

E7 Group PJSC

New client wins drive growth in top-line

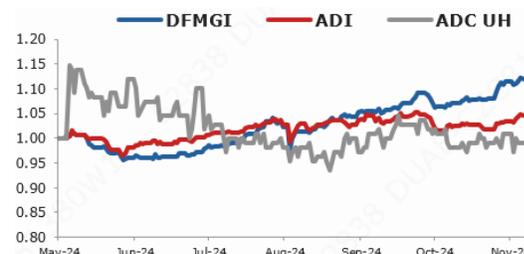
Current Price
AED 1.08

Target Price
AED 1.50

Upside/Downside (%)
+39%

Rating
BUY

- E7 revenues rose 7.5% YOY to AED 191 Mn in 3Q24 primarily driven by E7 security business along with high growth in E7 packaging.
- 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, set to declare in first dividend for FY2024 in 1Q25.
- E7 won contracts worth AED 118 Mn during 3Q24.
- The Company focused on sustainable organic and inorganic growth opportunities.



3Q24 Net Profit higher than our estimate

E7 Group's (E7/the Company) net profit increased 54.8% YOY to AED 73 Mn in 3Q24, significantly higher than our estimate of AED 49 Mn. The growth in the net profit is mainly attributable to significant growth in finance income coupled with a rise in gross profit led by an increase in revenue. Excluding the fair value adjustments on warrant liabilities net profit amounted to AED 60 Mn in 3Q24.

P&L Highlights

E7's revenue grew 7.5% YOY to AED 191 Mn in 3Q24, mainly driven by the highest contributing security business along with client wins mainly in the packaging business. Revenue from Printing Segment rose 8.7% YOY to AED 169 Mn, while the revenue from Distribution Segment declined marginally 0.5% YOY to AED 22 Mn in 3Q24. The Company's direct cost recorded growth lower than topline and rose 5.4% YOY to AED 123 Mn in 3Q24. Thus, E7's gross profit rose 11.5% YOY to AED 68 Mn in 3Q24. Thus, gross profit margin expanded 128 bps YOY to 35.8% in 3Q24. G&A expenses rose 46.5% YOY to AED 21 Mn in 3Q24 mainly due to a growth in staff costs and professional fees. Selling & distribution expenses rose marginally 2.1% YOY to AED 2 Mn in 3Q24. The Company recorded a reversal of impairment loss on trade receivables of AED 2.3 Mn compared to a nil provision/reversal in 3Q23 due to concerted efforts in debt collection. Other income remained flat at AED 1.8 Mn in 3Q24 compared to 3Q23. Thus, E7's operating income increased 5.3% YOY to AED 49 Mn in 3Q24, while the operating margin fell 53 bps YOY from 26.2% in 3Q23 to 25.6% in 3Q24. Furthermore, the Company's EBITDA increased 6.0% YOY to AED 59 Mn, whereas the EBITDA margin declined 45 bps YOY to 30.9% in 3Q24. E7's finance income grew significantly from AED 1 Mn in 3Q23 to AED 32 Mn in 3Q24 due to growth in interest received on fixed deposits and fair value gain adjustments on warrant liabilities. Tax expense of the company was AED 7 Mn in 3Q24 due to recently introduced corporation tax in UAE in FY2024.

Stock Information

Market Cap (AED, mn)	2,159.19
Shares Outstanding	1,999.25
52 Week High	1.30
52 Week Low	1.02
3M Avg. daily value (AED)	1,617,711

3Q24 Result Review (AED, mn)

Total Assets	2,344
Total Liabilities	472
Total Equity	1,872
EBITDA	59
Net Profit	73

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	N/A
Price-Earnings Ratio(x) F	9.7
Price-to-Book Ratio (x)	1.15
Book Value (AED)	0.94
Return-on Equity (%)	3.4%

Stock Performance

5 Days	0.00%
1 Months	0.00%
3 Months	3.85%
6 Months	-10.00%
1 Year	-7.22%
Month to Date (MTD%)	-1.82%
Quarter to Date (QTD%)	-2.70%
Year to Date (YTD%)	-3.05%

Balance Sheet Highlights

E7's Cash and cash equivalents stood at AED 1.44 Bn in 3Q24 compared to AED 1.28 Bn in 2Q24. The company's net cash generated from operating activities increased from AED 62 Mn in 3Q23 to AED 154 Mn in 3Q24 mainly due to positive cash generated from working capital due to increase in trade payables and deferred revenues. Free cashflows to firm improved significantly from positive AED 48 Mn in 3Q23 to positive AED 161 Mn in 3Q24.

Target Price and Rating

We maintain our BUY rating on E7 with a target price of AED 1.50. The Company maintained its guidance for FY2024 and expects revenue to grow in single digits with 70% of revenue recurring nature through long-term government contracts providing revenue visibility, with extensive experience in international security protocols and adapting to evolving regulations, E7 is well-positioned in a high-barrier sector. Revenue from the Security Solutions Segment rose 7% YOY during 9M24 supported by growth in UAE contracts and the signing of additional international contracts. The Company forecasts stable revenue growth of the Printing and Tawzea Segment due to long-term client agreements and robust recurring revenue. The growth of Packaging and Security Solutions would be driven by capacity expansion and partnership opportunities. E7 allocated AED 182 Mn for the expansion of passport production capacity to 5x and plans to start digital tax stamp production in 2026. E7 received AED 115.5 Mn worth of security printing and contracts for passport and ID card production for seven years. E7 added 23 new clients in sustainable packaging along with obtaining gluten-free certification in 3Q24. E7 strives to grow a sustainable packaging segment organically and inorganically by serving in premium and niche market segments, with high cash reserves of AED 1.44 Bn as of 3Q24, E7 is actively accessing opportunities to drive inorganic growth in the Security Solutions and Sustainability Packaging Segment. Furthermore, it adopted a dividend policy to distribute at least 50% of annual net profit as dividends. The dividend will be paid twice each year. The first annual dividend for FY2024 will be declared in 1Q25. Thus, considering all these factors, we assign a BUY rating on the stock.

E7 - Relative valuation

(at CMP)	2023	2024F
PE	NM	9.8
PB	1.3	1.2
EV/EBITDA	5.1	9.8
Dividend yield	NM	5.1%

FABS Estimates & Co Data

* E7 was listed on ADX post-acquisition ADC Acquisition Corporation PJSC as a result previous financial won't be comparable

E7 – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	178	175	191	188	1.7%	7.5%	9.2%	632	683	8.1%
Direct Cost	-116	-114	-123	-129	-5.3%	5.4%	7.6%	-432	-464	7.4%
Gross Profit	61	61	68	58	17.4%	11.5%	12.3%	200	220	9.8%
G&A expenses	-15	-20	-21	-21	3.2%	46.5%	5.7%	-67	-80	18.5%
S&M expenses	-2	-2	-2	-2	-12.5%	2.1%	-6.4%	-9	-9	7.5%
Reversal/(provision for) impair loss on financial assets	0	3	2	0	NM	NM	-10.5%	1	7	NM
Other Income	2	2	2	2	-21.9%	-3.3%	15.7%	7	8	12.5%
EBIT	46	42	49	37	31.1%	5.3%	15.2%	133	146	9.9%
EBITDA	56	52	59	48	23.4%	6.0%	13.4%	171	184	7.2%
Finance Cost	0	0	0	0	-30.3%	-23.4%	-40.1%	-4	-1	-66.0%
Finance Income	1	29	32	17	88.2%	NM	10.1%	12	99	NM
Profit before tax	47	71	81	54	49.4%	70.0%	13.5%	140	243	73.4%
Income tax expense	0	-7	-7	-5	48.9%	NM	10.9%	0	-22	NM
Profit / (loss) for the year	47	65	73	49	49.5%	54.8%	13.7%	140	221	57.8%

FABS estimate & Co Data

E7 - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross profit	34.5%	34.8%	35.8%	128	98	31.6%	32.1%	50
Operating Profit	26.2%	24.3%	25.6%	-53	132	21.0%	21.3%	34
EBITDA	31.3%	29.7%	30.9%	-45	114	27.1%	26.9%	-23
Net profit	26.7%	36.9%	38.4%	1,173	151	22.2%	32.4%	1,020

FABS estimate & Co Data

Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value E7. We have assigned 70% weight to DCF and 30% to RV. In the relative valuation, we have used EV/EBITDA to value the Company.

Valuation Method	Target	Weight	Weighted Value
DCF Method	1.52	70.0%	1.06
Relative Valuation (RV)	1.44	30.0%	0.44
Weighted Average Valuation (AED)			1.50
Current market price (AED)			1.08
Upside/Downside (%)			+39%

1) DCF Method:

E7 is valued using free cash flow to equity since the Company is debt-free. We have discounted the cash flow using the cost of equity of 8.5%. Cost of equity is calculated by using a 10-year government bond yield of 4.1%, beta of 0.76 and an equity risk premium of 4.8%. Government bond yield is calculated after adding Abu Dhabi's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.5%.

Sum of PV (AED, Mn)	678
Terminal value (AED, Mn)	2,360
FV to Common shareholders (AED, Mn)	3,038
No. of share (Mn)	1,999
Current Market Price (AED)	1.08
Fair Value per share (AED)	1.52

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	196	178	175	173	189
(+/-) Depreciation & amortization	38	45	44	66	68
(+/-) CAPEX	-53	-91	-72	-53	-54
(+/-) Working Capital	-8	12	98	-4	-3
Net change in debt	-4	-6	-8	-9	-10
Free Cash Flow to Equity (FCFE)	169	138	237	172	190
Discounting Factor	0.99	0.91	0.84	0.78	0.71
Discounted FCFE	84	126	199	134	136

Source: FAB Securities

2) Relative Valuation:

We have used international peers to value E7 and it is valued using the EV/EBITDA multiple. It is valued at a 2024 EV/EBITDA multiple of 8.0x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Beijing Shengtong Printing Co., Ltd	537	33.4x	22.5x	NM	114.4x
Raksul Inc.	465	13.6x	11.2x	35.4x	25.2x
Cimpress Plc	1,992	7.2x	6.5x	20.5x	14.6x
Dai Nippon Printing Co., Ltd	7,905	8.1x	7.6x	12.6x	13.6x
KOSAIDO Holdings Co., Ltd	457	7.8x	6.9x	13.1x	11.6x
TOPPAN Holdings Inc	9,242	7.2x	6.5x	20.1x	18.0x
Average		12.9x	10.2x	20.3x	32.9x
Median		8.0x	7.3x	20.1x	16.3x
Max		12.3x	10.3x	20.5x	23.4x
Min		7.4x	6.6x	13.1x	13.8x

Source: FAB Securities

