

Aramex PJSC

Softening in global shipment volumes & currency devaluation dragged profitability

1Q23 net profit lower than our estimate

Aramex PJSC (Aramex/the Company) net profit declined 49.4% YOY to AED 24 Mn in 1Q23, lower than our estimate of AED 47 Mn. The net profit is impacted due to a mix of factors including currency devaluation in some markets, higher interest expense due to the acquisition of MyUS, and softness in topline flowing to the bottom line partially offset by a decline in cost of revenue and lower income tax expense.

P&L highlights

Aramex revenue declined 1.2% YOY to AED 1,431 Mn in 1Q23 mainly due to the weakening in the global shipment volume, currency fluctuations, and inflationary pressures. Revenue from the freight forwarding segment declined marginally 1.5% YOY to AED 385 Mn in 1Q23 due to stable growth in GCC and MENAT, while growth in Africa and America. While the revenue from the courier segment fell marginally 0.8% YOY to AED 928 Mn in 1Q23 due to a change in customer mix, currency foreign exchange impact, and decline in fuel surcharges partially offset by a good performance from MyUS. Furthermore, revenue from domestic express fell 4.0% YOY to AED 362 Mn in 1Q23 owing to the currency fluctuations in Egypt, South Africa, and some MENA countries whereas revenue from Oceania declined due to the ongoing restructuring process. This was somewhat offset by an increase in revenue from the GCC region and considerable cost-control measures taken by the company. On the other hand, revenue from the international express increased marginally 1.3% YOY to AED 567 Mn in 1Q23 supported by the additional volume that came from the MyUS. International express volumes rose from 5.3 Mn in 1Q22 to 5.4 Mn in 1Q23 whereas domestic shipment volumes declined from 25.0 Mn in 1Q22 to 24.6 Mn in 1Q23. Similarly, the revenue from the logistics and supply chain also declined 4.5% YOY to AED 107 Mn in 1Q23. Moreover, cost of services declined by 2.8% YOY to AED 1.073 Mn in 1Q23 reflecting the company's initiative in cost optimization through the economic cycle and consistent investment in efficiency maximization. As a result, gross profit rose 4.0% YOY to AED 358 Mn in 1Q23 owing to growth in International Express business especially MyUS acquisition provided a further boost to growth with a gross profit margin of 25.0% in 1Q23 as compared to 23.7% in 1Q22. The improvement is also led by investment in efficiency improvement initiatives and cost optimization. Selling and marketing expenses rose 21.4% YOY to AED 71 Mn whereas administrative expenses declined 2.2% YOY to AED 209 Mn in 1Q23. The overall increase in SG&A expenses is attributable to the inclusion of MyUS. Net impairment loss on financial assets increased from AED 5 Mn in 1Q22 to AED 13 Mn in 1Q23. Moreover, other income declined from AED 8 Mn in 1Q22 to a loss of AED 1 Mn in 1Q23. Resultantly, operating profit declined 16.0% YOY to AED 63 Mn in 1Q23. EBITDA decreased 9.3% YOY to AED 154 Mn in 1Q23 whereas EBITDA margin declined 95 bps YOY to 10.7% in 1Q23. Finance income rose from AED 1 Mn in 1Q22 to AED 2 Mn in 1Q23 while finance cost increased significantly from AED 13 Mn in 1Q22 to AED 30 Mn in 1Q23 due to the higher rate of interest in the economy. Share of results of joint ventures and associates declined from AED 4 Mn in 1Q22 to AED 0.5 Mn in 1Q23. Income tax expense reduced 44.8% YOY to AED 11 Mn in 1Q23 in line with the decline in profitability.

Rating : BUY

First Look Note – 1Q23

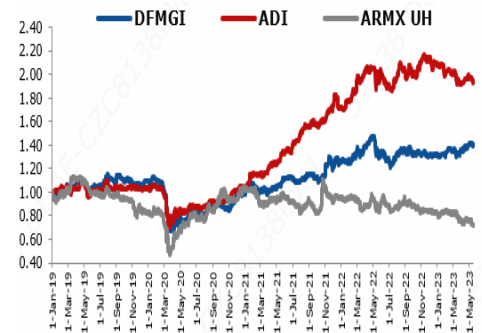
Sector: Transportation

Recommendation

Current Price (25-May-23)	3.04
Target Price (AED)	4.35
Upside/Downside (%)	+43%

Stock Information

Market Cap (mm)	4,450.86
Paid Up Capital (mm)	1,464.10
52 Week High	4.45
52 Week Low	3.01
3M Avg. daily value (AED)	1,661,736



Financial Ratios

Dividend Yield (12m)	3.07
Dividend Pay-out (%)	118.21
Price-Earnings Ratio (x)	32.74
Price-to-Book Ratio (x)	1.81
Book Value (AED)	1.72
Return-on Equity (%)	5.47
Earning Per Share (AED)	0.10
Beta	0.81

Stock Performance

5 Days	-0.98%
1 Months	-7.88%
3 Months	-13.14%
6 Months	-16.02%
1 Year	-16.71%
Month to Date (MTD)	-7.03%
Quarter to Date (QTD)	-7.60%
Year to Date (YTD)	-13.64%

Balance Sheet highlights

The Company's net debt stood at AED 1,177 Mn in 1Q23 as compared to AED 1,257 Mn in 4Q22. On the other hand, the company's cash and cash equivalent stood strong at AED 1,114 Mn in 1Q23, up from AED 759 Mn in 4Q22. The company generated AED 114.5 Mn in cash flow from operations in 1Q23 as compared to AED 211 Mn in 4Q22 due to investment in working capital. The maintained its net debt to EBITDA ratio at 2.3x in 1Q23 similar to the previous quarter.

Target price and rating

We maintain our BUY rating on Aramex with a target price of AED 4.35 . Aramex is a renowned logistics player, offering domestic and cross-border expertise as well as freight services through air, land, and sea reported a marginal drop in revenue of 1.2% YOY to AED 1,431 Mn in 1Q23 outperforming the competition despite softening in global shipment volumes of peer. UAE's high internet penetration of more than 90% coupled with favourable government policies adds fuel to the e-commerce sector growth in the region. Consequently, we expect the domestic courier business revenue to be positively driven by the rising digital users in UAE. Developing countries in MENA region like UAE, Saudi Arabia, and Qatar are taking major steps to promote the e-commerce segment to boost the non-oil economy which will in return benefit Aramex's courier services business. The International Express business of the company reported stable growth reflecting additional volumes contributed by the MyUS. Aramex management is continuously taking prudent cost-cutting measures and investing in automation and AI to drive the business in a fully integrated manner which will further help to deliver resilient performance, also expect to stabilize and improve the margin in the forthcoming period. The Company is expanding its business through air and sea charters and increasing its focus in the UAE and KSA region which will in return benefit the Freight Forwarding business. As the company is also providing end-to-end services from courier and freight to warehousing, gives the company a competitive advantage in the logistics and supply chain business. In addition, the company entered into a joint venture agreement with AD Port to develop and operate a new Non-Vessel Operating Common Carrier (NVOCC) Enterprise to enhance global trade and logistics business. The new JV, in which Aramex has a stake of 49%, will provide customized solutions to all Freight Forwarding industry players, further enhancing and developing shipping connectivity across the GCC and India along with East and West African markets with a short-term goal of 10,000 containers and improved supply chain linkages along important international trade routes. The recent acquisition made by the company with MyUS started contributing to the company's revenue and is expected to provide a further boost in the profitability of the company. Thus, based on our analysis, we maintain our BUY rating on the stock.

Aramex - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE(X)	9.01	8.92	16.64	19.67	26.82	21.48
PB(X)	1.84	1.69	1.65	1.66	1.77	1.73
EV/EBITDA	5.30	4.71	5.41	5.98	8.10	7.77
Dividend yield	5.4%	5.4%	5.4%	4.3%	4.3%	3.5%

FABS Estimates & Co Data

Aramex - P&L

AED mm	1Q22	4Q22	1Q23	1Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Rendering of Services	1,449	1,534	1,431	1,605	-10.8%	-1.2%	-6.7%	5,926	6,256	5.6%
Cost of Services	-1,105	-1,153	-1,073	-1,204	-10.8%	-2.8%	-6.9%	-4,502	-4,661	3.5%
Gross profit	344	381	358	401	-10.8%	4.0%	-6.0%	1,424	1,595	12.0%
Selling and Mktg Exp	-59	-72	-71	-69	3.4%	21.4%	-0.2%	-258	-275	6.8%
Administrative Expenses	-214	-246	-209	-249	-15.8%	-2.2%	-15.0%	-908	-976	7.5%
Net Impairment loss on Financial Assets	-5	-2	-13	-4	220.5%	183.7%	NM	-16	-16	0.0%
Other income, net	8	-5	-1	6	NM	NM	-73.0%	2	1	-51.0%
Operating profit	75	56	63	86	-26.6%	-16.0%	12.8%	245	329	34.2%
EBITDA	169	149	154	192	-20.1%	-9.3%	3.3%	609	668	9.7%
Finance Income	1	2	2	3	-24.1%	NM	12.1%	5	13	NM
Finance Costs	-13	-28	-30	-31	-0.4%	137.3%	7.8%	-73	-99	36.7%
Share of results of JVs & associates	4	1	0	0	NM	-86.2%	-9.1%	9	9	0.0%
Profit before Tax	67	30	35	58	-39.4%	-46.8%	17.0%	187	251	34.6%
Income Tax Expense	-20	2	-11	-12	-6.8%	-44.8%	NM	-26	-43	66.5%
Profit for the period	47	32	25	47	-47.5%	-47.7%	-23.8%	161	209	29.6%
Discontinued Ops	0	0	0	0	NM	NM	11.5%	1	0	NM
Profit after Tax from discontinued operations	1	1	0	0	NM	NM	NM	4	0	NM
Profit attributable	48	33	24	47	-48.3%	-49.4%	-26.9%	165	209	26.2%

Aramex - Margins

	1Q22	4Q22	1Q23	YOY Ch.	QOQ Ch.	2022	2023F	Change
Gross Profit	23.7%	24.8%	25.0%	126	19	24.0%	25.5%	147
EBITDA	11.7%	9.7%	10.7%	-95	103	10.3%	10.7%	40
Operating Profit	5.2%	3.6%	4.4%	-78	76	4.1%	5.3%	112
Net Profit	3.3%	2.2%	1.7%	-161	-47	2.8%	3.3%	54

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 method.

Valuation Method	Target	Weight	Weighted Value
DCF	4.80	70.0%	3.36
Relative	3.30	30.0%	0.99
Weighted Average Valuation (AED)			4.35
Current market price (AED)			3.04
Upside/Downside (%)			+43%

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 8.8%. It is arrived after using cost of equity of 9.6% and after-tax cost of debt of 5.6%. Cost of equity is calculated by using 10-year government bond yield of 4.8%, beta of 1.05 and equity risk premium of 4.6%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 5.6% after adjusting a tax rate of 13.8%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,681
Terminal value (AED, Mn)	6,387
FV to Common shareholders (AED, Mn)	7,035
No. of share (Mn)	1,464
Current Market Price (AED)	3.04
Fair Value per share (AED)	4.80

DCF method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	273	385	507	525	566
D&A	339	351	360	374	382
Working Capital	-314	-211	-96	-116	-101
Capex	-188	-205	-209	-216	-221
Free Cash Flow to Firm (FCFF)	111	320	563	568	626
Discounting Factor	0.95	0.87	0.80	0.74	0.68
Discounted FCFF	105	280	452	419	425

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 EV/EBITDA multiple of 8.8x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		PE (x)	
		2023	2024	2023	2024
Sumitomo Warehouse Co Ltd	1,274	5.6	8.4	7.5	15.1
Gulf Warehousing Co QPSC	567	7.3	7.1	9.5	7.8
Jiayou International Logistics Co., Ltd.	2,065	13.6	10.5	17.6	14.0
Kamigumi Co., Ltd.	2,067	5.5	5.5	12.7	12.2
DSV A/S	40,417	13.7	13.4	22.3	20.7
Kuehene + Nagel International AG	33,666	10.3	10.4	22.1	22.8
Average		9.3x	9.2x	15.3x	15.4x
Median		8.8x	9.4x	15.2x	14.6x
Max		12.8x	10.5x	21.0x	19.3x
Min		6.0x	7.4x	10.3x	12.7x

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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