

## Aramex PJSC

Despite cost control measures global macro-economic challenges dragged profitability

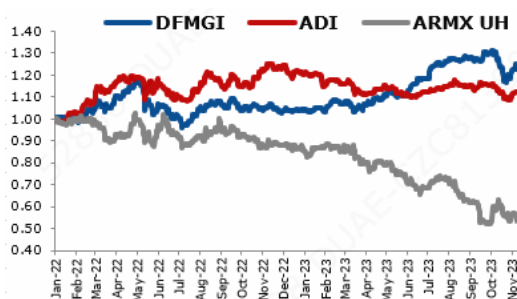
**Current Price**  
AED 2.18

**Target Price**  
AED 3.10

**Upside/Downside (%)**  
+42%

**Rating**  
BUY

- Aramex's profitability continued to get impacted during 3Q23, primarily due to a decline in revenue across all the segments resulting from currency devaluation.
- The Company managed to maintain its gross and EBITDA margin due to management cost initiatives.
- GCC region stands as the primary contributor to Group revenues, representing 40% of the total revenue and reported a 21% growth in Gross Profit in 3Q23.
- Aramex maintained a strong balance sheet with healthy cash balance of AED 604 Mn and net debt-to-EBITDA ratio of 2.6x in 3Q23.



### Stock Information

Market Cap (AED, mm)	3,191.74
Paid Up Capital (mm)	1,464.10
52 Week High	3.67
52 Week Low	2.10
3M Avg. daily value (AED)	7,217,257

### 3Q23 Result Review (AED, mm)

Total Assets	5,710
Total Liabilities	3,309
Total Equity	2,401
EBITDA	134
Net Profit	8

### 3Q23 Net Profit lower than our estimate

Aramex PJSC (Aramex/the Company) net profit declined from AED 39 Mn in 3Q22 to AED 8 Mn in 3Q23, lower than our estimate of AED 17 Mn. The decline in net profit is primarily attributable to a decline in revenue across all segments owing to a FX translation, reduced retail activities and currency devaluation along with a significant rise in finance cost related to the acquisition of MyUS owing to rise in interest rates. Normalized net income excluding the impact of FX impact and increase in finance cost declined 23% YOY to AED 30.4 Mn in 3Q23.

### P&L Highlights

Aramex's revenue declined 5.4% YOY to AED 1,350 Mn in 3Q23 mainly due to a lower retail activities, global headwinds, FX translations and currency devaluation. Excluding the impact of FX, the net revenue decline 2% YOY driven by lower volume. Revenue from the freight forwarding segment declined 16.3% YOY to AED 368 Mn in 3Q23 mainly due to a decline in sea freight rates resulting in customers shifting air freight volume to sea freight partially offset by resilient double-digit growth in land freight and growth in sea freight volume. Revenue from the courier segment fell 5.3% YOY to AED 865 Mn in 3Q23. Furthermore, revenue from domestic express fell 4.7% YOY to AED 353 Mn in 3Q23 owing to the foreign exchange impact. Excluding the impact of foreign exchange, the revenue grew 4% YOY in 3Q23. Domestic express volume also remained stable in 3Q23. However, excluding Oceania owing to its restructuring plan the domestic express volume would have grown 2% in 3Q23. On the other hand, revenue from the international express grew 3.6% YOY to AED 512 Mn in 3Q23 despite a decrease in shipping volume caused by a lower retail activity. growth was supported by the strong performance of premium products and the transportation of dangerous goods. International express volumes declined from 5.1 Mn in 3Q22 to 4.9

### Financial Ratios

Dividend Yield (12m)	4.37
Dividend Pay-out (%)	118.21
Price-Earnings Ratio(x)	36.67
Price-to-Book Ratio (x)	1.33
Book Value (AED)	1.64
Return-on Equity (%)	3.50

### Stock Performance

5 Days	-1.36%
1 Months	-3.54%
3 Months	-15.18%
6 Months	-29.45%
1 Year	-40.11%
Month to Date (MTD%)	-5.22%
Quarter to Date (QTD%)	1.40%
Year to Date (YTD%)	-38.07%

Mn in 3Q23 however domestic shipment volumes grew marginally from 24.5 Mn in 3Q22 to 24.5 Mn in 3Q23. Revenue from the logistics and supply chain declined 5.1% YOY to AED 105 Mn in 3Q23. Moreover, the cost of services declined 8.2% YOY to AED 1,015 Mn in 3Q23 reflecting the Company's initiative in cost optimization and consistent investment towards maximizing efficiency. As a result, gross profit grew 4.3% YOY to AED 335 Mn in 3Q23 with a gross margin of 24.8% in 3Q23 as compared to 22.5% in 3Q22. Selling and marketing expenses rose 23.3% YOY to AED 77 Mn whereas administrative expenses declined 1.7% YOY to AED 209 Mn in 3Q23. Net impairment loss on financial assets declined from AED 5 Mn in 3Q22 to AED 2 Mn in 3Q23. Moreover, other income reported a loss of AED 1 Mn in 3Q23 as compared to a profit of AED 10 Mn in 3Q22. Resultantly, operating profit declined 12.2% YOY to AED 45 Mn in 3Q23. Freight Forwarding EBITDA declined from USD 8.5 Mn in 3Q22 to USD 6.5 Mn in 3Q23 while the EBITDA margin remained stable on the back of decline in direct cost. On the other hand, logistics EBITDA grew 30% YOY to USD 5.3 Mn in 3Q23 with an increase in margin from 14% in 3Q22 to 19% in 3Q23. Total EBITDA declined 5.1% YOY to AED 134 Mn in 3Q23 whereas EBITDA margin rose marginally 3 bps YOY to 10.0% in 3Q23. Finance income remained stable at AED 1 Mn in 3Q23 while finance cost more than doubled from AED 16 Mn in 3Q22 to AED 33 Mn in 3Q23 due to the higher benchmark rates. Share of results of joint ventures and associates grew from AED 1 Mn in 3Q22 to AED 2 Mn in 3Q23. Income tax expense grew to AED 6 Mn in 3Q23.

### Balance Sheet Highlights

The Company's net debt stood at AED 529 Mn in 3Q23 as compared to AED 643 Mn in 3Q22 mainly due to an increase in cash and cash equivalents. On the other hand, the Company's cash and cash equivalent stood at AED 596 Mn in 3Q23, up from AED 492 Mn in 2Q23. The Company generated AED 396 Mn in cash flow from operations in 9M23 as compared to AED 355 Mn in 9M22. Aramex maintained a net debt to EBITDA ratio remained stable at 2.6x in 3Q23.

### Target Price and Rating

We maintain our BUY rating on Aramex with a revised target price of AED 3.10. The Company's stock price declined 6.9% since our last rating. Aramex's profitability continued to get impacted during 3Q23, primarily due to a decline in revenue across all the segments resulting from currency devaluation. The decline in revenue is attributed to lower retail activities, current global headwinds along with currency devaluation. The revenue declined 2% YOY in 3Q23 excluding the impact of foreign exchange translations. International Express shipment's volume declined from 5.1 Mn shipments in 3Q22 to 4.9 Mn shipments in 3Q23 owing to lower retail activity. While, it continued to maintain volume levels in the MENAT and South Asia regions, coupled with the incorporation of MyUS. Domestic shipments volume also remained stable driven by strong performance in GCC, MENAT and South Asia region. Excluding Oceania, the domestic volume growth was 2% in 3Q23. Aramex's freight forwarding business was impacted mainly due to a decline in industry sea freight rates resulting in customers shifting air freight volume to sea freight partially offset by double-digit growth in land freight and sea freight volume. Logistics and supply chain solutions business was also affected due to currency devaluation. However, Aramex managed to maintain a growth in gross and EBITDA margins despite facing difficult business conditions due to effective cost optimization efforts. The Company's gross and EBITDA margin grew 230 bps YOY and 3 bps YOY to 24.8% and 10.0% respectively in 3Q23. Additionally, Aramex benefits from its strategically diversified geographical footprint. The GCC region stands as the primary contributor to Group revenues, representing 40% of the total revenue and reported a 21% growth in Gross Profit in 3Q23. Additionally, the Company anticipates a more robust performance in 4Q23 due to an expected surge in retail activity during the festive season. Aramex also maintained a strong balance sheet with healthy cash balance of AED 604 Mn and net debt-to-EBITDA ratio of 2.6x in 3Q23. 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)	6.3	6.2	11.6	13.8	18.8	36.4
PB (x)	1.3	1.2	1.2	1.2	1.2	1.2
EV/EBITDA	3.6	3.3	3.6	4.0	5.9	5.9
Dividend yield	7.7%	7.8%	7.8%	6.1%	6.1%	3.2%

FABS Estimates & Co Data

**Aramex – P&L**

AED mm	3Q22	2Q23	3Q23A	3Q23F	VAR	YOY Ch	QOQ Ch	2022	2023F	Change
Rendering of services	1,426	1,389	1,350	1,337	0.9%	-5.4%	-2.8%	5,926	5,648	-4.7%
Costs of services	-1,105	-1,043	-1,015	-996	1.9%	-8.2%	-2.7%	-4,502	-4,242	-5.8%
<b>Gross Profit</b>	<b>321</b>	<b>346</b>	<b>335</b>	<b>341</b>	<b>-1.8%</b>	<b>4.3%</b>	<b>-3.2%</b>	<b>1,424</b>	<b>1,406</b>	<b>-1.3%</b>
Selling & Mktg exp	-62	-80	-77	-75	2.4%	23.3%	-3.8%	-258	-299	16.2%
Administrative expenses	-213	-213	-209	-217	-3.3%	-1.7%	-1.9%	-908	-864	-4.8%
Impairment loss on fin. assets	-5	-1	-2	-1	79.9%	-46.8%	NM	-16	-20	22.8%
Other income, net	10	1	-1	0	NM	NM	NM	2	3	17.2%
<b>Operating profit</b>	<b>51</b>	<b>53</b>	<b>45</b>	<b>48</b>	<b>-6.9%</b>	<b>-12.2%</b>	<b>-15.3%</b>	<b>245</b>	<b>226</b>	<b>-7.9%</b>
<b>EBITDA</b>	<b>142</b>	<b>143</b>	<b>134</b>	<b>139</b>	<b>-3.2%</b>	<b>-5.1%</b>	<b>-6.2%</b>	<b>614</b>	<b>622</b>	<b>1.2%</b>
Finance income	1	2	1	3	-48.7%	79.8%	-25.8%	5	8	71.7%
Finance costs	-16	-33	-33	-31	4.7%	NM	-0.1%	-73	-129	77.5%
Share of results of JVs	1	2	2	0	NM	NM	-6.9%	9	7	-20.2%
<b>Profit before income tax</b>	<b>36</b>	<b>24</b>	<b>15</b>	<b>20</b>	<b>-21.6%</b>	<b>-57.7%</b>	<b>-36.0%</b>	<b>187</b>	<b>113</b>	<b>-39.7%</b>
Income tax expense	1	-5	-6	-2	NM	NM	27.1%	-26	-28	9.6%
<b>Profit for the period</b>	<b>37</b>	<b>19</b>	<b>9</b>	<b>18</b>	<b>-48.8%</b>	<b>-75.5%</b>	<b>-52.6%</b>	<b>161</b>	<b>84</b>	<b>-47.6%</b>
<b>Net Profit</b>	<b>39</b>	<b>19</b>	<b>8</b>	<b>17</b>	<b>-54.8%</b>	<b>-80.4%</b>	<b>-59.2%</b>	<b>165</b>	<b>85</b>	<b>-48.4%</b>

FABS estimate & Co Data

**Aramex - Margins**

	3Q22	2Q23	3Q23	YOY Ch.	QOQ Ch.	2022	2023F	Change
Gross Profit	22.5%	24.9%	24.8%	230	-8	24.0%	24.9%	87
EBITDA	9.9%	10.3%	10.0%	3	-36	10.4%	11.0%	64
Operating Profit	3.6%	3.8%	3.3%	-26	-49	4.1%	4.0%	-14
Net Profit	2.8%	1.4%	0.6%	-219	-79	2.8%	1.5%	-128

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	3.35	70.0%	2.34
Relative Valuation (RV)	2.53	30.0%	0.76
<b>Weighted Average Valuation (AED)</b>			<b>3.10</b>
Current market price (AED)			2.18
Upside/Downside (%)			+42%

### 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 8.6%. 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 5.7%, beta of 1.05 and equity risk premium of 3.8%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 5.6% is calculated after adjusting a tax rate of 13.8%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,487
Terminal value (AED, Mn)	4,878
<b>FV to Common shareholders (AED, Mn)</b>	<b>4,902</b>
No. of share (Mn)	1,464
Current Market Price (AED)	2.18
<b>Fair Value per share (AED)</b>	<b>3.35</b>

### DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	198	243	262	280	294
D&A	396	408	422	443	466
Change in working capital	-74	6	-31	-27	-42
(-) Capex	-169	-210	-225	-245	-279
<b>Free Cash Flow to Firm (FCFF)</b>	<b>58</b>	<b>446</b>	<b>428</b>	<b>451</b>	<b>439</b>
Discounting Factor	0.99	0.91	0.84	0.77	0.71
<b>Discounted FCFF</b>	<b>58</b>	<b>407</b>	<b>360</b>	<b>349</b>	<b>313</b>

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 8.3x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Sumitomo Warehouse Co Ltd	1,302	5.6	9.6	7.7	17.3
Gulf Warehousing Co QPSC	499	7.0	6.6	8.2	7.0
Jiayou International Logistics Co., Ltd.	1,618	9.6	7.5	12.5	9.9
Kamigumi Co., Ltd.	2,320	6.5	6.4	14.1	13.6
DSV A/S	33,510	11.2	11.6	18.6	17.9
Kuehene + Nagel International AG	33,520	9.8	10.4	20.1	22.0
<b>Average</b>		<b>8.3x</b>	<b>8.7x</b>	<b>13.5x</b>	<b>14.6x</b>
<b>Median</b>		<b>8.3x</b>	<b>8.6x</b>	<b>13.3x</b>	<b>15.5x</b>
<b>Max</b>		<b>9.8x</b>	<b>10.2x</b>	<b>17.5x</b>	<b>17.8x</b>
<b>Min</b>		<b>6.7x</b>	<b>6.8x</b>	<b>9.2x</b>	<b>10.9x</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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