	65	16	25.1%	25.1%	4
EBITDA	10.7%	12.9%	11.8%	106	-116	11.0%	11.6%	58
Operating Profit	4.4%	7.0%	6.0%	160	-97	4.7%	5.2%	52
Net Profit	1.7%	5.0%	3.0%	135	-202	0.0%	2.8%	279

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value Aramex. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	3.52	70.0%	2.46
Relative Valuation (RV)	2.14	30.0%	0.64
Weighted Average Valuation (AED)			3.10
Current market price (AED)			2.64
Upside/Downside (%)			+17%

1) DCF Method:

Aramex is valued using free cash flow to firm. We have discounted the cash flow using the weighted average cost of capital of 9.8%. It is arrived after using cost of equity of 9.8% and after-tax cost of debt of 9.8%. Cost of equity is calculated by using 10-year government bond yield of 5.7%, beta of 1.04 and equity risk premium of 3.9%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 9.8% is calculated after adjusting a tax rate of 14.9%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,335
Terminal value (AED, Mn)	4,237
FV to Common shareholders (AED, Mn)	5,150
No. of share (Mn)	1,464
Current Market Price (AED)	2.64
Fair Value per share (AED)	3.52

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	279	300	343	350	345
D&A	385	406	441	480	513
Change in working capital	81	75	116	91	-15
(-) Capex	-180	-187	-230	-303	-344
Free Cash Flow to Firm (FCFF)	565	595	670	618	498
Discounting Factor	0.94	0.86	0.78	0.71	0.65
Discounted FCFF	534	512	524	441	324

Source: FAB Securities

2) Relative Valuation:

We have used local as well as international peers to value Aramex and it is valued using the EV/EBITDA multiple. It is valued at 2024 EV/EBITDA multiple of 6.5x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Sumitomo Warehouse Co Ltd	1,260	9.9	10.3	16.2	16.2
Gulf Warehousing Co QPSC	534	6.5	5.9	8.5	7.6
Jiayou International Logistics Co., Ltd.	2,740	12.2	9.9	14.9	12.7
Kamigumi Co., Ltd.	2,160	6.4	6.2	14.4	13.4
SEINO Holdings Ltd	2,250	6.3	6.3	25.3	19.1
Average		8.3x	7.7x	15.9x	13.8x
Median		6.5x	6.3x	14.9x	13.4x
Max		9.9x	9.9x	16.2x	16.2x
Min		6.4x	6.2x	14.4x	12.7x

Source: FAB Securities

