

Aramex PJSC

Strong volume growth boosted top line

Current Price
AED 2.29

Target Price
AED 3.10

Upside/Downside (%)
+35%

Rating
BUY

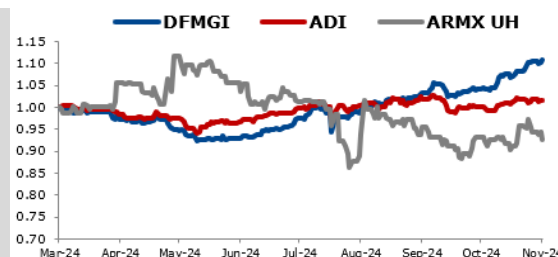
- Expects revenue growth of 9% with a stable gross margin of 24% to 25% in FY2024.
- International and Domestic Express Segments recorded double-digit growth in volume in 3Q24 due to higher consumer activity, strong regional demand in addition trends to nearshoring and local warehousing.
- Demand for nearshoring complements the volume growth across all segments of the Company.
- Freight Forwarding Segment faces high competition and focus on opening capacity in key markets impacted margins in 3Q24.
- Net debt fell from AED 537 Mn in 2Q24 to AED 525 Mn in 3Q24 with a net debt to EBITDA ratio of 2.1x.

3Q24 Net Profit slightly higher than our estimate

Aramex PJSC (Aramex/the Company) recorded an increase in net profit from AED 10 Mn in 3Q23 to AED 27 Mn in 3Q24, exceeding our estimate of AED 24 Mn. This increase was due to a strong growth in revenue owing to consistent growth in volume across all product lines and a reduction in finance costs partially offset by a pressure in gross margin of Freight Forwarding and International Express Segments and higher SG&A expenses due to an increase in salaries of new hires and investment in IT expenses.

P&L Highlights

Aramex's revenue increased 18.0% YOY to AED 1,592 Mn in 3Q24, driven primarily by consistent volume growth across all product segments. The Freight Forwarding segment saw a 22.2% YOY growth in revenue to AED 450 Mn in 3Q24, mainly attributed to increased shipment volumes, especially in land and air freight. The combined revenue of International and Domestic Express Segment grew 16.9% YOY to AED 1,011 Mn in 3Q24, driven by healthy growth in volume across Domestic and International Express Segment. International Express Segment achieved a quarterly volume of 6.5 Mn shipments in 3Q24 growing 34% YOY due to strong local economy in GCC and MENAAT region and higher consumer activity. It was partially offset by lower volumes in Europe and North America coupled with lower revenue recorded by MyUS Parcel Forwarding. The Domestic Express volumes rose 18% YOY to 28.9 Mn in 3Q24, driven by increased demand from GCC and MENAT markets as well as success of turnaround strategy adopted in Oceania. The growth was partially offset by currency devaluation in Egypt. The regional demand trend reflected trends of nearshoring and local shoring. The Logistics segment achieved a revenue growth of 12.9% YOY to AED 118 Mn in 3Q24 supported by new customers acquired in H124. Additionally, revenue from other services increased 8.0% YOY to AED 13 Mn in



Stock Information

Market Cap (AED, Mn)	3,323.51
Paid Up Capital (Mn)	1,464.10
52 Week High	2.82
52 Week Low	1.93
3M Avg. daily value (AED)	3,020,022

3Q24 Result Review (AED, Mn)

Total Assets	5,704
Total Liabilities	3,196
Total Equity	2,508
EBITDA	157
Net Profit	27

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	106.82
Price-Earnings Ratio(x)	21.61
Price-to-Book Ratio (x)	1.33
Book Value (AED)	1.71
Return-on Equity (%)	6.24

Stock Performance

5 Days	-2.16%
1 Months	0.00%
3 Months	-9.20%
6 Months	-14.34%
1 Year	4.61%
Month to Date (MTD%)	-0.87%
Quarter to Date (QTD%)	0.89%
Year to Date (YTD%)	-0.87%

3Q24. The cost of services rose 20.1% YOY to AED 1,219 Mn in 3Q24. Thus, gross profit increased 11.5% YOY to AED 373 Mn in 3Q24. Gross margin declined 137 bps YOY from 24.8% in 3Q23 to 23.4% in 3Q24, mainly due to the pressure on margins in the Freight Forwarding and International Express Segment. Selling and marketing expenses increased 16.2% YOY to AED 89 Mn in 3Q24, while administrative expenses grew 5.8% YOY to AED 221 Mn in 3Q24. The net impairment loss on financial assets remained unchanged at AED 2 Mn in 3Q24 compared to 3Q23. Other income amounted to AED 8 Mn in 3Q24 compared to an expenses of AED 1 Mn in 3Q23. Operating profit increased from AED 45 Mn in 3Q23 to AED 68 Mn in 3Q24 registering a 52.4% YOY growth. Furthermore, total EBITDA rose 17.1% YOY to AED 157 Mn in 3Q24, with EBITDA margins marginally falling 7 bps YOY to 9.8% in 3Q24. Finance income remained steady at AED 1 Mn in 3Q24 compared to 3Q23, while finance costs declined 8.1% YOY to AED 30 Mn in 3Q24. The share of results from joint ventures and associates generated a loss of AED 1 Mn in 3Q24 compared to a gain of AED 2 Mn in 3Q23. Income tax expenses saw a significant increase of 75.7% from AED 6 Mn in 3Q23 to AED 11 Mn in 3Q24, owing to the introduction of corporate tax in the UAE. Profit attributable to non-controlling interest amounted to AED 0.4 Mn in 3Q24 compared to a loss of AED 1.0 Mn in 3Q23.

Balance Sheet Highlights

ARAMEX gross debt decreased from AED 997 Mn in 2Q24 to AED 973 Mn in 3Q24 while, net debt also declined from AED 537 Mn in 2Q24 to AED 525 Mn in 3Q24. The Company's cash and cash equivalents stood at AED 447 Mn in 3Q24, down from AED 457 Mn in 2Q24. Aramex generated AED 129 Mn in cash flow from operations in 3Q24, compared to AED 185 Mn in 3Q23 due to investment in working capital despite higher profit generated from operations.

Target Price and Rating

We maintain our BUY rating on Aramex with an unchanged target price of AED 3.10. Aramex experienced significant top-line growth in 3Q24, primarily driven by business realignment which led to consistent volume growth across all segments. The Company is witnessing important change in industry wherein e-tailers and brands are bringing inventories closer to the demand centres and to end customers in the domestic markets. This is leading to higher flow of volume in Domestic Express and increased demand for warehousing and fulfilment services combined with a growth in demand for International Express and Freight Forwarding volumes. Thus, Domestic Express volume grew 18.0% YOY to 29 Mn shipments in 3Q24. International Express volume rose 18.4% YOY to 6.5 Mn shipments in 3Q24. The Company operation is expected to benefit in the seasonally strong fourth quarter in 2025 leading Aramex to maintain its revenue and margin guidance. Aramex anticipates a revenue growth of 9% and a stable gross margin ratio of 24% to 25% for 2024. Aramex plans to increase its warehousing capacity as it has reached full utilization levels in the logistics segment in Egypt and Morocco and near to full capacity in UAE and Saudi Arabia. The profitability remains sensitive to growth in volume and focused upon gaining more volume as the Company benefits from economies of scale. The company expects the interest rates to decline hence wishes to limit the debt repayment and divert the excess cash generated from operations for investments and growth. Aramex is gaining market share in GCC and MENAT region and expects it to continue leading to better economies of scale thereby improving margins. The company focuses on maintaining CapEx at 2% of total revenue. It also guided 27% effective tax rate for 2024 and normalize in range of 20% to 25% in 2025. Aramex also remains well-positioned with a strong cash balance of AED 447 Mn and a net debt-to-EBITDA ratio of 2.1x, which will support its plans for expansion and growth. Thus, based on our analysis, we assign our BUY rating on the stock.

Aramex - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE (x)	6.7	12.6	14.9	20.3	25.9	24.0
PB (x)	1.3	1.2	1.3	1.3	1.4	1.4
EV/EBITDA	3.5	3.9	4.4	6.3	6.2	5.9
Dividend yield	7.2%	7.2%	5.7%	5.7%	-	4.2%

FABS Estimates & Co Data

Aramex – P&L

AED Mn	3Q23	2Q24	3Q24	3Q24F	VAR	YOY Ch	QOQ Ch	2023	2024F	Change
Rendering of services	1,350	1,496	1,592	1,461	9.0%	18.0%	6.4%	5,694	6,218	9.2%
Costs of services	-1,015	-1,151	-1,219	-1,099	10.9%	20.1%	5.9%	-4,267	-4,694	10.0%
Gross Profit	335	345	373	362	2.9%	11.5%	8.1%	1,427	1,523	6.8%
Selling & Mktg exp	-77	-83	-89	-80	10.9%	16.2%	6.9%	-308	-341	10.5%
Administrative expenses	-209	-217	-221	-219	1.0%	5.8%	2.1%	-845	-883	4.5%
Impairment loss on fin. assets	-2	-4	-2	0	NM	-24.2%	-58.6%	-20	-16	-19.3%
Other income, net	-1	7	8	0	NM	NM	13.5%	13	22	63.0%
Operating profit	45	47	68	63	8.4%	52.4%	45.1%	267	305	14.5%
EBITDA	134	135	157	158	-1.0%	17.1%	16.2%	628	654	4.2%
Finance income	1	2	1	1	-31.2%	-26.7%	-36.4%	8	6	-25.7%
Finance costs	-33	-31	-30	-30	-0.1%	-8.1%	-1.9%	-128	-121	-5.5%
Share of results of JVs	2	0	-1	0	NM	NM	NM	6	4	-21.9%
Profit before income tax	15	18	38	34	11.9%	150.4%	110.5%	152	195	27.7%
Income tax expense	-6	-15	-11	-10	7.8%	75.7%	-25.5%	-23	-53	131.5%
Profit for the period	9	3	27	24	13.6%	202.8%	NM	130	142	9.6%
NCI	-1	0	0	0	NM	NM	NM	-1	1	NM
Net Profit	10	3	27	24	11.0%	176.8%	NM	129	140	8.3%

FABS estimate & Co Data

Aramex - Margins

	3Q23	2Q24	3Q24	YOY Ch.	QOQ Ch.	2023	2024F	Change
Gross Profit	24.8%	23.1%	23.4%	-137	36	25.1%	24.5%	-56
EBITDA	9.9%	9.0%	9.8%	-7	83	11.0%	10.5%	-50
Operating Profit	3.3%	3.1%	4.3%	97	114	4.7%	4.9%	23
Net Profit	0.7%	0.2%	1.7%	96	148	2.3%	2.3%	-2

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	3.54	70.0%	2.48
Relative Valuation (RV)	2.07	30.0%	0.62
Weighted Average Valuation (AED)			3.10
Current market price (AED)			2.29
Upside/Downside (%)			+35%

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 4.7%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.05 and equity risk premium of 4.4%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 4.7% is calculated after adjusting a tax rate of 27%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,645
Terminal value (AED, Mn)	5,003
FV to Common shareholders (AED, Mn)	5,188
No. of share (Mn)	1,464
Current Market Price (AED)	2.29
Fair Value per share (AED)	3.54

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
NOPAT	253	251	253	259	265
D&A	349	365	400	430	450
Change in working capital	-19	-18	-44	-13	-82
(-) Capex	-129	-135	-154	-158	-163
Free Cash Flow to Firm (FCFF)	453	463	455	517	469
Discounting Factor	0.99	0.91	0.84	0.77	0.71
Discounted FCFF	112¹	421	381	398	332

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	1,386	10.9	10.4	17.6	17.1
Gulf Warehousing Co QPSC	521	6.8	6.9	9.5	9.3
Jiayou International Logistics Co., Ltd.	2,587	9.1	7.2	11.9	9.7
Kamigumi Co., Ltd.	2,281	6.5	6.3	13.7	13.8
SEINO Holdings Ltd	2,657	6.9	5.9	21.0	16.9
Average		8.0x	7.4x	14.7x	13.4x
Median		6.9x	6.9x	13.7x	13.8x
Max		9.1x	7.2x	17.6x	16.9x
Min		6.8x	6.3x	11.9x	9.7x

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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