

## E7 Group PJSC

Current Price	Target Price	Upside/Downside (%)	Rating
AED 1.09	AED 1.50	+38%	BUY

### 3Q24 Net Profit higher than our estimate

- E7 Group's revenue rose 7.5% YOY from AED 178 Mn in 3Q23 to AED 191 Mn in 3Q24 primarily driven by new client wins mainly in the E7 packaging business.
- Direct cost increased 5.4% YOY to AED 123 Mn in 3Q24.
- Thus, gross profit increased 11.5% YOY to AED 68 Mn in 3Q24 with a gross profit margin expansion of 128 bps YOY to 35.8%.
- EBITDA rose 6.0% YOY to AED 59 Mn in 3Q24 while margins fell marginally 45 bps QOQ to 30.9%. The profit and margins benefitted from long-term contracts and healthy capacity utilization levels.
- Operating profit inched up 5.3% YOY to AED 49 Mn in 3Q24.
- Net profit attributable to shareholders increased 54.8% YOY from AED 47 Mn in 3Q23 to AED 73 Mn in 3Q24.
- E7's cash balance soared to AED 1.4 Bn in 3Q24.
- The Company adopted a dividend policy to distribute at least 50% of annual net profit as dividend. The dividend will be paid twice each year. The first annual dividend for FY2024 will be declared in 1Q25.
- E7 won contracts worth AED 118 Mn during 3Q24.

### Earnings Call Summary

- E7 received AED 115.5 Mn worth of security printing and contracts for passport and ID card production for seven years.
- It became a security printing partner for MEBIS 2024 (the largest Middle East Banking Innovation Summit).
- E7 expanded the Arabic Literacy Program platform across private and public schools in the Commercial Education segment. It also launched a new app to enhance communication and interaction between schools and parents.
- The company delivered 40 custom products and focused on increasing its diversification for its long-term growth. It ventured into the printing of tax stamps in 3Q24.
- E7 caters to customers in 25 countries. Apart from UAE, it has a presence in Africa, the Middle East and Central Asia.
- E7 added 23 new clients in the sustainable packaging along with obtaining gluten-free certification in 3Q24.
- Tawzea achieved 27% YOY increase in commercial shipments in 3Q24.
- E7 partnered with SAP for customer service and operational efficiency.
- E7 allocated AED 182 Mn for expansion of passport production capacity to 5x and plans to start digital tax stamp production in 2026.
- E7 actively accesses M&A opportunities to drive inorganic growth in Security Solutions and sustainability packaging.
- The company prefers customers from luxury repackaged food, FNB, healthcare & pharma sectors.
- In the printing segment, E7 focuses on implementing efficiency to drive profitability. It focuses on government and institutional clients to provide stability as consumer sectors such as newspapers are gradually declining their printing output.
- E7 strives to grow sustainable packaging segment organically and inorganically by serving in premium and niche market segments.
- Trade receivables reduced from AED 280 Mn 4Q23 to AED 212 Mn 3Q24.

- E7 has long-term contracts with 70% of revenues recurring in nature.
- Deferred revenues increased substantially to AED 80 Mn in 3Q24 compared to AED 11 Mn in 2Q24 due to increased advance payments for outstanding orders.
- E7 aims to generate an IRR of 12% to 15% from the M&A deals.
- The company has significant room to use existing capacities.

**E7 Group PJSC - P&L**

(AED mm)	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch
Revenue	178	175	191	188	1.7%	7.5%	9.2%
Direct Cost	-116	-114	-123	-129	-5.3%	5.4%	7.6%
<b>Gross Profit</b>	<b>61</b>	<b>61</b>	<b>68</b>	<b>58</b>	<b>17.4%</b>	<b>11.5%</b>	<b>12.3%</b>
G&A & marketing exp	-15	-20	-21	-21	3.2%	46.5%	5.7%
S&D expenses	-2	-2	-2	-2	-12.5%	2.1%	-6.4%
Reversal of/ (provision for) impairment loss on financial assets	0	3	2	0	NM	NM	-10.5%
Other Income	2	2	2	2	-21.9%	-3.3%	15.7%
<b>EBIT</b>	<b>46</b>	<b>42</b>	<b>49</b>	<b>37</b>	<b>31.1%</b>	<b>5.3%</b>	<b>15.2%</b>
<b>EBITDA</b>	<b>56</b>	<b>52</b>	<b>59</b>	<b>48</b>	<b>23.4%</b>	<b>6.0%</b>	<b>13.4%</b>
Finance Cost	0	0	0	0	-30.3%	-23.4%	-40.1%
Finance Income	1	29	32	17	88.2%	NM	10.1%
<b>Profit before tax</b>	<b>47</b>	<b>71</b>	<b>81</b>	<b>54</b>	<b>49.4%</b>	<b>70.0%</b>	<b>13.5%</b>
Income tax expense	0	-7	-7	-5	48.9%	NM	10.9%
<b>Profit/(loss) for the year</b>	<b>47</b>	<b>65</b>	<b>73</b>	<b>49</b>	<b>49.5%</b>	<b>54.8%</b>	<b>13.7%</b>

FABS estimate & Co Data

### 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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