

E7 Group PJSC

Current Price	Target Price	Upside/Downside (%)	Rating
AED 1.03	AED 1.50	+45.6%	BUY

4Q24 Net Profit higher than our estimate

- E7 Group's revenue rose 24.4% YOY from AED 168 Mn in 4Q23 to AED 209 Mn in 4Q24, mainly driven by a strong growth performance across the Security Solutions and Packaging segments.
- Direct cost increased 20.5% YOY to AED 136 Mn in 4Q24.
- Thus, gross profit rose 32.4% YOY to AED 74 Mn in 4Q24 with a gross profit margin expansion of 213 bps YOY to 35.2%. The margin expansion is mainly due to improvement in operational efficiency and the streamlining of the supply chain.
- EBITDA rose 28.9% YOY to AED 61 Mn in 4Q24, while margins increased 100 bps YOY to 29.0%. The margin expansion is driven by growth in higher margin products.
- Operating profit surged 49.3% YOY to AED 52 Mn in 4Q24.
- Net profit attributable to shareholders rose 73.8% YOY to AED 69 Mn in 4Q24.
- E7's cash balance stayed steady at AED 1.4 Bn in 4Q24.

Earnings Call Summary

- E7 secured a new contract worth AED 120 Mn for security printing contracts for passport and ID cards from clients in Latin America, Africa and the Middle East.
- The company partnered with Germany-based Diletta GmbH for the printing of high-security travel and identity documents, representing a major advancement in the organic growth strategy.
- E7 added industry certifications, positioning itself as a distinctive player and establishing a significant barrier to entry for new competitors in this market.
- The company renewed its BRCGS certification and secured BRCGS gluten-free certification to add diversity in its product offerings, alongside the introduction of a new Flexo label line.
- E7's literacy platform program in 2024 included English, French, and Arabic to cater to all public and private institutions and secured two new partnerships with Kutubee and SchoolVoice to deliver innovative and secure digital educational solutions.
- E7's business segment Tawzea reported 23% YOY growth in commercial shipments from existing customers and new contracts.
- The company maintained a customer satisfaction score of 98.8% and introduced same-day delivery and next-day express delivery for large institutional customers.
- E7 partnered with SAP for digital transformation and obtained several new ISO certifications, indirectly aiding in acquiring new clients.
- E7 has long-term contracts with more than 70% of revenues recurring in nature.
- E7 allocated capex of AED 182 Mn for the expansion of passport production capacity and plans to start digital tax stamp production.
- E7 maintains a robust cash position of AED 1.4 Bn to invest in future strategic growth opportunities. The strong cash flow generation is a direct result of efficient working capital management.
- E7 expects the capacity expansion of passport and tax stamps to be operational in 4Q25, alongside securing new contracts to maximise the line utilization.
- The company hired a new technology officer and retail officer for operational efficiency and plans to hire a chief commercial officer to maximise the market opportunity.
- The company estimates the top line to grow in double digits and EBITDA in single digits in 2025.
- E7 actively accesses M&A opportunities to drive inorganic growth in the digital ID space and sustainable packaging.

- E7 will benefit from the state-of-the-art facility and lower overheads compared to its competitors.
- E7 aims to generate a minimum IRR of 15% from the M&A deals.
- The company has significant space to use existing capacities, along with the new capacity expansion planned in 2025.
- The Company adopted a dividend policy to distribute at least 50% of its annual net profit as dividends. The dividend will be paid twice each year. The board has approved the maiden dividend for 2024 of AED 147 Mn approximately 7.36 fils per share, subject to shareholder approval.

E7 Group PJSC - P&L

(AED mm)	4Q23	3Q24	4Q24	4Q24F	Var.	YOY Ch	QOQ Ch
Revenue	168	191	209	192	9.3%	24.4%	9.7%
Direct Cost	-113	-123	-136	-129	5.6%	20.5%	10.8%
Gross Profit	56	68	74	63	16.9%	32.4%	7.8%
G&A & marketing exp	-20	-21	-21	-21	1.2%	2.9%	-2.4%
S&D expenses	-2	-2	-4	-3	26.7%	50.4%	74.3%
Reversal of/ (provision for) impairment loss on financial assets	0	2	0	2	NM	NM	NM
Other Income	2	2	3	3	-11.2%	64.6%	59.3%
EBIT	35	49	52	45	16.1%	49.3%	5.6%
EBITDA	47	59	61	54	13.3%	28.9%	3.1%
Finance Cost	-3	0	-2	-1	NM	-43.6%	NM
Finance Income	8	32	26	18	40.1%	NM	-18.7%
Profit before tax	40	81	76	62	21.5%	91.4%	-5.8%
Income tax expense	0	-7	-7	-6	24.3%	NM	-3.7%
Profit/(loss) for the year	40	73	69	57	21.2%	73.8%	-6.0%

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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