

UAE Transportation Sector

Decline in crude oil prices to benefit the transportation sector

Sector Weighting:
MARKET WEIGHT

We hold a positive stance on Air Arabia and Aramex in the UAE's Transportation sector and recommend investors stay invested in DTC as it will be a key beneficiary of the growth in tourism sector. Air Arabia maintained a healthy load factor of 81.9% in 1H24. Total passenger volume across all hubs rose 16% YOY to 2.7 Mn in 2Q24. Air Arabia's margins are poised to benefit from the decline in oil prices during 3Q24. Moreover, robust growth in the tourism sector coupled with continued expansion in the fleet size is likely to benefit the airline. The Company offers a healthy dividend of 7.2% in FY2024. Likewise, Aramex witnessed growth in the freight forwarding, Domestic Express and International Express volumes in 1H24 despite disruption in the operations due to external factors. The Company is investing to enhance operations and infrastructure to remain on track to achieve its growth plans for 2H24. Moreover, the increasing demand for air cargo owing to the Red Sea crisis will push freight rates higher which is likely to benefit Aramex's freight segment. DTC witnessed robust fleet expansion, a rise in trips & trip length, and higher tariffs leading to strong revenue growth which have now been reflected in the stock's performance. It also plans to add Tesla and BYD to its fleet as these electric cars will reduce operating costs. DTC signed agreements with e-commerce and delivery aggregators like Talabat UAE, a leading delivery platform for offering delivery and transportation solutions utilizing its diverse fleet of vehicles. The decline in energy prices is likely to benefit the margin of the transportation sector in 3Q24, while fluctuations in energy costs could create some margin pressure, many companies in the sector are well-positioned to offset this through strategic price adjustments.

Stock (in AED)	Target Price	CMP	Gain	Rating	P/E ¹	EV/EBITDA ¹	Dividend Yield ¹
Air Arabia	3.10	2.75	+13%	ACCUMULATE	9.9	4.4	7.3%
Aramex	3.10	2.28	+36%	BUY	24.7	5.7	5.1%
Dubai Taxi Company	3.00	2.77	+8%	HOLD	19.2	12.5	4.3%

Source: FABS Estimate, ¹Data refers to FY2024

Key Developments in the Transportation Sector

Global air passenger traffic witnessed robust demand in August 2024

According to the Central Bank of the UAE, the airports of UAE witnessed a 14.2% YOY rise in passenger traffic to 71.7 Mn in 1H24. Dubai International Airport (DXB) experienced an 8% YOY increase in the number of passengers in 1H24 attributed to robust travel demand. Abu Dhabi's Zayed International Airport welcomed more than 13.7 Mn passengers in 1H24, marking a 33.8% YOY growth in the number of passengers, solidifying the emirate's status as a key transportation hub. The total number of international visitors in Dubai during January to August 2024 reached 11.93 Mn, compared to 11.10 Mn in the same period during 2023. The hospitality sector also witnessed strong occupancy rates and achieved growth in average daily rates as well as revenue per room. As a result, the Average Occupancy levels of hotels in Dubai reached 76.2% in September 2024 compared to 75.5% in September 2023. The opening of Season 29 in Global Village is likely to drive a number of visitors to Dubai. The Department of Culture and Tourism (DCT) of Abu Dhabi announced a partnership with Sphere Entertainment Co. to develop Sphere Abu Dhabi, an entertainment

destination. The partnership is in line with the Tourism Strategy 2030, under which DCT aims to transform Abu Dhabi into a hub for culture and innovation. Sphere, boasting 20,000-capacity is anticipated to drive tourists from around the world, throughout the year. Saudi Arabia surpassed its Vision 2030 tourism target of welcoming 100 million visitors annually by FY2023 mainly driven by non-religious tourism including leisure travels and robust demand from international visitors. KSA's major giga projects like Red Sea Global and Diriyah Gate align with its aim to diversify its economy away from oil by focusing on luxury tourism. Moreover, in line with this aim, Saudi Arabia is planning to invest SAR 7.5 Bn (USD 2 Bn) in new tourism projects. According to IATA, air travel demand remained strong with a double-digit growth in industry-wide traffic. In August 2024, the industry-wide revenue passenger kilometre (RPK) rose 8.6% YOY while the available seat kilometres (ASK) grew by 6.5% on an annual basis. As a result, the passenger load factor (PLF) witnessed a 1.6% YOY growth reaching 86.2%. The Middle East region also witnessed solid growth in revenue passenger kilometre recording a growth of 5.0% YOY in addition to 5.9% YOY growth in ASK. However, PLF of Middle East fell marginally by 0.7% YOY to 82.3% in August 2024.

Decline in oil prices to benefit the transportation sector

Oil prices declined 16.9% QOQ during 3Q24 to USD 71.77 per barrel on 30 September 2024 due to the slowdown in the Chinese demand and expectation of higher OPEC+ supply, falling to the lowest levels in 9 months during the quarter. Oil prices averaged USD 78.71 per barrel during 3Q24 compared to USD 85.03 per barrel in 2Q24. Oil prices inched up initially during the month of July 2024 owing to the expectation of strong summer demand and supply disruption from a Hurricane in the Caribbean Sea. However, prices declined during the month due to the political uncertainty in the US after the attack on Donald Trump led to an appreciation in the US dollar coupled with the slowdown in Chinese demand. In the following month, softer global fuel demand outweighed fears of supply disruption due to the Middle East conflict. In addition, the US recession fears owing to July's weak payroll coupled with and existing demand concerns from China further led to a further decline in oil prices. Prices rose above USD 80 per barrel Oil prices rose during the mid-month owing to a sharp decline in US crude inventory and increased fears of an escalation in the Israel-Palestine war following Iran and Hezbollah's vow to retaliate for the assassination of Hamas chief. During the month of September 2024, oil prices further tumbled over the concerns of higher supply initially coupled with worries about the sluggish economy in China impacting oil demand. On the other hand, OPEC+ members agreed to extend a voluntary output cut of 2.2 Mn bpd for two more months until November 2024 after oil prices fell to their lowest level in 9 months. Prices were partially supported by lower expected US Crude oil output due to the impact of Hurricane Francine coupled with concerns of supply chain disruption due to the Middle East conflict and Fed's interest rate cut. Nevertheless, oil prices declined during the end of the quarter expectation of increased supply from Libya and other OPEC+ oil exporters. The declining prices are likely to reduce costs and benefit the margins of airlines.

Global air cargo demand grew for the ninth consecutive month in August 2024

Industry-wide air cargo demand continued to grow in double digits for the ninth consecutive month and as Cargo Tonne-Kilometers (CTK) rose 11.4% YOY while the net of seasonal adjustment, the demand fell marginally 0.2% MOM in August 2024, marking the first MOM decline since February 2024. The year-to-date demand levels reached an all-time high for the second consecutive month driven by growth in international CTks owing to record belly-hold capacity levels. Air Cargo industry continues to benefit from the e-commerce demand specifically from US and Europe coupled with the

ongoing capacity limitations in ocean shipping. Air cargo capacity rose 6.2% YOY while the seasonally adjusted ACTKs inched up 0.2% MOM after seasonal adjustment, marking a record-high monthly capacity levels in August 2024.

The robust growth in air cargo demand across the globe was led by carriers from Asia Pacific and the Middle East-Europe trade lane. The Cargo Load Factor rose 2.0 percentage point (ppt) YOY to settle at 44.0% in August 2024. The growth rates on the Middle East–Europe route rose considerably by 28.9% YOY in August 2024. The Africa–Asia and Europe–Asia route also significantly expanded YOY by 21.1% and 18.4% in August, marking a double-digit growth since 2H23. In August, global jet fuel price declined by 7.9% MOM to reach USD 94 per barrel. However, the global manufacturing output PMI declined from 50.2 in July 2024 to 49.9 in August 2024 owing to higher borrowing costs, inflation, tight labour markets, and supply chain disruptions. The export orders PMI an indicator of international trade fell from 49.3 in July 2024 to 48.4 in August 2024.

Virgin Atlantic expands its network to Riyadh, Saudi Arabia

Virgin Atlantic Airways Limited, a British airline Company is currently expanding its network by entering into Riyadh, Saudi Arabia to capitalize on the growth anticipated from the Vision 2030 strategy. Virgin Atlantic will operate A330neo on the new route and provide 30 tonnes of cargo capacity on every flight, catering to the export and import requirements of businesses. Moreover, travel as well as trade between the UK and Saudi Arabia is anticipated to rise significantly in the upcoming years. In FY2025, Virgin Atlantic is all set to operate flights to Accra Ghana, after a 12-year long break.

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3Q24 Preview: **Aramex PJSC**

Healthy shipment Growth and Confident Margin Outlook in courier segment boost Profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.28	AED 3.10	+36.0%	BUY

3Q24 estimate

Aramex's (Aramex/ The Company) net profit is expected to more than double from AED 10 Mn in 3Q23 to AED 24 Mn in 3Q24 due to an estimated increase in revenue and a decrease in finance cost partially offset by growth in cost of services, selling and marketing expenses, and administrative expenses coupled with higher income tax expense. Aramex's revenue is projected to grow 8.3% YOY to AED 1,461 Mn in 3Q24 owing to an increase in revenue across its overall business segments. The Company's cost of services is expected to grow 8.3% YOY to AED 1,099 Mn in 3Q24. Thus, gross profit is anticipated to expand 8.3% YOY to AED 362 Mn in 3Q24 with a stable gross profit margin at 24.8% compared to 3Q23. Selling and marketing expenses are forecasted to grow 4.8% YOY to AED 80 Mn in 3Q24. In addition, administrative expenses are anticipated to increase 4.7% YOY to AED 219 Mn in 3Q24. Moreover, operating profit is likely to grow 40.6% YOY to AED 63 Mn in 3Q24 and EBITDA by 17.9% YOY to AED 158 Mn in 3Q24. Aramex's finance income is expected to increase 6.5% YOY to AED 1.46 Mn, while finance costs is anticipated to decrease 8.0% YOY to AED 30 Mn in 3Q24. Aramex's income tax is forecasted to increase significantly 62.9% YOY to AED 10 Mn in 3Q24 owing to higher Profit.

2024 forecast

Aramex's net profit is expected to grow 4.7% YOY to AED 135 Mn in 2024 primarily due to estimated growth in revenue, decline in finance costs along with lower net impairment loss and increase in other income partially offset by an increase in income tax expense and operating cost. Aramex's revenue is forecasted to increase 6.8% YOY to AED 6,080 Mn in 2024 attributed to a healthy growth across all business segments. The Company's cost of services is estimated to grow 7.6% YOY to AED 4,590 Mn in 2024. Thus, gross profit is expected to expand 4.4% YOY to AED 1,490 Mn in 2024. Gross profit margin is anticipated to grow 56 bps YOY to 24.5% YOY in 2024. Aramex's selling and marketing expenses are estimated to increase 4.5% YOY to AED 322 Mn in 2024 whereas, administrative expenses are anticipated to rise 2.9% YOY to AED 869 Mn. The Company's net impairment loss is anticipated to fall 39.3% YOY to AED 12 Mn in 2024. Other income is anticipated to increase 36.6% YOY to AED 18 Mn in 2024. Thus, operating profit is anticipated to grow 14.0% YOY to AED 304 Mn in 2024. Moreover, EBITDA is predicted to increase 9.3% YOY to AED 686 Mn in 2024. On the other hand, finance income is expected to fall 27.3% YOY to AED 6 Mn while finance cost is anticipated to decline 4.2% YOY to AED 123 Mn in 2024. Share of results of joint ventures and associates is anticipated to rise 9.1% to AED 6 Mn in 2024. Aramex's income tax expense is expected to more than double from AED 23 Mn in 2023 to AED 58 Mn in 2024.

2Q24 Outturn

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 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 11.0% YOY 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. Aramex recorded a decline in net profit from AED 19 Mn in 2Q23 to AED 3 Mn in 2Q24.

Target price and recommendation

We maintain our BUY rating with an unchanged target price of AED 3.10 on Aramex. Aramex's profitability impacted in 2Q24 primarily due to seasonal factors and a loss of productive days, further supported by unfavorable weather conditions in the UAE, which led to operational disruptions and a slowdown in business and consumer activity. Thus, the Company's revenue 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 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 2024. It also remains well-positioned with a strong cash balance of AED 457 Mn and a net debt-to-EBITDA ratio of 3.98x, which will support its inorganic growth. Thus, based on our analysis, we continue our BUY rating on the stock.

Aramex -Relative valuation

(At CMP)	2019	2020	2021	2022	2023	2024
PE	6.7	12.5	14.8	20.2	25.8	24.7
PB	1.28	1.24	1.25	1.33	1.36	1.35
EV/EBITDA	3.52	3.91	4.33	6.25	6.19	5.66
Dividend yield	7.2%	7.2%	5.7%	5.7%	0%	0%

FABS Estimate & Co Data

Aramex - P&L

(AED mm)	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Rendering of Services	1,350	1,496	1,461	8.3%	-2.3%	5,694	6,080	6.8%
Cost of Services	-1,015	-1,151	-1,099	8.3%	-4.5%	-4,267	-4,590	7.6%
Gross profit	335	345	362	8.3%	5.0%	1,427	1,490	4.4%
Selling and Marketing Expenses	-77	-83	-80	4.8%	-3.7%	-308	-322	4.5%
Administrative Expenses	-209	-217	-219	4.7%	1.0%	-845	-869	2.9%
Net Impairment loss	-2	-4	0	NM	NM	-20	-12	-39.3%
Other income, net	-1	7	0	NM	-100.0%	13	18	36.6%
Operating profit	45	47	63	40.6%	33.8%	267	304	14.0%
EBITDA	134	135	158	17.9%	17.4%	628	686	9.3%
Finance Income	1	2	1	6.5%	-7.6%	8	6	-27.3%
Finance Costs	-33	-31	-30	-8.0%	-1.8%	-128	-123	-4.2%
Share of results of JV and assoc	2	0	0	NM	NM	6	6	9.1%
Profit before Income Tax	15	18	34	NM	88.1%	152	193	26.9%
Income Tax Expense	-6	-15	-10	62.9%	-30.9%	-23	-58	NM
Profit for the period	9	3	24	NM	NM	130	135	4.3%
NCI	-1	0	0	NM	NM	-1	0	NM
Profit attributable	10	3	24	NM	NM	129	135	4.7%

FABS estimate and Co data

Aramex - Margins

	3Q23	2Q24	3Q24F	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	24.8%	23.1%	24.8%	0	173	25.1%	24.5%	-56
EBITDA Margin	10.0%	9.0%	10.8%	88	182	11.0%	11.3%	26
EBIT Margin	3.3%	3.1%	4.3%	99	116	4.7%	5.0%	32
Net Profit Margin	0.7%	0.2%	1.6%	93	145	2.3%	2.2%	-4

FABS estimate and Co data

3Q24 preview: **Air Arabia**

Decline in income from share of profits from equity investments to impact profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.75	AED 3.10	+12.7%	ACCUMULATE

3Q24 estimate

Air Arabia's (AIRARABIA PJSC / The Company) net profit is anticipated to fall significantly 24.2% YOY to AED 395 Mn in 3Q24, mainly due to the expected decline in the share of profit from equity accounted investments, increase in direct cost, higher operating expenses, implementation of tax charge owing to the introduction of corporate tax in the UAE, and decline in other income partially offset by an increase in revenue. The Company's revenue is forecasted to grow 7.0% YOY to AED 1,744 Mn in 3Q24 while direct cost is estimated to rise 9.1% YOY to AED 1,290 Mn in 3Q24 owing to volatility in oil prices and inflationary pressures. Thus, gross profit is estimated to rise 1.5% YOY to AED 453 Mn in 3Q24. Moreover, Air Arabia's selling and marketing expense is expected to grow 12.3% YOY to AED 26 Mn in 3Q24 while G&A expense is projected to rise 15.1% YOY to AED 70 Mn in 3Q24. EBITDA is anticipated to decline 0.4% YOY to AED 521 Mn in 3Q24. As a result, Air Arabia's operating profit is likely to fall 1.6% YOY to AED 357 Mn in 3Q24. Furthermore, the Company's finance income is expected to fall 4.0% YOY to AED 58 Mn in 3Q24, whereas finance cost is estimated to edge down marginally 0.9% YOY to AED 25 Mn in 3Q24. Other income is anticipated to decline from AED 32 Mn in 3Q23 to AED 26 Mn in 3Q24. Moreover, we estimate tax expense of AED 37 Mn in 3Q24, owing to the introduction of corporate tax in the UAE from 2024, impacting profit.

2024 forecast

Air Arabia's net profit is anticipated to decline 15.9% YOY to AED 1,302 Mn in 2024 mainly driven by an anticipated increase in direct costs, operating expenses, implementation of tax charge coupled with lower share of profit from equity accounted investments partially offset by expected growth in revenue. Air Arabia's revenue is expected to grow 6.7% YOY to AED 6,401 Mn in 2024 driven by strong air travel demand, the addition of new routes and fleet expansion. The Company's direct cost will likely increase 9.9% YOY to AED 4,774 Mn in 2024 due to volatility in oil prices as a result of geopolitical tensions coupled with inflationary pressures. Thus, gross profit is expected to decline 1.8% YOY to AED 1,627 Mn in 2024. On the other hand, selling and marketing expenses are forecasted to grow 8.1% YOY to AED 96 Mn in 2024. G&A expenses are estimated to rise 3.0% YOY to AED 339 Mn in 2024. EBITDA is estimated to fall 1.9% YOY to AED 1,849 Mn in 2024. Similarly, operating profit is likely to decline 3.8% YOY to AED 1,192 Mn in 2024. Furthermore, finance income is forecasted to increase from AED 210 Mn in 2023 to AED 231 Mn in 2024. In contrast, finance cost is estimated to decline marginally 1.2% YOY to AED 101 Mn in 2024. Additionally, other income is expected to fall 15.4% YOY to AED 96 Mn in 2024. Air Arabia is predicted to record a tax expense of AED 129 Mn in 2024 owing to the introduction of corporate tax in UAE in 2024.

2Q24 Outturn

Air Arabia's revenue witnessed a robust growth of 18.7% YOY to AED 1,656 Mn in 2Q24 primarily driven by a 16% YOY increase in the number of passengers across its operating hubs to 2.66 Mn in 2Q24 as well as an improvement in the seat load factor. The seat load factor stood at 79% in 2Q24, compared to 76% in 2Q23, reflecting a robust passenger demand. Moreover, AIRARABIA's direct cost rose significantly 30.0% YOY to AED 1,218 Mn in 2Q24 mainly due to currency fluctuations, geopolitical uncertainties, fuel price volatility and ongoing supply chain disruptions. Thus, gross profit declined 4.4% YOY to AED 438 Mn in 2Q24. Gross profit margin declined from 32.9% in 2Q23 to 26.5% in 2Q24. Air Arabia's selling and marketing expenses rose 10.1% YOY to AED 21 Mn in 2Q24. Moreover, G&A expenses increased 22.4% YOY to AED 70 Mn in 2Q24. The Company's EBITDA declined 4.4% YOY to AED 517 Mn in 2Q24 mainly due to higher direct costs and operating expenses. Moreover, the EBITDA margin dropped significantly from 38.7% in 2Q23 to 31.2% in 2Q24. Thus, the operating profit declined from AED 382 Mn in 2Q23 to AED 347 Mn in 2Q24. The operating profit

margin declined from 27.4% in 2Q23 to 20.9% in 2Q24. Air Arabia's finance income grew 18.9% YOY to AED 56 Mn in 2Q24 due to higher benchmark rates, whereas finance cost declined 28.3% YOY to AED 19 Mn in 2Q24 due to a decline in total debt including leases. Other income rose 24.7% YOY to AED 39 Mn in 2Q24. Share of profit from equity- accounted investments fell from AED 25 Mn in 2Q23 to AED 5 Mn in 2Q24. The income tax expense amounted to AED 37 Mn in 2Q24 owing to the introduction of corporate tax in the UAE impacting the bottom line. Net profit declined 15.1% YOY to AED 390 Mn in 2Q24.

Target price and rating

We revised our rating from BUY to ACCUMULATE on Air Arabia with an unchanged target price of AED 3.10. The Company remains a key beneficiary of robust growth in air passenger demand experienced globally, the number of passengers served across all the hubs rose 15.8% YOY to 8.9 Mn in 1H24 coupled with an improvement in the seat load factor from 80.7% in 1H23 to 81.9% in 1H24. This led to robust growth in the top line, offsetting the impact of rising costs attributed to geopolitical uncertainties, fuel price volatility, currency fluctuations, and ongoing supply chain disruptions. Furthermore, Air Arabia's management focuses on optimizing costs amid geopolitical uncertainty and leveraging new opportunities to drive business growth. The company added three new aircraft in 1H24 and now operates 77 aircraft including 68 Airbus A320 and 9 Airbus A321 during 2Q24. Moreover, Air Arabia added 16 new routes to its existing network in 1H24, which is likely to benefit the airline by attracting additional passengers and enhancing its presence in various markets. It also increased the flight frequencies across its operating hubs in the UAE, Morocco, Egypt, and Pakistan to benefit from the robust air travel demand. It also offers one of the best dividend yields of 7.3% in FY2024 among the listed UAE companies. Hence, based on our analysis, we assign an ACCUMULTAE rating on the stock.

Air Arabia -Relative Valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE(X)	13.0	NA	17.8	10.5	8.3	9.9
PB(X)	2.3	2.8	2.1	1.8	1.7	1.6
EV/EBITDA	7.0	24.8	7.2	4.8	4.1	4.4
Dividend yield	3.3%	NA	3.1%	5.5%	7.3%	7.3%

FABS estimate & Co Data

Air Arabia – P&L

(AED mm)	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	1,630	1,656	1,744	7.0%	5.3%	6,000	6,401	6.7%
Direct costs	-1,183	-1,218	-1,290	9.1%	5.9%	-4,343	-4,774	9.9%
Gross profit	447	438	453	1.5%	3.4%	1,657	1,627	-1.8%
Selling & Mkt expense	-23	-21	-26	12.3%	22.4%	-89	-96	8.1%
G&A expenses	-61	-70	-70	15.1%	0.3%	-329	-339	3.0%
EBITDA	523	517	521	-0.4%	0.9%	1,886	1,849	-1.9%
EBIT	363	347	357	-1.6%	2.9%	1,239	1,192	-3.8%
Finance income	60	56	58	-4.0%	3.9%	210	231	9.9%
Finance costs	-26	-19	-25	-0.9%	36.7%	-102	-101	-1.2%
Other income	32	39	26	-17.5%	-32.5%	113	96	-15.4%
Share of profit on JVs	93	5	17	-82.2%	NM	88	13	-85.5%
Profit before NCI	522	427	432	-17.2%	1.2%	1,548	1,430	-7.6%
Tax	0	-37	-37	NM	-0.8%	0	-129	NM
Non-controlling int.	0	0	0	NM	NM	1	0	NM
Net profit	522	390	395	-24.2%	1.4%	1,547	1,302	-15.9%

FABS estimate & Co Data

Air Arabia -Margins

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	27.4%	26.5%	26.0%	-142	-46	27.6%	25.4%	-219
EBITDA	32.1%	31.2%	29.9%	-221	-130	31.4%	28.9%	-254
Operating Profit	22.2%	20.9%	20.5%	-178	-47	20.6%	18.6%	-202
Net Profit	32.0%	23.5%	22.7%	-933	-87	25.8%	20.3%	-545

FABS estimate & Co Data

3Q24 preview: Dubai Taxi Company

Fleet expansion to drive revenue

Current Price	Target Price	Upside/Downside (%)	Rating
AED 2.77	AED 3.00	+8.3%	HOLD

3Q24 estimate

Dubai Taxi Company PJSC (DTC/the Company) is expected to record a 4.1% YOY decline in net profit to AED 77 Mn in 3Q24 due to an expected increase in operating cost, higher G&A expenses, and tax expense partially offset by revenue growth. The Company's revenue is estimated to grow 14.3% YOY to AED 523 Mn in 3Q24 owing to an expansion of the taxi fleet and contract volumes. Operating cost is expected to grow 15.6% YOY to AED 329 Mn in 3Q24. The plate and License fee is estimated to rise 2.2% YOY to AED 78 Mn in 3Q24. Thus, the Company's gross profit is estimated to grow from AED 96 Mn in 3Q23 to AED 115 Mn in 3Q24 with a 108 bps YOY growth in the gross profit margin to 22.0%. G&A expenses are forecasted to increase from AED 17 Mn in 3Q23 to AED 26 Mn in 3Q24 whereas other income is estimated to rise 16.1% YOY to AED 13 Mn in 3Q24. Thus, operating profit is expected to grow 19.3% YOY to AED 102 Mn in 3Q24. The operating profit margin is forecasted to improve from 18.7% in 3Q23 to 19.5% in 3Q24. EBITDA is expected to increase from AED 117 Mn in 3Q23 to AED 137 Mn in 3Q24. EBITDA margin is projected to rise 52 bps YOY to 26.2% in 3Q24. Furthermore, DTC's finance income is anticipated to rise 54.5% YOY to AED 3 Mn and finance cost is expected to increase from AED 3 Mn in 3Q23 to AED 15 Mn in 3Q24. In addition, income tax expense is anticipated to reach AED 8 Mn in 3Q24 and staff bonus is likely to rise from AED 4 Mn in 3Q23 to AED 5 Mn in 3Q24.

2024 forecast

DTC's net profit is expected to increase 4.3% YOY to AED 360 Mn in 2024 primarily due to an estimated rise in revenue partially offset by an increase in operating cost, G&A expenses, and finance costs. The Company's revenue is forecasted to rise 13.1% YOY to AED 2,209 Mn in 2024 attributable to an increase in revenue from the Taxi, Limousine, and Bus segment. DTC's operating cost is estimated to increase 14.2% YOY to AED 1,375 Mn in 2024. The plate and license fee is estimated to rise marginally 2.9% YOY to AED 319 Mn in 2024. Thus, gross profit is expected to increase 17.3% YOY to AED 515 Mn in 2024. Gross profit margin is anticipated to rise from 22.5% in 2023 to 23.3% in 2024. Other income is anticipated to grow 5.9% YOY to AED 54 Mn in 2024. Moreover, G&A expenses are estimated to increase 50.7% YOY to AED 110 Mn in 2024. Thus, operating profit is likely to rise 25.0% YOY to AED 465 Mn in 2024. EBITDA is estimated to increase 23.2% YOY to AED 604 Mn in 2024. On the other hand, finance income is expected to rise from AED 7 Mn in 2023 to AED 13 Mn in 2024. Similarly, finance cost is anticipated to increase significantly from AED 16 Mn in 2023 to AED 60 Mn in 2024 due to higher interest rates. DTC is expected to record tax expense of AED 38 Mn in 2024 while staff bonus is anticipated to grow 15.7% YOY to AED 21 Mn.

2Q24 Outturn

DTC's revenue rose 11.6% YOY to AED 531 Mn in 2Q24 owing to strong growth across all segments attributable to the expansion of the fleet size. DTC benefits from the exclusivity agreement among the high-volume areas in Dubai. Revenue from the Taxi segment rose 10.0% YOY to AED 459 Mn in 2Q24 mainly due to the fleet expansion, increased number of trips and trip length, higher tariffs, and rise in airport taxis. DTC's exclusive pick-up rights at both Dubai Airports resulted in an attractive tariff structure. Limousine segment revenue rose 5.1% YOY to AED 28 Mn in 2Q24 owing to the expansion of the fleet and higher tariffs. The Taxi and Limousines completed 23.3 Mn trips in 2Q24 out of which 22.7 Mn trips were done by the taxis. The revenue from the Bus segment significantly increased 24.1% YOY to AED 36 Mn in 2Q24 owing to an increase in fleet size and the signing of new service contracts. Similarly, the Company's delivery bike segment revenue substantially rose from AED 3.9 Mn in 2Q23 to AED 9.0 Mn in 2Q24 mainly due to an increase in fleet size and new

commercial agreements. The Company increased its fleet to 1,168 delivery bikes in 2Q24 by adding 181 bikes. On the other hand, operating costs rose 15.8% YOY to AED 335 Mn in 2Q24 due to a higher number of trips and an increase in staff, depreciation, maintenance, and insurance costs whereas the plate and license fees increased 6.4% YOY to AED 83 Mn due to increase in fleet size. Thus, the Company's gross profit increased 4.0% YOY to AED 114 Mn in 2Q24. DTC's G&A expenses rose 32.0% YOY to AED 26 Mn in 2Q24 whereas other income rose 25.4% YOY to AED 12 Mn. In addition, the Company recorded an impairment reversal of AED 3 Mn in 2Q24 compared to an impairment charge of AED 5 Mn in 2Q23. As a result, operating profit rose 8.5% YOY to AED 103 Mn in 2Q24. DTC's EBITDA grew 13.9% YOY to AED 139 Mn in 2Q24 with an EBITDA margin of 26.2% in 2Q24 compared to 25.7% in 2Q23. The growth in the EBITDA is mainly attributable to enhanced operational efficiencies and fleet expansion. DTC's finance income rose from AED 2 Mn in 2Q23 to AED 5 Mn in 2Q24 while finance cost increased from 0.03 Mn in 2Q23 to AED 16 Mn in 2Q24 owing to the addition of debt. Staff bonus declined marginally 1.6% YOY to AED 5 Mn in 2Q24. In addition, the Company incurred an income tax charge of AED 8 Mn in 2Q24 owing to the introduction of UAE corporate tax which led to a decline in net margin by 444 bps YOY to 14.9%. Net profit declined 14.0% YOY to AED 79 Mn in 2Q24.

Target price and recommendation

We revise our rating on Dubai Taxi Company from BUY to HOLD with a revised target price of AED 3.00. Expansion of the fleet, rise in trips and trip length, and higher tariffs determined by the Road and Transport Authority (RTA) drove the Company's revenue in 2Q24. Dubai International Airport recorded its highest quarterly traffic in 1Q24 welcoming 23 Mn passengers whereas, the Company expects Dubai's tourist visits to grow at a CAGR of 20.5% from 17.2 Mn in 2023 to 25.0 Mn in 2025. Robust tourism performance in the emirate drives the demand for mobility across the city. The Company's exclusivity agreements with the Dubai government in high-volume areas provide a competitive advantage over other operators. DTC witnessed a solid fleet expansion across all segments in 1H24 and added 194 taxis, 5 buses, and 181 bikes to its fleet in 2Q24. DTC acquired 94 taxi licenses in the recent RTA auction and further plans to participate in two upcoming auctions; one in August 2024 and the other at the end of the year. DTC signed an MOU with Blacklane Middle East to enhance luxury chauffeur services to meet international standards boosting the appeal of its premium limousine segment offering. The Company focuses on growing its taxi fleet, improving operating efficiency, expanding adjacent businesses, and considering valuable inorganic growth opportunities. Around 85% of DTC's fleet comprises hybrid cars, and the company plans to add Tesla and BYD to their fleet as these electric cars will reduce operating costs. Solid relations with the Ministry of Education and the rising student population led to the winning of additional private school contracts in the Bus segment and the Company also expanded bus services to corporate entities. DTC signed agreements with e-commerce and delivery aggregators like Talabat UAE, a leading delivery platform for offering delivery and transportation solutions utilizing its diverse fleet of vehicles. The Company incurred a capex of AED 115 Mn in 2Q24 compared to AED 42 Mn in 1Q24 and further plans to grow its core operations to overcome the rising passenger traffic demand. The board approved a cash dividend of AED 159.3 Mn equivalent to 6.37 fils per share for 1H24 in line with its dividend policy of a minimum dividend payout of 85% of its net profit in 2024 and thereafter. Thus, considering the abovementioned factors, we assign a HOLD rating on the stock.

DTC -Relative Valuation

(at CMP)	2022	2023	2024
PE(X)	NA	20.1	19.2
PB(X)	NA	22.5	15.5
EV/EBITDA	NA	15.5	12.5
Dividend yield	NA	NA	4.6%

FABS estimate & Co Data

Note – Dubai Taxi Company was listed on DFM in Dec 2023. Thus, the financial multiple for the prior period is unavailable

DTC – P&L

AED mm	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	457	531	523	14.3%	-1.6%	1,954	2,209	13.1%
Operating cost	-285	-335	-329	15.6%	-1.7%	-1,205	-1,375	14.2%
Plate & license fee	-77	-83	-78	2.2%	-5.4%	-310	-319	2.9%
Gross profit	96	114	115	20.2%	1.3%	439	515	17.3%
Other Income	11	12	13	16.1%	4.8%	51	54	5.9%
General and Administrative Expenses	-17	-26	-26	51.5%	1.3%	-73	-110	50.7%
Impairment Loss on Financial Assets	-4	3	0	NM	NM	-44	7	NM
Operating profit	85	103	102	19.3%	-1.1%	372	465	25.0%
EBITDA	117	139	137	16.7%	-1.9%	491	604	23.2%
Finance Income	2	5	3	54.5%	-34.5%	7	13	80.6%
Finance Cost	-3	-16	-15	NM	-7.3%	-16	-60	NM
Staff Bonus	-4	-5	-5	22.9%	9.3%	-18	-21	15.7%
Earning Before Tax and Staff Bonus	81	87	85	5.4%	-2.4%	345	398	15.2%
Income Tax	0	-8	-8	NM	-2.2%	0	-38	NM
Profit to shareholders	81	79	77	-4.1%	-2.5%	345	360	4.3%

FABS estimate & Co Data

DTC -Margins

	3Q23	2Q24	3Q24F	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	20.9%	21.4%	22.0%	108	63	22.5%	23.3%	84
EBITDA	25.6%	26.2%	26.2%	52	-6	25.1%	27.4%	225
Operating Profit	18.7%	19.4%	19.5%	81	11	19.1%	21.1%	201
Net Profit	17.7%	14.9%	14.8%	-285	-13	17.7%	16.3%	-137

FABS estimate & Co Data

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