

Aramex PJSC

Higher direct costs and a shift in product mix impacted profitability

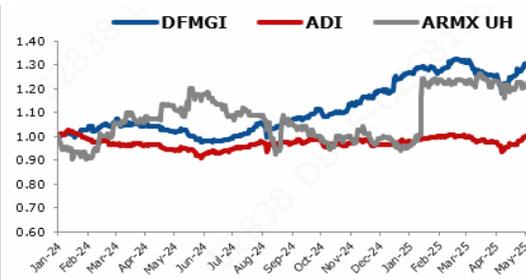
Current Price
AED 2.76

Target Price
AED 3.10

Upside/Downside (%)
+12%

Rating
ACCUMULATE

- The Company's Domestic Express volume rose 8.0% YOY to 28.3 Mn shipments in 1Q25, whereas International Express volume declined significantly 17.9% YOY to 6.4 Mn shipments in 1Q25.
- Free cash flow declined from AED 51 Mn in 1Q24 to AED 42 Mn in 1Q25, mainly attributable to lower cash generation from operating activities.
- Net debt fell from AED 424 Mn in 4Q24 to AED 401 Mn in 1Q25 with a reported net debt to EBITDA ratio of 2.9x.
- In 1Q25, Aramex launched the Accelerate28 transformation initiative, restructuring its operations from eight regions to four for greater agility.



1Q25 Net Profit lower than our estimate

Aramex PJSC (Aramex/the Company) net profit declined 63.5% YOY to AED 17 Mn in 1Q25, lower than our estimate of AED 55 Mn. The decline in net profit is mainly attributable to higher direct costs, and selling and marketing expenses, coupled with other non-operating expenses (associated with legal and consultancy fees for the Q Logistics Acquisition Offer), partially offset by an increase in revenue, lower administrative expenses, impairment charges and finance cost.

P&L Highlights

Aramex's top line rose 1.4% YOY to AED 1,563 Mn in 1Q25, driven by growth across the Domestic Express, Freight Forwarding and Logistics segment, partially offset by a decline in the International Express segment. The Company's Freight Forwarding segment saw an 8.6% YOY growth in revenue to AED 433 Mn in 1Q25, attributed to growing volumes across all lines. The revenue of the International express segment declined 3.4% YOY to AED 991 Mn in 1Q25. The Company's International Express volume reported a 17.9% YOY decline to 6.4 Mn shipments in terms of volume in 1Q25. However, the Domestic Express volumes grew 8.0% YOY to 28.3 Mn in 1Q25, mainly due to increased demand for local warehousing. The Company recorded the ongoing shift of volumes from international to domestic express, driven by the nearshoring trend. The Contract logistics segment achieved a revenue growth of 20.6% YOY to AED 129 Mn in 1Q25, driven by increasing client contracts, warehousing capacity and utilization. Other service revenue grew 11.3% YOY to AED 11 Mn in 1Q25. Cost of services grew 4.6% YOY to AED 1,198 Mn in 1Q25, mainly driven by higher costs incurred to expand capacity in key markets in response to growing volumes. Thus, gross profit declined 7.8% YOY to AED 365 Mn in 1Q25 owing to change in product mix. Gross profit margin also declined 233 bps YOY to 23.3% in 1Q25. Selling and marketing expenses grew 8.2% YOY to AED 88 Mn in 1Q25

Stock Information

Market Cap (AED, Mn)	4,040.92
Paid Up Capital (Mn)	1,464.10
52 Week High	2.93
52 Week Low	2.10
3M Avg. daily value (AED)	3,957,444

1Q25 Result Review (AED, Mn)

Total Assets	5,809
Total Liabilities	3,261
Total Equity	2,548
EBITDA	147
Net Profit	17

Financial Ratios

Dividend Yield (12m)	N/A
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	38.03
Price-to-Book Ratio (x)	1.59
Book Value (AED)	1.74
Return-on Equity (%)	4.47

Stock Performance

5 Days	-1.43%
1 Months	-1.08%
3 Months	-1.08%
6 Months	15.48%
1 Year	7.39%
Month to Date (MTD%)	-0.72%
Quarter to Date (QTD%)	-2.13%
Year to Date (YTD%)	25.45%

Administrative expenses declined 0.3% YOY to AED 218 Mn in 1Q25. The Company's impairment charges declined from AED 6 Mn in 1Q24 to AED 4 Mn in 1Q25. Other income increased from AED 3 Mn in 1Q24 to AED 6 Mn in 1Q25. Operating profit declined 34.1% YOY to AED 61 Mn in 1Q25. Operating profit margin declined 210 bps YOY to 3.9% in 1Q25. Furthermore, total EBITDA fell 18.9% YOY to AED 147 Mn in 1Q25. EBITDA margins fell 236 bps YOY to 9.4% in 1Q25. Finance income grew 7.4% to AED 1 Mn in 1Q25, while finance costs declined 11.9% YOY to AED 28 Mn in 1Q25. The share of results from joint ventures and associates declined from AED 1 Mn in 1Q24 to AED 0.1 Mn in 1Q25. The Company also incurred another non-operating expense of AED 8 Mn related to legal and consultancy fees associated with the Q Logistics acquisition offer. Aramex recorded tax expenses of AED 9 Mn in 1Q25, with the effective tax rate rising to 33.0%, primarily due to the introduction of domestic income tax in certain GCC countries and a shift in the profit mix toward higher-tax jurisdictions. Profit attributable to non-controlling interest accounted to AED 1.0 Mn in 1Q25 compared to AED 0.2 Mn in 1Q24.

Balance Sheet Highlights

Aramex gross debt grew from AED 937 Mn in 4Q24 to AED 946 Mn in 1Q25. However, the net debt reduced from AED 424 Mn in 4Q24 to AED 401 Mn in 1Q25. The Company's cash and cash equivalents grew from AED 513 Mn in 4Q24 to AED 545 Mn in 1Q25. Aramex generated AED 166 Mn in cash flow from operating activities in 1Q25 compared to AED 208 Mn in 1Q24. Free cash flow declined from AED 51 Mn in 1Q24 to AED 42 Mn in 1Q25, mainly attributable to lower cash generation from operating activities.

Target Price and Rating

We maintain our ACCUMULATE rating on Aramex with a target price of AED 3.10. Aramex recorded a decline in profitability mainly due to growth in direct costs, selling and marketing expenses, and other operating costs during 1Q25. Aramex continued to witness a shift in customer volumes from long-haul to short-haul trade routes amid the ongoing efforts by businesses to optimize supply chains by relocating inventory closer to key markets. As a result, the Company's International Express volume declined 17.9% YOY to 6.4 Mn shipments in terms of volume in 1Q25. Aramex continues to experience the effects of nearshoring volume flows from existing customers during the 1H25. The Company's gross margins declined from 25.7% in 1Q24 to 23.3% in 1Q25, reflecting a shift in product mix, cost inflation, continued nearshoring volume flows, and higher direct costs from capacity expansion in key markets. Despite this short-term margin volatility from the evolving product mix, the Company recorded strong volume growth across domestic express and across all freight forwarding segments, alongside higher warehouse utilization. The Company is also expected to record strong growth in Domestic Express in 1H25, driven by the increasing impact of nearshoring. Moreover, Aramex is enhancing its competitive edge by investing in innovative solutions, including micro-fulfilment hubs and reverse logistics services. In 1Q25, Aramex launched the Accelerate28 transformation initiative, restructuring its operations from eight regions to four for greater agility. This program, which focuses on improving pricing and operational efficiencies, is expected to drive revenue growth and enhance profitability going forward. Aramex also continues to gain market share across the GCC and MENAT regions, benefiting from economies of scale, which are expected to drive margin improvements. The Company also remains well-positioned with a strong cash balance of AED 545 Mn and a reported net debt-to-EBITDA ratio of 2.9x as of 1Q25, which is expected to support its plans for expansion and growth. Thus, based on our analysis, we assign an ACCUMULATE rating on the stock.

Aramex - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE (x)	16.73	22.20	25.28	31.59	30.04	30.56
PB (x)	1.51	1.53	1.62	1.65	1.62	1.60
EV/EBITDA	4.91	5.43	7.44	7.36	6.92	7.05
DPS	0.17	0.13	0.13	0.10	0.00	0.00
Dividend yield	5.9%	4.7%	4.7%	3.4%	NA	NA

FABS Estimates & Co Data

Aramex – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	VAR	YOY Ch	QOQ Ch	2024	2025F	Change
Rendering of Services	1,541	1,695	1,563	1,724	-9.3%	1.4%	-7.8%	6,324	6,695	5.9%
Cost of Services	-1,145	-1,297	-1,198	-1,296	-7.5%	4.6%	-7.6%	-4,812	-5,108	6.2%
Gross profit	395	399	365	427	-14.7%	-7.8%	-8.5%	1,512	1,587	4.9%
Selling and Marketing Expenses	-81	-86	-88	-88	-0.3%	8.2%	1.4%	-340	-362	6.3%
Administrative Expenses	-219	-236	-218	-240	-9.0%	-0.3%	-7.6%	-893	-931	4.2%
Impairment loss on fin. assets	-6	19	-4	-5	-25.1%	-37.9%	NM	7	-7	NM
Other income, net	3	-6	6	2	235.2%	NM	NM	11	11	5.9%
Operating profit	92	89	61	97	-36.9%	-34.1%	-31.7%	297	299	0.9%
EBITDA	181	176	147	183	-19.5%	-18.9%	-16.5%	650	644	-1.0%
Finance Income	1	1	1	1	-9.7%	7.4%	-8.2%	5	5	5.9%
Finance Costs	-31	-29	-28	-25	12.6%	-11.9%	-5.5%	-121	-103	-15.0%
Share of results of JVs	1	2	0.1	0	-57.4%	NM	NM	3	5	NM
Other non-operating expense			-8	0	NM	NM	NM		-8	NM
Profit before Income Tax	63	64	26	74	-64.2%	-58.0%	-58.5%	183	199	8.6%
Income Tax Expense	-16	-4	-9	-18	-53.4%	NM	NM	-46	-66	43.2%
Profit for the period	47	59	18	55	-67.8%	-62.2%	-70.1%	137	133	-2.9%
NCI	0	-1	-1	0	NM	NM	-27.3%	-2	0	NM
Profit attributable	47	59	17	55	-69.0%	-63.5%	-70.8%	135	133	-1.7%

FABS estimate & Co Data
Aramex - Margins

	1Q24	4Q24	1Q25	YOY Ch.	QOQ Ch.	2024	2025F	Change
Gross Profit	25.7%	23.5%	23.3%	-233	-18	23.9%	23.7%	-21
EBITDA	11.8%	10.4%	9.4%	-236	-98	10.3%	9.6%	-67
Operating Profit	6.0%	5.3%	3.9%	-210	-136	4.7%	4.5%	-22
Net Profit	3.0%	3.5%	1.1%	-195	-236	2.1%	2.0%	-15

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	3.49	70.0%	2.44
Relative Valuation (RV)	2.19	30.0%	0.66
Weighted Average Valuation (AED)			3.10
Current market price (AED)			2.76
Upside/Downside (%)			+12%

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 8.9%. It is arrived after using cost of equity of 9.8% and after-tax cost of debt of 4.8%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 1.05 and equity risk premium of 4.0%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt of 4.8% is calculated after adjusting a tax rate of 25%. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,648
Terminal value (AED, Mn)	4,759
FV to Common shareholders (AED, Mn)	5,104
No. of share (Mn)	1,464
Current Market Price (AED)	2.76
Fair Value per share (AED)	3.49

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
NOPAT	234	245	264	278	302
D&A	344	347	348	356	361
Change in working capital	-28	-43	2	-32	-6
(-) Capex	-139	-149	-157	-162	-184
Free Cash Flow to Firm (FCFF)	308	400	457	441	474
Discounting Factor	0.95	0.87	0.80	0.73	0.67
Discounted FCFF	292	348	365	323	320

Source: FAB Securities

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 2025 EV/EBITDA multiple of 7.0x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
The Sumitomo Warehouse Co Ltd	1,542	11.3	10.7	11.6	17.1
Gulf Warehousing Co QPSC	472	7.0	6.9	9.7	9.1
Jiayou International Logistics Co., Ltd.	1,925	7.4	5.6	9.9	7.8
Kamigumi Co., Ltd.	2,521	6.7	6.6	14.3	14.3
SEINO Holdings Ltd	2,408	6.5	5.7	17.8	14.3
Average		7.8x	7.1x	12.7x	12.5x
Median		7.0x	6.6x	11.6x	14.3x
Max		7.4x	6.9x	14.3x	14.3x
Min		6.7x	5.7x	9.9x	9.1x

Source: FAB Securities

