

## E7 Group PJSC

Contract timing and higher operating costs impacted profitability

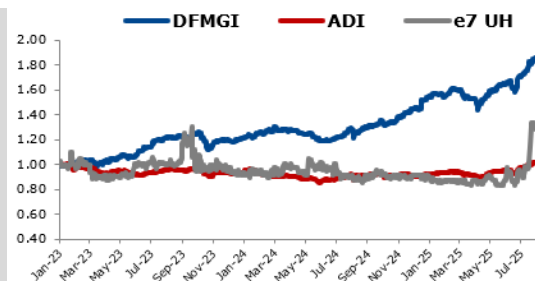
**Current Price**  
AED 1.55

**Target Price**  
AED 1.60

**Upside/Downside (%)**  
+3.2%

**Rating**  
HOLD

- Identity Solutions secured its first long-term tax stamps contract in East Africa and also obtained banking card contracts across East Africa and Central Asia.
- E7 focuses on organic growth, along with a disciplined approach to value-accretive bolt-on M&A.
- Anticipates a partial reversal in revenue in 2H25.
- Increasing the capacity of its secure solutions factory to produce 11 Mn passports and 6 Bn tax stamps annually.
- E7 announced a one-time special dividend of AED 800 Mn and committed to an annual dividend of at least 10 fils per share for 2025-2027.



### Stock Information

|                           |            |
|---------------------------|------------|
| Market Cap (AED, Mn)      | 3,098.84   |
| Paid Up Capital (Mn)      | 499.81     |
| 52 Week High              | 1.65       |
| 52 Week Low               | 0.93       |
| 3M Avg. daily value (AED) | 24,888,200 |

### 2Q25 Net Profit lower than our estimate

E7 Group's (E7/the Company) net profit declined 82.1% YOY to AED 12 Mn, lower than our estimate of AED 44 Mn. The net profit was impacted due to loss on warrant liabilities at fair value through profit & loss (mark to market pricing of warrants). However, Net profit before fair value adjustment on warrants declined from AED 60 Mn in 2Q24 to AED 43 Mn in 2Q25.

### P&L Highlights

E7 Group's revenue grew marginally 1.8% YOY to AED 178 Mn in 2Q25, mainly due to the timing of revenue recognition in the Education sector revenue. The Company recorded a growth in the revenue from the Printing segment, partially offset by a decline in the Distribution segment. Revenue from Identity Solutions rose 16.7% YOY to AED 86 Mn in 2Q25, primarily due to the obtaining of new contracts, including a passport project in the Middle East and a long-term tax stamps agreement in East Africa. Additionally, the Group secured significant banking card contracts in East Africa and Central Asia, broadening its client base in the banking sector. Printing Solutions segment revenue declined 13.2% YOY to AED 61 Mn in 2Q25, mainly attributable to the earlier-mentioned phasing of education sector revenue. Revenue from Logistics Solutions decreased 4.3% YOY to AED 21 Mn in 2Q25, which is also affected by the timing of revenue recognition in the education segment. While revenue from Packaging Solutions expanded 22.9% YOY to AED 10 Mn in 2Q25, attributed to new customer acquisitions and the expansion of contracts with existing clients. The Company's direct cost grew 1.6% YOY to AED 116 Mn in 2Q25. Thus, gross profit surged 2.2% YOY to AED 62 Mn in 2Q25. The gross profit margin expanded 12 bps YOY to 34.9% in 2Q25, mainly due to improvement in operational efficiency. G&A expenses expanded from AED 20 Mn in 2Q24 to AED 29 Mn in 2Q25, mainly due to an increase in staff costs

### 2Q25 Result Review (AED, Mn)

|                   |       |
|-------------------|-------|
| Total Assets      | 2,247 |
| Total Liabilities | 422   |
| Total Equity      | 1,825 |
| EBITDA            | 39    |
| Net Profit        | 12    |

### Financial Ratios

|                         |       |
|-------------------------|-------|
| Dividend Yield (12m)    | 4.75  |
| Dividend Pay-out (%)    | 0.00  |
| Price-Earnings Ratio(x) | 17.17 |
| Price-to-Book Ratio (x) | 1.70  |
| Book Value (AED)        | 0.91  |
| Return-on Equity (%)    | 9.54  |

### Stock Performance

|                        |        |
|------------------------|--------|
| 5 Days                 | 4.03%  |
| 1 Months               | -0.64% |
| 3 Months               | 55.00% |
| 6 Months               | 50.49% |
| 1 Year                 | 51.96% |
| Month to Date (MTD%)   | 0.65%  |
| Quarter to Date (QTD%) | 38.39% |
| Year to Date (YTD%)    | 43.52% |

and professional fees. Staff costs rose due to strengthening the foundation with key personnel and expanding the tax stamps business, while professional fees increased in connection with potential acquisition activities. S&M expenses increased 23.9% YOY to AED 3 Mn in 2Q25. Other income declined from AED 2 Mn in 2Q24 to AED 1 Mn in 2Q25. As a result, the Company's operating income fell 28.9% YOY to AED 30 Mn in 2Q25, and the operating margin declined from 24.3% in 2Q24 to 17.0% in 2Q25. Moreover, E7's EBITDA decreased 25.8% YOY to AED 39 Mn in 2Q25., while the EBITDA margin declined from 29.7% in 2Q24 to 21.7% in 2Q25. E7's finance cost boosted substantially from AED 0.4 Mn in 2Q24 to AED 33 Mn in 2Q25, because of rise in loss in warrant liabilities at fair value through profit & loss. Finance income declined 47.0% YOY to AED 15 Mn in 2Q25. The Company recorded a tax expense of AED 1 Mn in 2Q25, compared to AED 7 Mn in 2Q24 in line with a decline in profit before tax.

### Balance Sheet Highlights

E7's cash balance stood at AED 1.2 Bn in 2Q25, with no outstanding debt, providing a solid financial position to fund future strategic initiatives and expansion plans. The company's inventories rose from AED 255 Mn in 1Q25 to AED 259 in 2Q25, supported by strategic procurement of materials at favorable price. The Company generated a negative operating cash flow of AED 59 Mn in 2Q25 compared to a positive operating cash flow of AED 4 Mn in 2Q24, driven by rise in inventories and trade & other receivables.

### Target Price and Rating

We revise our rating on E7 from BUY to HOLD with a revised target price of AED 1.60. E7 recorded a substantial decline in net profit in 2Q25, mainly due to the timing of contracts delivered during the period and substantial rise in finance costs, however, the Company expects partial reversal in revenue in 2H25. The Company's Identity Solutions secured its first long-term tax stamps contract in East Africa, won banking card contracts in East Africa and Central Asia. Additionally, it obtained a major new passport contract in the Middle East, and is exploring innovative products such as LED and wood-based cards. Furthermore, it successfully renewed Visa and MasterCard certifications to maintain compliance in payment card manufacturing and processing. Thus, reinforcing its resilience in boosting profitability and expanding its capabilities in secure identity and payment solutions. Similarly, in the Packaging Solutions, the Company launched 'track and trace' technology to enhance product security and traceability. Furthermore, it secured several new customers while expanding and renewing contracts with existing clients. Likewise, in the Printing Solutions segment, E7 undertook several initiatives, including the launch of digital flip books and exploring opportunities in digital print and web-to-print solutions, indicating its focus on innovation and efforts to diversify offerings while enhancing customer engagement. To strengthen its Logistics segment, the Company revamped the entire technology architecture for Tawzea to improve operational efficiency and service speed, launched a pilot e-bike program as part of its sustainability initiative to reduce carbon emissions, and implemented an AI-powered call center solution to enhance customer satisfaction and overall service experience. Furthermore, the Company is focusing on organic growth, along with a disciplined approach to value-accretive bolt-on M&A. The Company aims to drive organic growth by optimizing the use of upcoming capacity in passport and tax stamp operations, capturing new contracts across Asia, Africa, the Middle East, and CIS regions, and enhancing the performance along with pursuing strategic expansion opportunities, including in East Africa, to strengthen its market presence. With respect to M&A opportunities, the Company follows a disciplined capital allocation strategy supported by a strong and active pipeline of bolt-on acquisitions. Additionally, it focusses is on enhancing Identity Solutions, including system integration and digital ID capabilities, while also streamlining the Packaging business through operational and commercial improvements. This approach aims to grow Identity Solutions both through strategic acquisitions and organic expansion of core offerings. The Company focused on strategic priorities in 2025, aim to drive growth through integrated account management, accelerate revenue via partnerships and M&A, strengthen capabilities through technology and innovation, and enhance organizational performance with experienced hires and a results-driven culture. The Company is expanding its secure solutions factory capacity to add 11 Mn passports per year and 6 Bn tax stamps per year, with operations slated to begin in February 2026. Additionally, The Company's Rwanda project, a regional hub for secure business, is expected to contribute significantly next year, highlighted by its first tax stamps contract win. Furthermore, to address the risk of capacity shortfalls,

E7 is collaborating with third-party partners as required to meet client demands fully. The company expects double-digit revenue growth in 2025, along with single-digit YOY growth in EBITDA with stable maintenance capex. E7 declared a one-time special dividend of AED 800 Mn and committed to pay an annual dividend of at least 10 fils per share from 2025 to 2027. In addition, the Group offered to voluntarily repurchase all outstanding warrants at AED 2.40 per warrant. Thus, considering all these factors, we assign a HOLD rating on the stock.

#### E7 - Relative valuation

| (at CMP)         | 2024  | 2025F |
|------------------|-------|-------|
| PE               | 12.93 | 17.61 |
| PB               | 1.55  | 2.50  |
| EV/EBITDA        | 8.26  | 9.06  |
| BVPS             | 0.971 | 0.603 |
| EPS              | 0.117 | 0.086 |
| DPS <sup>1</sup> | 0.074 | 0.100 |
| Dividend yield   | 4.9%  | 6.6%  |

FABS Estimates & Co Data

\* E7 was listed on ADX post-acquisition "ADC Acquisition Corporation PJSC" in Nov 2023. <sup>1</sup>Excluding special dividend of AED 800 Mn in 2025

#### E7 - P&L

| AED Mn   | 2Q24      | 1Q25      | 2Q25      | 2Q25F     | Var.          | YOY Ch        | QOQ Ch        | 2024       | 2025F      | YOY Ch        |
|--|-----------|-----------|-----------|-----------|---------------|---------------|---------------|------------|------------|---------------|
| Revenue  | 175       | 114       | 178       | 165       | 8.1%          | 1.8%          | 56.5%         | 701        | 779        | 11.1%         |
| Direct Cost  | -114      | -88       | -116      | -115      | 0.5%          | 1.6%          | 31.8%         | -471       | -525       | 11.5%         |
| <b>Gross Profit</b>                                      | <b>61</b> | <b>26</b> | <b>62</b> | <b>49</b> | <b>25.8%</b>  | <b>2.2%</b>   | <b>140.5%</b> | <b>230</b> | <b>254</b> | <b>10.2%</b>  |
| G&A expenses   | -20       | -23       | -29       | -25       | 18.6%         | 45.3%         | 29.4%         | -80        | -92        | 15.5%         |
| S&M expenses   | -2        | -2        | -3        | -2        | 14.5%         | 23.9%         | 35.3%         | -10        | -12        | 16.7%         |
| Reversal/(provision for) impair loss on financial assets | 3         | 0         | -1        | 0         | NA            | NM            | NM            | 5          | 2          | -66.4%        |
| Other Income   | 2         | 2         | 1         | 2         | -62.7%        | -50.9%        | -57.9%        | 8          | 9          | 11.1%         |
| <b>EBIT</b>  | <b>42</b> | <b>3</b>  | <b>30</b> | <b>24</b> | <b>24.8%</b>  | <b>-28.9%</b> | <b>NM</b>     | <b>153</b> | <b>160</b> | <b>4.7%</b>   |
| <b>EBITDA</b>  | <b>52</b> | <b>13</b> | <b>39</b> | <b>33</b> | <b>16.9%</b>  | <b>-25.8%</b> | <b>NM</b>     | <b>191</b> | <b>200</b> | <b>4.5%</b>   |
| Finance Cost   | 0         | -1        | -33       | -1        | NM            | NM            | NM            | -3         | -35        | NM            |
| Finance Income   | 29        | 19        | 15        | 25        | -37.9%        | -47.0%        | -17.4%        | 106        | 65         | -39.0%        |
| <b>Profit before tax</b>                                 | <b>71</b> | <b>21</b> | <b>13</b> | <b>48</b> | <b>-73.5%</b> | <b>-82.1%</b> | <b>-39.1%</b> | <b>257</b> | <b>190</b> | <b>-25.8%</b> |
| Income tax expense                                       | -7        | -2        | -1        | -4        | -73.5%        | -82.0%        | -37.4%        | -23        | -17        | -26.3%        |
| <b>Profit / (loss) for the year</b>                      | <b>65</b> | <b>19</b> | <b>12</b> | <b>44</b> | <b>-73.5%</b> | <b>-82.1%</b> | <b>-39.2%</b> | <b>233</b> | <b>173</b> | <b>-25.8%</b> |

FABS estimate & Co Data

#### E7 - Margins

|                  | 2Q24  | 1Q25  | 2Q25  | YOY Ch | QOQ Ch | 2024  | 2025F | YOY Ch |
|------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross profit     | 34.8% | 22.7% | 34.9% | 12     | 1,220  | 32.8% | 32.6% | -24    |
| Operating Profit | 24.3% | 2.5%  | 17.0% | -733   | 1,446  | 21.8% | 20.6% | -124   |
| EBITDA           | 29.7% | 11.8% | 21.7% | -806   | 989    | 27.2% | 25.6% | -161   |
| Net profit       | 36.9% | 16.7% | 6.5%  | -3,042 | -1,023 | 33.3% | 22.3% | -1,104 |

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash Flow (DCF) and Relative Valuation (RV) to value E7. We have assigned 70% weight to DCF and 30% to RV. In the relative valuation, we have used EV/EBITDA to value the Company.

| Valuation Method                        | Target | Weight | Weighted Value |
|---|--------|--------|----------------|
| DCF Method                              | 1.71   | 70.0%  | 1.19           |
| Relative Valuation (RV)                 | 1.35   | 30.0%  | 0.40           |
| <b>Weighted Average Valuation (AED)</b> |        |        | <b>1.60</b>    |
| Current market price (AED)              |        |        | 1.55           |
| Upside/Downside (%)                     |        |        | +3.2%          |

### 1) DCF Method:

E7 is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 8.7%. Cost of equity is calculated by using a 10-year government bond yield of 5.1%, a beta of 0.76 and an equity risk premium of 4.8%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

|  |                      |
|--|----------------------|
| Sum of PV (AED, Mn)                        | 699                  |
| Terminal value (AED, Mn)                   | 2,011                |
| Add) cash attributed for dividend payment  | 800                  |
| <b>FV to Common shareholders (AED, Mn)</b> | <b>3,511</b>         |
| No. of shares (Mn)                         | 2,057 <sup>1,2</sup> |
| Current Market Price (AED)                 | 1.55                 |
| <b>Fair Value per share (AED)</b>          | <b>1.71</b>          |

<sup>1</sup> The number of outstanding shares is assumed, considering all warrants will be converted to equity shares.

<sup>2</sup> Assumed full conversion of remaining warrants into equity, as half of the warrants have already been exercised, and the prevailing market price makes exercise more attractive than selling back to the Company at the warrant buyback price of AED 2.40.

### DCF Method

| (All Figures in AED Mn)                | FY 2025E              | FY 2026E   | FY 2027E   | FY 2028E   | FY 2029E   |
|--|-----------------------|------------|------------|------------|------------|
| Net profit                             | 173                   | 175        | 172        | 185        | 191        |
| (+/-) Depreciation & amortization      | 39                    | 43         | 66         | 68         | 71         |
| (+/-) CAPEX                            | -94                   | -74        | -56        | -56        | -57        |
| (+/-) Working Capital                  | 29                    | 105        | -5         | -4         | -2         |
| Net change in debt                     | -4                    | -6         | -8         | -9         | -10        |
| <b>Free Cash Flow to Equity (FCFE)</b> | <b>144</b>            | <b>243</b> | <b>170</b> | <b>184</b> | <b>192</b> |
| Discounting Factor                     | 0.97                  | 0.89       | 0.82       | 0.75       | 0.69       |
| <b>Discounted FCFE</b>                 | <b>70<sup>1</sup></b> | <b>217</b> | <b>140</b> | <b>139</b> | <b>134</b> |

Source: FAB Securities, <sup>1</sup>Adjusted for partial year

## 2) Relative Valuation:

We have used international peers to value E7, and it is valued using the EV/EBITDA multiple. It is valued at a 2025 EV/EBITDA multiple of 7.4x in line with peers.

| Company                             | Market<br>(USD Mn) | EV/EBITDA (x) |             | P/E (x)      |              |
|-------------------------------------|--------------------|---------------|-------------|--------------|--------------|
|                                     |                    | 2025F         | 2026F       | 2025F        | 2026F        |
| Beijing Shengtong Printing Co., Ltd | 678                | 28.5x         | 16.3x       | 102.6x       | 65.9x        |
| Raksul Inc.                         | 500                | 12.7x         | 10.5x       | 25.4x        | 23.1x        |
| Cimpress Plc                        | 1,355              | 6.6x          | 6.2x        | 19.9x        | 17.6x        |
| Dai Nippon Printing Co., Ltd        | 7,123              | 6.3x          | 6.9x        | 8.6x         | 11.6x        |
| KOSAIDO Holdings Co., Ltd           | 438                | 8.3x          | 6.9x        | 14.5x        | 11.8x        |
| TOPPAN Holdings Inc                 | 8,141              | 6.5x          | 7.3x        | 15.0x        | 14.6x        |
| <b>Average</b>                      |                    | <b>11.5x</b>  | <b>9.0x</b> | <b>31.0x</b> | <b>24.1x</b> |
| <b>Median</b>                       |                    | <b>7.4x</b>   | <b>7.1x</b> | <b>17.4x</b> | <b>16.1x</b> |
| <b>Max</b>                          |                    | <b>11.6x</b>  | <b>9.7x</b> | <b>24.0x</b> | <b>21.7x</b> |
| <b>Min</b>                          |                    | <b>6.5x</b>   | <b>6.9x</b> | <b>14.6x</b> | <b>12.5x</b> |

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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