

**Aramex PJSC**

Decline in Courier Segment impacted profitability

**3Q22 net profit marginally higher than our estimate**

Aramex PJSC (Aramex/the Company) net profit from continuing operation rose 15.0% YOY to AED 37 Mn in 3Q22, slightly higher than our estimate of AED 39 Mn. After including profit from discontinued operation and gain on asset sale net profit fell 42.4% YOY to AED 40 Mn in 3Q22, as in the same quarter previous year it recorded a profit of AED 37 Mn from discontinued operation and gain on sale of a subsidiary. After adjusting the impact from the logistics restructuring, net profit rose 53.1% YOY to AED 49 Mn in 3Q22. The increase in net profit was primarily due to other income of AED 10 Mn in 3Q22 compared to a loss of AED 5 Mn in 3Q21, income tax reversal of AED 1 Mn in 3Q22 compared to a charge of AED 24 Mn in 3Q21, decline in overhead expenses from AED 290 Mn in 3Q21 to AED 280 in 3Q22 partially offset by lower courier volume due to loss of Shein volume and fall in Oceania volume.

**P&L highlights**

Aramex recorded 2.4% YOY decline in total revenue to AED 1.42 Bn in 3Q22. Revenues from Logistics and Freight Forwarding Segment rose 28.9% YOY to AED 550 Mn in 3Q22. The increase in revenue was primarily attributable due to robust growth in the Freight Forwarding segment and further supported by the steady performance of Logistics Segment. Revenues from Freight Forwarding Segment increased 38.2% YOY to AED 439.5 Mn in 3Q22. The growth in the freight forwarding segment was driven by strong demand from industrials, as well as solid contributions from other high-growth verticals such as retail, SME businesses, and pharmaceuticals across the network. Revenues from Integrated Logistics & Supply Chain Solutions increased 1.8% YOY to AED 110.4 Mn in 3Q22, primarily due to strong e-commerce activity in the GCC, which was partially offset by one-off provisions. The Courier Segment revenue fell 14.6% YOY to AED 913 Mn in 3Q22, owing to a significant decline in the international courier business which decreased 18.4% YOY to AED 496.5 Mn and a decrease in the domestic courier business which fell 9.6% YOY to AED 416.5 Mn in 3Q22 despite a growth in volume across all region except, Oceania. The decrease in International Courier business was primarily due to a decrease in cross-border volumes in North Asia and the GCC. While the international and domestic express volume declined 18.6% and 11.2% YOY in 3Q22. Cost of sale remained flat at AED 1,105 Mn in 3Q22 as compared to 3Q21. Thus, gross profit decreased 9.9% YOY to AED 321 Mn in 3Q22, with a gross profit margin declining from 24.4% in 3Q21 to 22.5% in 3Q22. Operating expenses fell 3.6% YOY to AED 280 Mn in 3Q22, owing to improved cost management that resulted in lower overheads, consultancy fees, bad debt, also, as a direct result of decentralisation efforts. Resultantly, EBITDA declined from AED 164 Mn in 3Q21 to AED 141 Mn in 3Q22 with a EBITDA margin of 9.9% in 3Q22. Operating profit declined 25.2% YOY to AED 51 Mn in 3Q22. Net finance cost rose marginally from AED 14 Mn in 3Q21 to AED 16 Mn in 3Q22. Share of results of joint ventures and associates declined from AED 2 Mn in 3Q21 to AED 1 Mn in 3Q22. Income tax expense reduced drastically from AED 24 Mn in 3Q21 to a reversal of AED 1 Mn in 3Q22 boosting bottom line.

**Rating : BUY**

**First Look Note – 3Q22**

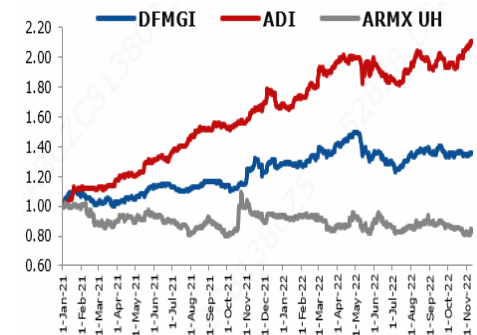
**Sector: Transportation**

**Recommendation**

Current Price (14-Nov-22)	3.63
Target Price (AED)	5.00
Upside/Downside (%)	+37.7%

**Stock Information**

Market Cap (mm)	5,314.68
Paid Up Capital (mm)	1,464.10
52 Week High	4.45
52 Week Low	3.52
3M Avg. daily value (AED)	7,854,579



**Financial Ratios**

Dividend Yield (12m)	3.58
Dividend Pay-out (%)	90.72
Price-Earnings Ratio (x)	25.73
Price-to-Book Ratio (x)	2.09
Book Value (AED)	1.74
Return-on Equity (%)	6.69
Earning Per Share (AED)	0.14
Beta	0.79

**Stock Performance**

5 Days	0.83%
1 Months	-2.94%
3 Months	-5.47%
6 Months	-4.22%
1 Year	-12.95%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	-4.97%
Year to Date (YTD)	-11.46%

### Balance Sheet highlights

The Company's total debt rose marginally from AED 290 Mn in 2Q22 to AED 298 Mn in 3Q22. Debt to EBITDA of the company fell from 1.6x in 2Q22 to 1.50x in 3Q22. Cash and cash equivalents stood at AED 625 Mn in 3Q22. During 9M22, the Company generated AED 355.1 Mn cash from operations as compared to AED 302.8 Mn in 9M21. Thus, free cash flow increased from AED 203.4 Mn in 9M21 to AED 302.5 Mn in 9M22.

### Target price and rating

We maintain our 'BUY' rating on Aramex with a target price of AED 5.00. Aramex's total revenue declined marginally to AED 4.4 Bn in 9M22. Top line from the logistics and freight forwarding segment delivered a robust performance partially offsetting the decline in the courier segment which declined mainly due to the lower volumes in Oceania and North Asia. Aramex is also on track to achieve 50% of total revenue from the Freight Forwarding and Logistics Segment in the next five years. It currently stood at 36% in 9M22 compared to 29% in FY2021. Further, the company's focus on revenue quality and diversification also helped it attract new customers from e-commerce, retail, and SME in 3Q22. Aramex started the same day delivery in KSA, UAE, and Egypt to expand Domestic Courier segment. Additionally, in Saudi Arabia, it started a four-hour delivery service for a major fashion & beauty retailer. It also added 32% more Pick Up and Drop Off (PUDOs) in 3Q22 than in 2Q22, as well as new micro hubs in several GCC countries, which boosted the courier productivity. Due to its relationship with DPD Group, Aramex started receiving shipments from Italy, Netherlands and Czech Republic further boosting revenue. Moreover, Aramex's investments in new technologies are making good progress, especially in high volume areas like Egypt and Qatar. Additionally, it is actively engaged in multiple M&A transactions that are in various stages of completion. Recently, the Company announced its acquisition of MyUS for a purchase price of USD 265 Mn in October 2022. This acquisition is considered to be one of the largest acquisitions by the company and expected to add approximately AED 110.2 Mn in EBITDA during FY2023. As a result of this acquisition, MyUS will be fully integrated into Aramex's business, operating as a business unit within the Company's Courier business segment. Furthermore, the acquisition will help Aramex's aim to broaden its cross-border business and take advantage of the significant growth opportunities presented by the rapidly expanding global e-commerce market. Aramex maintains a strong balance sheet position that supports value accretive growth through acquisition. Based on factors, we maintain our 'BUY' rating on the stock.

### Aramex - Relative valuation

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	10.71	10.59	19.54	23.12	27.89
PB(X)	2.19	2.01	1.96	1.98	2.02
EV/EBITDA	10.30	10.42	18.00	7.14	7.62
Dividend yield	4.6%	4.6%	3.6%	3.6%	3.6%

FABS Estimates & Co Data

**Aramex - P&L**

AED mm	3Q21	2Q22	3Q22	3Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	Change
Rendering of Services	1,461	1,517	1,426	1,464	-2.6%	-2.4%	-6.0%	6,069	6,026	-0.7%
Cost of Services	-1,105	-1,138	-1,105	-1,115	-0.9%	0.0%	-2.9%	-4,638	-4,607	-0.7%
<b>Gross profit</b>	<b>356</b>	<b>379</b>	<b>321</b>	<b>348</b>	<b>-7.9%</b>	<b>-9.9%</b>	<b>-15.3%</b>	<b>1,431</b>	<b>1,420</b>	<b>-0.8%</b>
Selling and Mktg Exp	-63	-65	-62	-66	-5.6%	-1.2%	-4.5%	-273	-250	-8.3%
Administrative Expenses	-218	-234	-213	-225	-5.5%	-2.3%	-9.0%	-888	-898	1.2%
Net Impairment loss on Financial Assets	-9	-5	-5	-5	NM	-50.5%	-5.0%	-17	-18	11.5%
Other income, net	-5	-11	10	8	28.8%	-314.1%	-189.4%	52	15	-70.2%
<b>Operating profit</b>	<b>68</b>	<b>64</b>	<b>51</b>	<b>60</b>	<b>-15.3%</b>	<b>-25.2%</b>	<b>-19.9%</b>	<b>306</b>	<b>268</b>	<b>-12.3%</b>
<b>EBITDA</b>	<b>164</b>	<b>156</b>	<b>141</b>	<b>145</b>	<b>-2.4%</b>	<b>-13.6%</b>	<b>-9.5%</b>	<b>676</b>	<b>650</b>	<b>-3.9%</b>
Finance Income	1	1	1	1	-25.5%	-44.5%	-24.1%	6	4	-39.1%
Finance Costs	-15	-15	-16	-15	11.4%	5.2%	6.0%	-60	-61	1.3%
Share of results of joint ventures and associates	2	4	1	0	NM	-50.6%	-77.3%	10	9	NM
<b>Profit before Tax</b>	<b>56</b>	<b>53</b>	<b>36</b>	<b>47</b>	<b>-21.9%</b>	<b>-34.9%</b>	<b>-32.0%</b>	<b>262</b>	<b>220</b>	<b>-16.1%</b>
Income Tax Expense	-24	-8	1	-8	-106.3%	-102.1%	-106.0%	-81	-34	-57.8%
<b>Profit for the period</b>	<b>32</b>	<b>45</b>	<b>37</b>	<b>39</b>	<b>-4.5%</b>	<b>15.0%</b>	<b>-18.2%</b>	<b>181</b>	<b>186</b>	<b>2.6%</b>
Discontinued Ops	5	0	1	0	NM	NM	NM	16	1	NA
Profit after Tax from discontinued operations	32	0	2	0	NM	-95.2%	NM	32	2	NA
<b>Profit attributable</b>	<b>69</b>	<b>45</b>	<b>40</b>	<b>39</b>	<b>2.5%</b>	<b>-42.4%</b>	<b>-12.1%</b>	<b>228</b>	<b>188</b>	<b>-17.6%</b>

**Aramex - Margins**

	3Q21	2Q22	3Q22	YOY Ch	QOQ Ch	2021	2022	Change
Gross Profit	24.4%	25.0%	22.5%	-187	-247	23.6%	23.6%	-2
EBITDA	11.2%	10.3%	9.9%	-129	-39	11.9%	12.3%	40
Operating Profit	4.7%	4.2%	3.6%	-109	-62	5.0%	4.5%	-59
Net Profit	4.7%	3.0%	2.8%	-193	-20	3.8%	3.1%	-64

*FABS estimate & Co Data*



**FAB Securities Awards**



Best Brokerage House  
in UAE 2016 & 2017  
by "Banker Middle East"



Best Brokerage House in UAE  
2016, 2017, 2019 and 2020  
by "IFA"



Best Brokerage in the UAE  
2016 By "Global Investor/  
ISF ME Awards"



Best Research House  
in UAE 2016 and 2020  
by "IFA"



Best New Mobile Application  
in UAE 2016  
by "IFA"



Best Equity Finance Company  
in UAE 2016  
by "IFA"