

## Aramex PJSC

Despite cost control, challenging business conditions dragged profitability

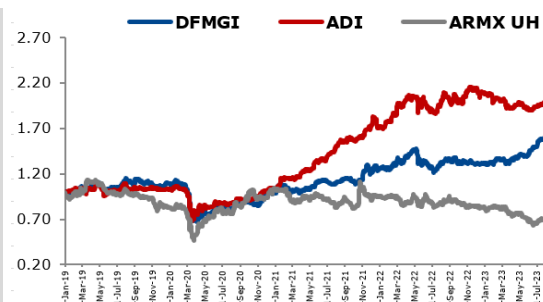
**Current Price**  
AED 2.58

**Target Price**  
AED 3.80

**Upside/Downside (%)**  
+47%

**Rating**  
BUY

- All segments of Aramex recorded a decline in turnover by 8% YOY to USD 378 Mn in 2Q23.
- Aramex recorded marginal growth in the domestic express segment while a decline in international express volume. Freight forwarding rates continue to decline globally.
- The Company managed to maintain its gross and EBITDA margin due to management cost initiatives.
- Free cash flow declined from AED 2023 Mn in 1H22 to AED 128 Mn in 1H23 due to a decline in profit and higher investment in working capital.
- Aramex opened new facilities in Saudi Arabia and India, prioritizing revenue quality and focusing on high-growth industrial and retail sectors.



### Stock Information

Market Cap (AED, mm)	3,777.38
Paid Up Capital (mm)	1,464.10
52 Week High	4.20
52 Week Low	2.51
3M Avg. daily value (AED)	2,105,986

### 2Q23 Result Review (AED, mm)

Total Assets	5,782
Total Liabilities	3,396
Total Equity	2,386
EBITDA	143
Net Profit	19

### Financial Ratios

Dividend Yield (12m)	3.69
Dividend Pay-out (%)	118.21
Price-Earnings Ratio(x)	33.13
Price-to-Book Ratio (x)	1.59
Book Value (AED)	1.62
Return-on Equity (%)	4.75

### Stock Performance

5 Days	-4.09%
1 Months	-14.29%
3 Months	-15.13%
6 Months	-26.29%
1 Year	-33.85%
Month to Date (MTD%)	-14.33%
Quarter to Date (QTD%)	-8.54%
Year to Date (YTD%)	-26.99%

### 2Q23 Net Profit lower than our estimate

Aramex PJSC (Aramex/the Company) net profit declined 57.5% YOY to AED 19 Mn in 2Q23, lower than our estimate of AED 34 Mn. The net profit is impacted due to a decline in revenue across all segments owing to a change in business conditions, currency devaluation, and an increase in finance cost partially offset by a decline in SG&A expenses amid tight cost control.

### P&L Highlights

Aramex's revenue declined 8.4% YOY to AED 1,389 Mn in 2Q23 mainly due to a weakness in the shipment volume, soft pricing, and currency devaluation. Revenue from the freight forwarding segment declined 17.1% YOY to AED 359 Mn in 2Q23 mainly due to a decline in sea freight rates resulting in customers shifting air freight volume to sea freight partially offset by resilient land freight and double-digit growth in sea freight volume. Revenue from the courier segment fell 2.5% YOY to AED 912 Mn in 2Q23. Furthermore, revenue from domestic express fell 5.7% YOY to AED 351 Mn in 2Q23 owing to the foreign exchange impact and decline in fuel surcharge partially offset by an increase in volume from the GCC, MENAT, and Asia Countries. Additionally, a restructuring plan is in progress for the Oceania region. On the other hand, revenue from the international express decreased 4.7% YOY to AED 561 Mn in 2Q23 primarily due to a decline in shipment volumes partially offset by MyUS impact and rate hike per shipment. International express volumes declined from 5.9 Mn in 2Q22 to 5.5 Mn in 2Q23 however domestic shipment volumes grew marginally from 24.1 Mn in 2Q22 to 24.2 Mn in 2Q23. Similarly, the revenue from the logistics and supply chain declined 5.0% YOY to AED 106 Mn in 2Q23 due to the negative impact of currency devaluation. Moreover, the cost of services declined by 8.3% YOY to AED 1,043 Mn in 2Q23 reflecting the company's initiative in cost optimization and

consistent investment towards maximizing efficiency. As a result, gross profit fell 8.7% YOY to AED 346 Mn in 2Q23 with a gross of 24.9% in 2Q23 as compared to 25.0% in 2Q22. Selling and marketing expenses rose 22.4% YOY to AED 80 Mn whereas administrative expenses declined 8.8% YOY to AED 213 Mn in 2Q23. Net impairment loss on financial assets declined from AED 5 Mn in 2Q22 to AED 1 Mn in 2Q23. Moreover, other income reported a profit of AED 1 Mn in 2Q23 as compared to a loss of AED 11 Mn in 2Q22. Resultantly, operating profit declined 17.0% YOY to AED 53 Mn in 2Q23. Freight Forwarding EBITDA declined from USD 6.7 Mn in 2Q22 to USD 6.1 Mn in 2Q23 while the EBITDA margin remained stable on the back of decline in direct cost. On the other hand, logistics EBITDA declined 12% YOY to USD 6.5 Mn in 2Q23 mainly due to currency devaluation and change in business mix with a decline in margin from 24% in 2Q22 to 22% in 2Q23. Total EBITDA declined 7.9% YOY to AED 143 Mn in 2Q23 whereas EBITDA margin rose marginally 6 bps YOY to 10.3% in 2Q23. Finance income rose from AED 1 Mn in 2Q22 to AED 2 Mn in 2Q23 while finance cost more than doubled from AED 15 Mn in 2Q22 to AED 33 Mn in 2Q23 due to the higher benchmark rates. Share of results of joint ventures and associates declined from AED 4 Mn in 2Q22 to AED 2 Mn in 2Q23. Income tax expense reduced 40.4% YOY to AED 5 Mn in 2Q23 in line with the decline in profitability.

### Balance Sheet Highlights

The Company's net debt stood at AED 643 Mn in 2Q23 as compared to AED 455 Mn in 2Q23 mainly due to a decline in cash and cash equivalents. On the other hand, the company's cash and cash equivalent stood at AED 502 Mn in 2Q23, down from AED 722 Mn in 1Q23 due to dividend payments in 2Q23. The company generated AED 84 Mn in cash flow from operations in 2Q23 as compared to AED 114 Mn in 1Q23. Aramex maintained a net debt to EBITDA ratio stood at 2.6x in 2Q23 as compared to 2.3x in 1Q23.

### Target Price and Rating

We maintain our BUY rating on Aramex with a revised target price of AED 3.80. The revision in target price is mainly on account of challenging business conditions Aramex is facing leading us to revise our estimate downward for the forecasted period. Despite challenging business conditions due to softness in volume, currency devaluation and declining industry freight rates, Aramex's EBITDA margin remained stable on the back of cost optimization. International Express segment revenue improved per shipment while the domestic express segment reported growth in volume. However, the freight forwarding business was impacted due to the drop in sea freight rates, while volume growth in the road segment remained resilient and recorded double-digit growth in sea freight volume. Logistics and supply chain solutions business was affected due to currency devaluation. The partnership with OniGroup uses mobility services from Google Maps and is expected to launch this delivery tracking service in the year 2024. This innovative addition significantly enhances delivery accuracy and furnishes customers with the capability to monitor the live progress of their deliveries. Additionally, the company is consistently prioritizing operational efficiency through cost management initiatives. Aramex achieved an average utilization rate of 82% across 784 thousand sqm of facilities during 2Q23. Moreover, the Company opened new facilities in Saudi Arabia and India while maintaining a commitment to optimize revenue quality and focusing on high-growth sectors, notably within the industrial and retail domains. Additionally, the Logistics and supply chain business achieved significant contracts in Houston, USA, supporting the segmental growth in 2Q23. Thus, based on our analysis, we maintain our BUY rating on the stock.

### Aramex - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE (x)	7.64	7.56	14.11	16.68	22.75	30.97
PB (x)	1.56	1.44	1.40	1.41	1.50	1.48
EV/EBITDA	4.46	3.98	4.49	4.97	6.94	7.21
Dividend yield	6.4%	6.4%	5.0%	5.0%	3.7%	2.5%

FABS Estimates & Co Data

**Aramex – P&L**

AED mm	2Q22	1Q23	2Q23	2Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Rendering of services	1,517	1,431	1,389	1,561	-11.0%	-8.4%	-3.0%	5,926	5,896	-0.5%
Costs of services	-1,138	-1,073	-1,043	-1,171	-10.9%	-8.3%	-2.8%	-4,502	-4,422	-1.8%
<b>Gross Profit</b>	<b>379</b>	<b>358</b>	<b>346</b>	<b>390</b>	<b>-11.5%</b>	<b>-8.7%</b>	<b>-3.5%</b>	<b>1,424</b>	<b>1,474</b>	<b>3.5%</b>
Selling & Mktg exp	-65	-71	-80	-78	2.2%	22.4%	11.7%	-258	-307	19.0%
Administrative expenses	-234	-209	-213	-222	-3.7%	-8.8%	1.9%	-908	-884	-2.6%
Impairment loss on fin. assets	-5	-13	-1	-14	-95.7%	-87.2%	-95.3%	-16	-35	119.7%
Other income, net	-11	-1	1	-6	NM	NM	NM	2	1	-53.8%
<b>Operating profit</b>	<b>64</b>	<b>63</b>	<b>53</b>	<b>70</b>	<b>-24.9%</b>	<b>-17.0%</b>	<b>-16.3%</b>	<b>245</b>	<b>249</b>	<b>1.4%</b>
<b>EBITDA</b>	<b>156</b>	<b>153</b>	<b>143</b>	<b>162</b>	<b>-11.4%</b>	<b>-7.9%</b>	<b>-6.4%</b>	<b>614</b>	<b>612</b>	<b>-0.3%</b>
Finance income	1	2	2	2	18.5%	84.0%	-24.1%	5	9	79.3%
Finance costs	-15	-30	-33	-29	11.5%	111.9%	6.9%	-73	-125	72.1%
Share of results of JVs	4	0	2	0	NM	-52.8%	NM	9	9	0.0%
<b>Profit before income tax</b>	<b>53</b>	<b>35</b>	<b>24</b>	<b>43</b>	<b>-43.7%</b>	<b>-55.0%</b>	<b>-32.3%</b>	<b>187</b>	<b>142</b>	<b>-24.2%</b>
Income tax expense	-8	-11	-5	-9	-41.6%	-40.4%	-54.3%	-26	-21	-17.3%
<b>Profit for the period</b>	<b>45</b>	<b>25</b>	<b>19</b>	<b>34</b>	<b>-44.2%</b>	<b>-57.7%</b>	<b>-22.6%</b>	<b>161</b>	<b>120</b>	<b>-25.3%</b>
<b>Net Profit</b>	<b>45</b>	<b>24</b>	<b>19</b>	<b>34</b>	<b>-44.3%</b>	<b>-57.5%</b>	<b>-20.7%</b>	<b>165</b>	<b>121</b>	<b>-26.5%</b>

FABS estimate & Co Data

**Aramex - Margins**

	2Q22	1Q23	2Q23	YOY Ch.	QOQ Ch.	2022	2023F	Change
Gross margin	25.0%	25.0%	24.9%	-9	-13	24.0%	25.0%	97
EBITDA margin	10.3%	10.7%	10.3%	6	-38	10.4%	10.4%	2
Operating margin	4.2%	4.4%	3.8%	-39	-60	4.1%	4.2%	8
Net profit margin	2.9%	1.7%	1.4%	-157	-31	2.8%	2.1%	-73

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	4.31	70.0%	3.01
Relative Valuation (RV)	2.63	30.0%	0.79
<b>Weighted Average Valuation (AED)</b>			<b>3.80</b>
Current market price (AED)			2.58
Upside/Downside (%)			+47%

### 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 8.0%. It is arrived after using cost of equity of 8.7% and after-tax cost of debt of 5.6%. Cost of equity is calculated by using 10-year government bond yield of 5.1%, beta of 1.05 and equity risk premium of 3.4%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Cost of debt is calculated using cost of 6.5% after adjusting a tax rate of 13.8% Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	1,831
Terminal value (AED, Mn)	6,080
<b>FV to Common shareholders (AED, Mn)</b>	<b>6,303</b>
No. of share (Mn)	1,464
Current Market Price (AED)	2.58
<b>Fair Value per share (AED)</b>	<b>4.31</b>

### DCF Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
NOPAT	228	253	277	297	319
D&A	363	361	359	366	374
Change in working capital	-94	2	-17	-10	-17
(-) Capex	-177	-158	-166	-171	-180
<b>Free Cash Flow to Firm (FCFF)</b>	<b>321</b>	<b>457</b>	<b>454</b>	<b>482</b>	<b>496</b>
Discounting Factor	0.97	0.90	0.83	0.77	0.72
<b>Discounted FCFF</b>	<b>312</b>	<b>412</b>	<b>379</b>	<b>373</b>	<b>355</b>

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 EV/EBITDA multiple of 8.9x in line with peers.

Company	Market (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2023F	2024F	2023F	2024F
Sumitomo Warehouse Co Ltd	1,327	5.6	9.7	7.7	16.1
Gulf Warehousing Co QPSC	539	7.2	6.8	8.5	7.8
Jiayou International Logistics Co., Ltd.	1,733	11.0	8.6	14.8	11.6
Kamigumi Co., Ltd.	2,475	5.5	6.7	12.6	14.7
DSV A/S	40,822	13.3	13.5	22.2	21.4
Kuehene + Nagel International AG	37,213	10.6	11.4	22	24.5
<b>Average</b>		<b>8.9x</b>	<b>9.4x</b>	<b>14.6x</b>	<b>16.0x</b>
<b>Median</b>		<b>8.9x</b>	<b>9.1x</b>	<b>13.7x</b>	<b>15.4x</b>
<b>Max</b>		<b>10.9x</b>	<b>11.0x</b>	<b>20.2x</b>	<b>20.1x</b>
<b>Min</b>		<b>6.0x</b>	<b>7.2x</b>	<b>9.5x</b>	<b>12.4x</b>

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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