

Aramex PJSC

Steady growth amid challenges, driven by new customer wins and higher volume

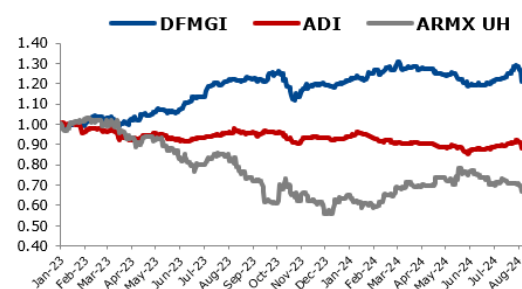
Current Price
AED 2.18

Target Price
AED 3.10

Upside/Downside (%)
+42%

Rating
BUY

- Total Revenue grew 7.7% YOY reaching at AED 1,496 Mn in 2Q24.
- Due to seasonal factors and a loss of productive days, the Company's revenue got impacted by AED c.45 Mn and net income by AED c.9 Mn in 2Q24.
- Net debt grew from AED 502 Mn in 1Q24 to AED 537 Mn in 2Q24.
- The GCC and MENAT regions stood as a primary contributor and accounted for 39% and 17%, respectively, of total revenue in 2Q24.
- Aramex expects revenue growth of 8% to 9% and a stable gross margin ratio of 24% to 25% for FY2024.



2Q24 Net Profit lower than our estimate

Aramex PJSC (Aramex/the Company) recorded a decline in net profit from AED 19 Mn in 2Q23 to AED 3 Mn in 2Q24, falling short of our estimate of AED 33 Mn. The decline in net profit is primarily due to an increase in the cost of services, higher S&M and administrative expenses, and income tax expense, partially offset by an increase in revenue and lower finance costs. In addition, the profitability was impacted owing to seasonal factors and adverse weather conditions coupled with a negative foreign exchange (FX) resulting from the devaluation of the Egyptian pound.

P&L Highlights

Aramex's revenue increased 7.7% YOY, reaching AED 1,496 Mn in 2Q24, driven primarily by new customer acquisitions, volume growth, and the Company's enhanced focus on sales specialization. The freight forwarding segment saw a 14.7% YOY rise in revenue to AED 411 Mn in 2Q24, mainly attributed to increased shipment volumes, especially in land and air freight. The courier segment's revenue grew 5.8% YOY to AED 965 Mn in 2Q24, driven by higher domestic and international volume spurred by new customer acquisitions, particularly in e-commerce and key markets within the GCC and MENAT regions. International shipping achieved a quarterly volume of 6.7 Mn shipments in 2Q24, while domestic express volumes rose 3.3% YOY to 25 Mn in 2Q24, driven by increased demand from Oceania. The logistics segment recorded a marginal revenue growth of 1.4% YOY to AED 108 Mn in 2Q24. Excluding the impact of currency translation, logistics revenue grew 5.0% YOY in 2Q24. Additionally, revenue from other services increased 3.1% YOY to AED 12 Mn in 2Q24. The cost of services rose 10.3% YOY to AED 1,151 Mn in 2Q24. As a result, gross profit declined marginally 0.1% YOY to AED 345 Mn in 2Q24. Gross margin declined from 24.9% in 2Q23 to 23.1% in 2Q24, mainly due to the pressure on margins in the freight, international express

Stock Information

Market Cap (AED, Mn)	3,191.74
Paid Up Capital (Mn)	1,464.10
52 Week High	2.82
52 Week Low	1.93
3M Avg. daily value (AED)	5,187,806

2Q24 Result Review (AED, Mn)

Total Assets	5,651
Total Liabilities	3,170
Total Equity	2,481
EBITDA	135
Net Profit	3

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x)	23.43
Price-to-Book Ratio (x)	1.30
Book Value (AED)	1.69
Return-on Equity (%)	5.60

Stock Performance

5 Days	-2.68%
1 Months	-12.45%
3 Months	-20.73%
6 Months	-5.22%
1 Year	-18.96%
Month to Date (MTD%)	-12.45%
Quarter to Date (QTD%)	-12.10%
Year to Date (YTD%)	-4.80%

and logistics segment. Selling and marketing expenses increased 4.6% YOY to AED 83 Mn in 2Q24, while administrative expenses grew 1.6% YOY to AED 217 Mn in 2Q24, driven by the Company's strategy to emphasize sales specialization. The net impairment loss on financial assets increased from AED 1 Mn in 2Q23 to AED 4 Mn in 2Q24. Other income stood at AED 7 Mn in 2Q24, up from AED 1 Mn in 2Q23. Operating profit declined from AED 53 Mn in 2Q23 to AED 47 Mn in 2Q24. Furthermore, total EBITDA declined 5.8% YOY to AED 135 Mn in 2Q24, with EBITDA margins falling from 10.3% in 2Q23 to 9.0% in 2Q24. Finance income remained steady at AED 2 Mn in 2Q24 compared to 2Q23, while finance costs declined 6.4% YOY to AED 31 Mn in 2Q24. The share of results from joint ventures and associates fell from AED 2 Mn in 2Q23 to AED 0.2 Mn in 2Q24. Income tax expenses saw a significant increase from AED 5 Mn in 2Q23 to AED 15 Mn in 2Q24, owing to the introduction of corporate tax in the UAE.

Balance Sheet Highlights

ARAMEX's gross debt decreased from AED 1.07 Bn in 1Q24 to AED 0.99 Bn in 2Q24. However, net debt rose from AED 502 Mn in 1Q24 to AED 537 Mn in 2Q24. The Company's cash and cash equivalents stood at AED 457 Mn in 2Q24, down from AED 571 Mn in 1Q24. Aramex generated AED 83 Mn in cash flow from operations in 2Q24, compared to AED 84 Mn in 2Q23.

Target Price and Rating

We maintain our rating to BUY on Aramex with an unchanged target price of AED 3.10. The Company's share price declined 13.6% since our last rating. The Company's profitability declined in 2Q24 primarily due to an increase in the cost of services, higher S&M and administrative expenses, and income tax expense. Additionally, the profitability was impacted mainly due to seasonal factors and adverse weather conditions coupled with a negative foreign exchange (FX) resulting from the devaluation of the Egyptian pound. Thus, the Company's revenue was impacted by AED c.45 Mn and net income by AED c.9 Mn in 2Q24. However, Aramex experienced significant top-line growth in 2Q24, primarily driven by higher freight forwarding and courier volumes and new customer acquisitions. Despite global shipping challenges, both the freight forwarding, and courier segments saw volume increase in 2Q24. International shipping achieved a quarterly volume of 6.7 Mn shipments in 2Q24, driven primarily by new customer acquisitions, with notable expansion in e-commerce and demand from key markets like the GCC and MENAT regions. The Company expects its international shipping volume to grow in 3Q24, although at a softer rate than the peak seasons in 1Q24 and 4Q23 due to seasonality. The domestic express volume grew to AED 25.1 Mn in 2Q24, driven by Oceania, following the acquisition of the franchisee in Melbourne and new customer wins. In addition, Aramex's freight forwarding segment recorded double-digit growth in land and sea freight in 2Q24, while the logistics and supply chain solutions business faced challenges due to currency devaluation. Aramex focuses on product rebalancing within the logistics segment to overcome the challenges of devaluation. Moreover, the Company benefits from a strategically diversified geographical footprint, with the GCC and MENAT regions contributing 39% and 17%, respectively, to the Company's revenue in 2Q24. The Company anticipates a revenue growth of 8% to 9% and a stable gross margin ratio of 24% to 25% for FY2024. It also remains well-positioned with a strong cash balance of AED 457 Mn and a net debt-to-EBITDA ratio of 3.98x in 2Q24, which will support its inorganic growth. 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)	6.36	11.86	14.02	19.12	24.46	23.31
PB (x)	1.21	1.18	1.19	1.26	1.28	1.28
EV/EBITDA	3.33	3.67	4.07	5.96	5.91	5.56
Dividend yield	7.6%	7.6%	6.0%	6.0%	0.0%	0.0%

FABS Estimates & Co Data

Aramex – P&L

AED Mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Rendering of services	1,389	1,541	1,496	1,455	2.9%	7.7%	-2.9%	5,694	6,156	8.1%
Costs of services	-1,043	-1,145	-1,151	-1,091	5.5%	10.3%	0.5%	-4,267	-4,605	7.9%
Gross Profit	346	395	345	364	-5.1%	-0.1%	-12.7%	1,427	1,551	8.7%
Selling & Mktg exp	-80	-81	-83	-79	6.2%	4.6%	2.9%	-308	-339	9.8%
Administrative expenses	-213	-219	-217	-218	-0.6%	1.6%	-0.8%	-845	-923	9.3%
Impairment loss on fin. assets	-1	-6	-4	0	NM	NM	-29.3%	-20	-25	22.9%
Other income, net	1	3	7	1	NM	NM	117.0%	13	18	38.3%
Operating profit	53	92	47	68	-31.3%	-11.0%	-49.2%	267	283	6.2%
EBITDA	143	181	135	165	-18.3%	-5.8%	-25.5%	628	666	6.1%
Finance income	2	1	2	1	8.7%	-14.5%	55.2%	8	9	8.1%
Finance costs	-33	-31	-31	-28	8.6%	-6.4%	-2.7%	-128	-123	-4.1%
Share of results of JVs	2	1	0	1	NM	NM	NM	6	9	65.7%
Profit before income tax	24	63	18	43	-57.7%	-23.9%	-70.9%	152	179	17.1%
Income tax expense	-5	-16	-15	-10	43.9%	NM	-5.3%	-23	-43	88.6%
Profit for the period	19	47	3	33	-89.8%	-82.4%	-92.9%	130	136	4.6%
NCI	0	0	0	0	NM	NM	NM	-1	0	NM
Net Profit	19	47	3	33	-91.2%	-84.7%	-93.8%	129	136	4.9%

FABS estimate & Co Data

Aramex - Margins

	2Q23	1Q24	2Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	24.9%	25.7%	23.1%	-181	-260	25.1%	25.2%	14
EBITDA	10.3%	11.8%	9.0%	-130	-274	11.0%	10.8%	-21
Operating Profit	3.8%	6.0%	3.1%	-66	-286	4.7%	4.6%	-8
Net Profit	1.4%	3.0%	0.2%	-117	-283	2.3%	2.2%	-7

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	3.52	70.0%	2.46
Relative Valuation (RV)	2.12	30.0%	0.64
Weighted Average Valuation (AED)			3.10
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 8.8%. It is arrived after using cost of equity of 9.9% and after-tax cost of debt of 5.5%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 1.05 and equity risk premium of 4.3%. 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)	1,820
Terminal value (AED, Mn)	4,788
FV to Common shareholders (AED, Mn)	5,152
No. of share (Mn)	1,464
Current Market Price (AED)	2.18
Fair Value per share (AED)	3.52

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	256	235	235	239	243
D&A	383	399	427	454	469
Change in working capital	74	-11	-24	-8	-75
(-) Capex	-123	-128	-166	-170	-174
Free Cash Flow to Firm (FCFF)	590	495	472	515	464
Discounting Factor	0.97	0.89	0.82	0.75	0.69
Discounted FCFF	286¹	441	386	387	321

Source: FAB Securities, ¹FCFF adjusted for partial year

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 2024 EV/EBITDA multiple of 6.9x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Sumitomo Warehouse Co Ltd	1,370	10.3	10.4	16.2	16.7
Gulf Warehousing Co QPSC	502	6.5	6.1	8.6	7.7
Jiayou International Logistics Co., Ltd.	2,366	10.0	8.2	12.2	10.1
Kamigumi Co., Ltd.	2,310	6.7	6.9	14.4	13.3
SEINO Holdings Ltd	2,560	6.9	7.5	25.3	20.8
Average		8.1x	7.8x	15.3x	13.7x
Median		6.9x	7.5x	14.4x	13.3x
Max		10.0x	8.2x	16.2x	16.7x
Min		6.7x	6.9x	12.2x	10.1x

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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