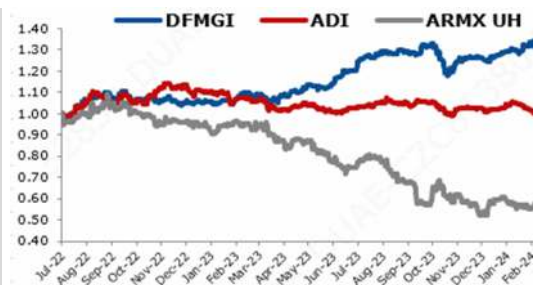


Aramex PJSC

Higher international shipping volume and cost control measures supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.32	AED 3.10	+34%	BUY

- International shipping volume recorded the highest quarterly volume of 7.6 Mn shipments in 4Q23.
- Gross and EBITDA margins grew 69 bps YOY and 322 bps YOY, respectively due to effective cost management and operational efficiency.
- GCC and MENAT region stands as the primary contributors and accounted for half of the Company's revenue and gross profit in 4Q23, while the company also achieved a gross profit of 6% and 32% in GCC and MENAT regions, respectively in 4Q23.
- Aramex successfully completed its Sydney automation project in 4Q23, which is anticipated to result in more productivity and efficiency in Australia.



Stock Information

Market Cap (AED, Mn)	3,396.71
Paid Up Capital (Mn)	1,464.10
52 Week High	3.61
52 Week Low	1.93
3M Avg. daily value (AED)	4,574,270

4Q23 Result Review (AED, Mn)

Total Assets	5,828
Total Liabilities	3,360
Total Equity	2,468
EBITDA	197
Net Profit	78

Financial Ratios

Dividend Yield (12m)	4.11
Dividend Pay-out (%)	106.82
Price-Earnings Ratio(x)	25.94
Price-to-Book Ratio (x)	1.38
Book Value (AED)	1.68
Return-on Equity (%)	5.20

Stock Performance

5 Days	7.41%
1 Months	6.42%
3 Months	4.98%
6 Months	-14.39%
1 Year	-35.20%
Month to Date (MTD%)	9.95%
Quarter to Date (QTD%)	1.31%
Year to Date (YTD%)	1.31%

4Q23 Net Profit higher than our estimate

Aramex PJSC (Aramex/the Company) net profit grew from AED 32 Mn in 4Q22 to AED 77 Mn in 4Q23, higher than our estimate of AED 27 Mn. The increase in net profit is primarily driven by gross profit and EBITDA growth owing to the Company's better cost management and operational efficiency, partially offset by a decline in revenue and higher finance costs.

P&L Highlights

Aramex's revenue declined 0.7% YOY to AED 1,524 Mn in 4Q23 mainly due to a lower freight rate, FX translations and currency devaluation. Revenue from the freight forwarding segment declined 8.9% YOY to AED 384 Mn in 4Q23 mainly due to a decline in freight rate globally which in addition led to the impact on pricing. However, this is partially offset by a growth in land freight volumes. Revenue from the courier segment grew 5.9% YOY to AED 1,018 Mn in 4Q23, primarily due to growth in international express shipping volume. International shipping volume recorded the highest quarterly volume of 7.6 Mn shipments in 4Q23, while the revenue from the international express grew 7.9% YOY to AED 656 Mn in 4Q23 mainly due to rise in new customers, strong performance of premium products and the transportation of dangerous goods. Furthermore, revenue from domestic express fell 4.2% YOY to AED 362 Mn in 4Q23 owing to the foreign exchange impact and mainly due to lower retail activity worldwide. Excluding the impact of foreign exchange, the revenue declined 1% YOY in 4Q23. However, the Domestic express volume remained stable to 26.6 Mn shipments in 4Q23. Revenue from the logistics and supply chain declined 4.0% YOY to AED 111 Mn in 4Q23. Moreover, the cost of services declined 1.6% YOY to AED 1,135 Mn in 4Q23 reflecting the Company's initiative in cost optimization and consistent investment towards maximizing efficiency.

Resultantly, gross profit grew 2.1% YOY to AED 389 Mn in 4Q23 with an increase in gross margin from 24.8% in 4Q22 to 25.5% in 4Q23. Selling and marketing expenses grew 12.7% YOY to AED 81 Mn whereas administrative expenses declined 13.6% YOY to AED 213 Mn in 4Q23. Net impairment loss on financial assets grew from AED 2 Mn in 4Q22 to AED 4 Mn in 4Q23. Moreover, other income reported a profit of AED 15 Mn in 4Q23 as compared to a loss of AED 5 Mn in 4Q22. Resultantly, operating profit grew significantly from AED 56 Mn in 4Q22 to AED 106 Mn in 4Q23. Furthermore, total EBITDA grew 32.3% YOY to AED 197 Mn in 4Q23 despite the decline in revenue mainly due to the cost management and operational efficiency led by the Company. EBITDA margin grew from 9.7% in 4Q22 to 12.9% in 4Q23. Finance income rose from AED 2 Mn in 4Q22 to AED 3 Mn in 4Q23 while finance cost also grew 15.2% YOY to AED 33 Mn in 4Q23 due to the higher benchmark rates. Share of results of joint ventures and associates grew from AED 0.5 Mn in 4Q22 to AED 1 Mn in 4Q23.

Balance Sheet Highlights

ARAMEX's net debt stood at AED 543 Mn in 4Q23 as compared to AED 529 Mn in 3Q23. On the other hand, the Company's cash and cash equivalent stood at AED 567 Mn in 4Q23, down from AED 596 Mn in 3Q23. The Company generated AED 488 Mn in cash flow from operations in 2023 as compared to AED 566 Mn in 2022 mainly due to increase investment in working capital activities.

Target Price and Rating

We maintain our BUY rating on Aramex with a target price of AED 3.10. Aramex experienced a growth in bottom-line driven by rise in gross profit and EBITDA in 4Q23. Gross and EBITDA margins grew 69 bps YOY and 322 bps YOY to 25.5% and 12.9% respectively in 4Q23. The Company's gross and EBITDA margins grew despite facing difficult business conditions mainly due to effective cost optimization efforts and operational efficiency. The revenue of the Company declined marginally in 4Q23 due to the reduction in freight rate partially offset by a significant improvement in the volume of the International Express Segment on a YOY basis. International Express shipments volume recorded the highest quarterly volume of 7.6 Mn shipments in 4Q23 mainly due to rise in new customers, strong performance of premium products and growing transportation of dangerous goods. In addition, Domestic shipments volume also remained stable in 4Q23 as compared to 4Q22. Aramex's freight forwarding business was impacted mainly due to a global decline in freight rate which impacted pricing. However, the land freight volumes witnessed a strong growth supported by the Company's large trucking fleet across the GCC region. The logistics and supply chain solutions business were affected due to currency devaluation. In addition, the logistics and supply chain solutions are expected to benefit in 2024 driven by the Company's new robust pipeline of clients. Additionally, Aramex benefits from its strategically diversified geographical footprint. The GCC and MENAT region stands as the primary contributor and accounts for half of the Company's revenue and gross profit in 4Q23. Despite the global headwinds, the Company achieved a growth in gross profit of 6% and 32% in GCC and MENAT regions, respectively in 4Q23. Aramex also successfully completed its Sydney's automation project in 4Q23 which is anticipated to result in more productivity and efficiency in Australia operations. Additionally, the Company also finished similar automation initiatives in other key regions, which will support its network capabilities. Moreover, Aramex also maintained a strong balance sheet with a healthy cash balance of AED 575 Mn and a Net debt to EBITDA of 2.4x in 2023. Thus, based on our analysis, we maintain our BUY rating on the stock.

Aramex - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	6.8	12.7	15.1	20.5	26.3	21.7
PB (x)	1.3	1.3	1.3	1.4	1.4	1.4
EV/EBITDA	3.6	4.0	4.4	6.3	6.3	5.5
Dividend yield	7.1%	7.1%	5.6%	5.6%	4.1%	5.3%

FABS Estimates & Co Data

Aramex – P&L

AED Mn	4Q22	3Q23	4Q23	4Q23F	VAR	YOY Ch	QOQ Ch	2022	2023	Change
Rendering of services	1,534	1,350	1,524	1,543	-1.2%	-0.7%	12.9%	5,926	5,694	-3.9%
Costs of services	-1,153	-1,015	-1,135	-1,159	-2.0%	-1.6%	11.8%	-4,502	-4,267	-5.2%
Gross Profit	381	335	389	384	1.1%	2.1%	16.2%	1,424	1,427	0.2%
Selling & Mktg exp	-72	-77	-81	-80	1.4%	12.7%	5.1%	-258	-308	19.7%
Administrative expenses	-246	-209	-213	-242	-12.0%	-13.6%	1.6%	-908	-845	-6.9%
Impairment loss on fin. assets	-2	-2	-4	-4	1.0%	81.4%	71.5%	-16	-20	24.5%
Other income, net	-5	-1	15	5	NM	NM	NM	2	13	454.3%
Operating profit	56	45	106	63	67.3%	90.1%	137.5%	245	267	8.7%
EBITDA	149	134	197	164	20.0%	32.3%	46.6%	614	628	2.2%
Finance income	2	1	3	2	53.1%	24.7%	NM	5	8	69.6%
Finance costs	-28	-33	-33	-34	-3.4%	15.2%	-0.1%	-73	-128	76.1%
Share of results of JVs	1	2	1	3	-59.1%	NM	-29.9%	9	6	-39.5%
Profit before income tax	30	15	78	35	123.6%	156.1%	405.9%	187	152	-18.3%
Income tax expense	2	-6	-1	-10	NM	NM	NM	-26	-23	-11.5%
Profit for the period	32	9	77	25	206.6%	139.4%	754.8%	161	130	-19.4%
NCI	-1	-1	0	0	NM	NM	NM	0	-1	NM
Net Profit	32	10	77	27	187.0%	137.6%	696.4%	165	129	-21.8%

FABS estimate & Co Data

Aramex - Margins

	4Q22	3Q23	4Q23	YOY Ch.	QOQ Ch.	2022	2023	Change
Gross Profit	24.8%	24.8%	25.5%	69	71	24.0%	25.1%	103
EBITDA	9.7%	10.0%	12.9%	322	297	10.4%	11.0%	66
Operating Profit	3.6%	3.3%	7.0%	333	366	4.1%	4.7%	54
Net Profit	2.1%	0.7%	5.0%	293	432	2.8%	2.3%	-52

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	3.44	70.0%	2.41
Relative Valuation (RV)	2.31	30.0%	0.69
Weighted Average Valuation (AED)			3.10
Current market price (AED)			2.32
Upside/Downside (%)			+34%

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 8.3%. It is arrived after using cost of equity of 9.2% and after-tax cost of debt of 5.5%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, 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 5.5% is calculated after adjusting a tax rate of 14.9%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,036
Terminal value (AED, Mn)	4,495
FV to Common shareholders (AED, Mn)	5,032
No. of share (Mn)	1,464
Current Market Price (AED)	2.32
Fair Value per share (AED)	3.44

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	266	255	249	249	247
D&A	419	441	478	513	540
Change in working capital	74	78	62	72	-49
(-) Capex	-216	-256	-264	-304	-332
Free Cash Flow to Firm (FCFF)	543	519	526	530	406
Discounting Factor	0.93	0.86	0.80	0.73	0.68
Discounted FCFF	506	447	418	389	276

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 EV/EBITDA multiple of 6.8x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Sumitomo Warehouse Co Ltd	1,360	10.4	10.5	16.6	16.5
Gulf Warehousing Co QPSC	499	6.5	5.8	7.3	6.5
Jiayou International Logistics Co., Ltd.	2,110	9.8	7.9	13.0	10.5
Kamigumi Co., Ltd.	2,380	6.8	6.8	14.9	14.4
SEINO Holdings Ltd	2,400	6.0	6.5	20.2	16.8
Average		7.9x	7.5x	14.4x	12.9x
Median		6.8x	6.8x	14.9x	14.4x
Max		9.8x	7.9x	16.6x	16.5x
Min		6.5x	6.5x	13.0x	10.5x

Source: FAB Securities

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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