

Logistics

BUY: 12M TP @ 3.20

Valuation Summary (TTM)

Price (AED)	2.71		
PER TTM (x)	34.8		
P/Book (x)	1.7		
P/Sales (x)	0.7		
EV/Sales (x)	1.0		
EV/EBITDA (x)	8		
Dividend Yield (%)	3.5		
Free Float (%)	45.9%		
Shares O/S (mn)	1,464		
YTD Return (%)	-23%		
Beta	0.8		
(mn)	AED	USD	
Market Cap	3,968	1,080	
Total Assets	5,575	1,518	
Price performance (%)	1M	3M	12M
Aramex PJSC	-10%	-12%	-30%
Dubai Financial Market Gen	1%	15%	19%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (AED ,000)	1,792	1,818	1,716
Avg Daily Volume (,000)	602	625	558
52 week	High	Low	CTL*
Price (AED)	4.20	2.70	0.4

* CTL is % change in CMP to 52wk low

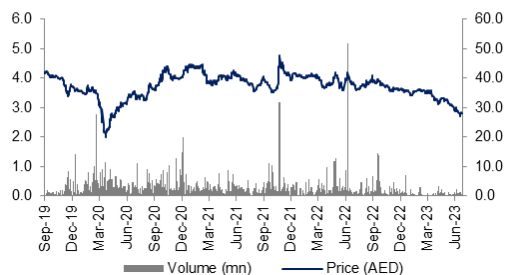
Major shareholders

Geopost SA	28%
Abu Dhabi Ports Co P	22.3%
Mawer Investment Man	3.8%
Others	45.9%

Other details

Exchange	DFM
Sector	Transportation
Index weight (%)	1.8%

Key ratios	2020	2021	2022
EPS (AED)	0.18	0.15	0.11
BVPS (AED)	1.84	1.82	1.71
DPS (AED)	0.17	0.13	0.13
Payout ratio (%)	91%	84%	115%



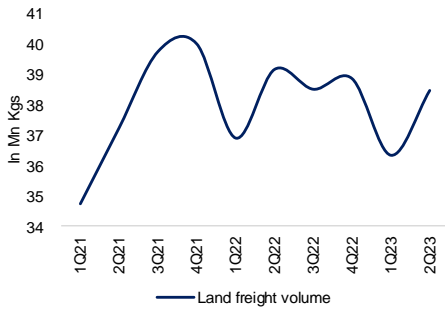
Aramex: Low volumes, controlled costs

Aramex is the regional leader in logistics and courier services. It is also the only listed company from this segment in the GCC. The company has operations in over 70 countries. Support from strategic shareholders, synergies with subsidiaries and extensive use of technology have been some of its strengths. The recently announced 2Q23 results reported revenue at AED 1.39bn which was lower by 8.4% compared to the same period in the previous year. Revenue was down by 4.9% in the 1H23 at AED 2.82bn. Lower volumes across the board and currency devaluation in some markets have been the main reasons for the declining top line. Gross profit moved in line with the revenue, while gross margins remained steady at 25% in 2Q23 indicating good control over costs. EBITDA also declined during the period by 7.1% with margins holding in the range of 10% as in the previous quarters. During 2Q23 the company witnessed lower SG&A and other operating costs by 2% compared to 2Q22. Finance costs doubled during the period on the back of rising interest rates during the period. The revenue de-growth, rising operating expenses, lower other income and higher finance costs together led to a significant decline in net profit by 57.7% to reach AED 19mn compared to our estimate of AED 48mn. The miss in top and bottom line has made us revise our forecast downwards. We also reduce our target price by 11% to AED 3.2 per share. The revised target price is 15.5% from the current price and hence we maintain our BUY rating on the stock.

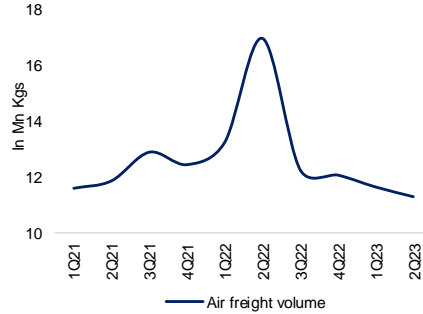
Subdued volumes across the board: During the quarter international express volumes declined by 7% YoY, while domestic volumes were higher marginally by 0.4%. In the freight forwarding segment volumes declined by 3% for land freight and 34% for Air. Significant decline in sea freight rates led to a shift from air to sea causing such a steep decline. As a result, sea freight volume increased by 38% YoY. Management believes seasonal weakness and global decline are primary reasons for the subdued volumes. We concur with the view as we have been witnessing similar trends in other companies across the world.

Margins hold steady: Despite decline in volumes, it is commendable that the company has kept realizations and margins under tight control. Overall gross margin for the group remained at the same level as the previous quarter and 2Q22 levels of 25%. International shipment gross margin moved higher by 200bps compared to previous quarter, while domestic declined marginally by 1% (adjusting for currency impact). Both freight and logistics margins also held steady at the levels witnessed in the past. In the earnings call the management re-iterated its focus on automation, operational efficiency and buildup of quality client base. We have remained optimistic with regards to the operational astuteness of the company and we continue to believe margins will hold steady going forward.

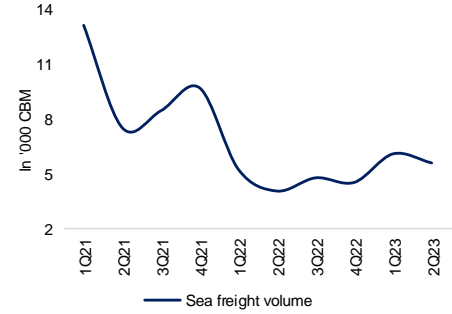
Land freight volume resilient



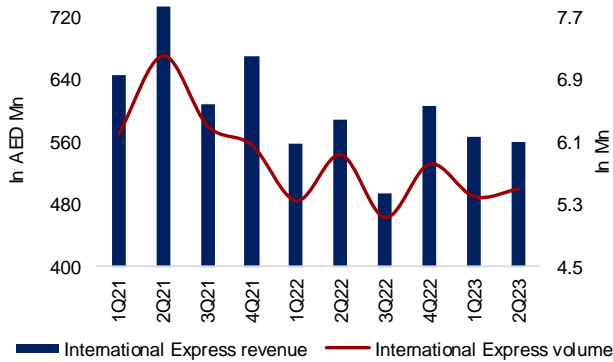
Significant shift from air freight to sea



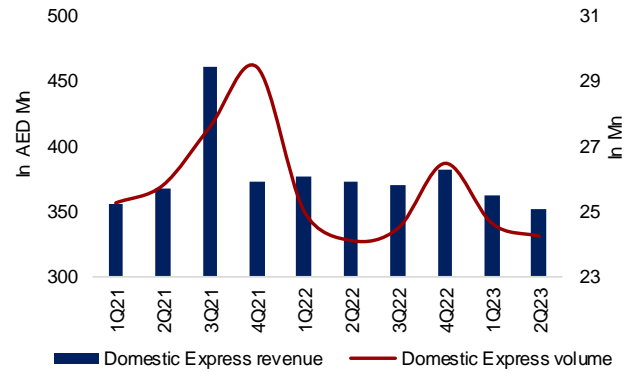
Sea freight become cheaper



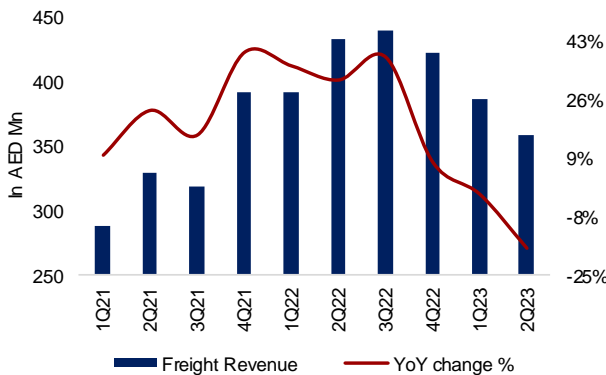
Pressure on international courier volumes



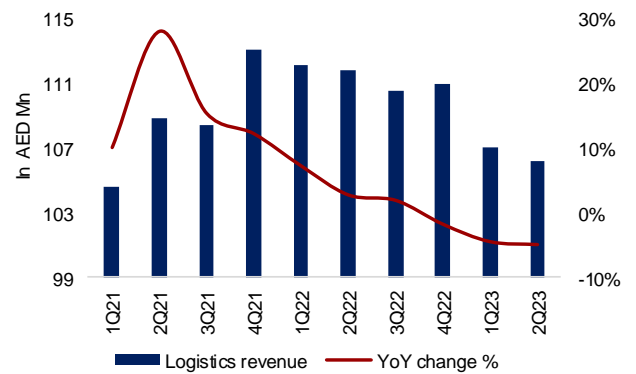
Domestic courier volumes decline as well



Overall freight revenue lower during the quarter

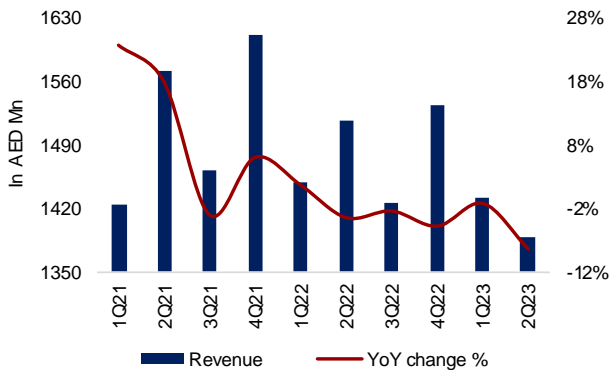


Logistics revenue declines on lower volume and rates

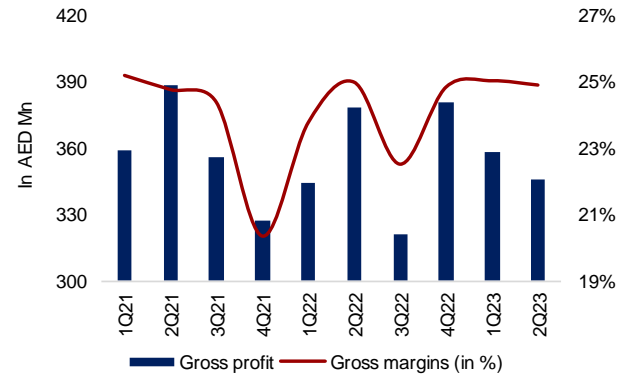


Source: Company reports, US Research

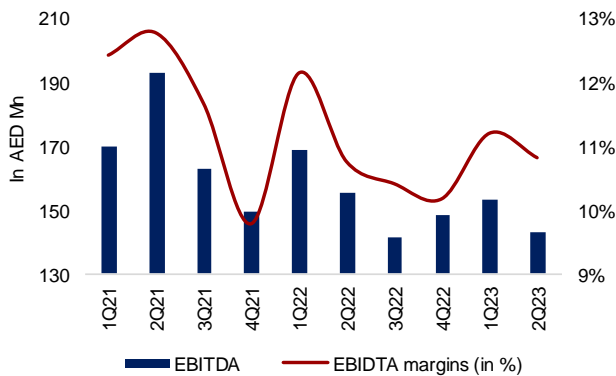
Total Revenue declines by 8.4% during 2Q23



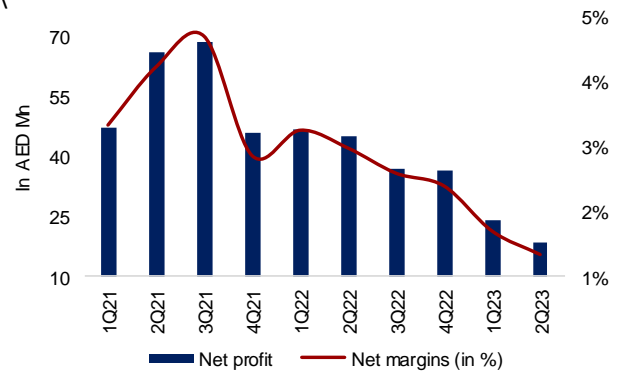
Gross margins hold steady during the quarter



EBITDA moves in line with revenue and gross profit



Seasonal weakness, lower volumes impact net profit



Source: Company reports, US Research

Outlook and valuation: We have revised our 2023 forecasts based on the latest results. We believe our revenue estimates are largely achievable and we tweak it only marginally downwards by 1.2%. However higher costs including finance and operational can cause margins to contract. This along with currency devaluation issues in certain markets can result in much lower profits than we had earlier envisaged. Hence we reduce the profits for 2023 to a conservative AED 91mn from AED 170mn earlier. This has resulted in a decline target price from AED 3.6 to AED 3.2 per share. The revised target price is 15.5% higher than the current price and hence we maintain our BUY rating on the stock.

Aramex continues to remain a value buy based on its international operations, clientele, shareholders and leadership position. The recent acquisition of MyUS and association with AD Ports will start generating traction in the coming quarters. We believe the near term stress in business volume is partly seasonal and as the economic activity increases Aramex will be a high beta beneficiary of the same. Revival of Australian operations and scaling up of Africa and Asia are other near term triggers that can re-rate the stock. We remain positive on the management, its strategy and await an upcycle in the volume trends.

Income statement (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Rendering of services	5,246	5,510	6,069	5,926	6,049	6,419	6,941	7,547	8,358
Cost of services	-2,468	-3,977	-4,638	-4,502	-4,566	-4,874	-5,261	-5,711	-6,313
Gross profit	2,778	1,534	1,431	1,424	1,483	1,545	1,681	1,836	2,045
Selling and marketing expenses	-204	-221	-273	-258	-302	-321	-326	-355	-393
Administrative expenses	-885	-792	-888	-908	-922	-963	-1,076	-1,189	-1,321
Other operating expenses	-1,044	-136	17	-15	-20	-10	-10	-10	-10
Other income, net	4	15	18	1	-	-	-	-	-
Operating profit	650	400	306	245	238	251	268	283	321
EBITDA	979	760	668	609	585	647	742	846	1,017
Finance income	12	10	6	5	5	5	5	5	5
Finance expense	-84	-66	-60	-73	-126	-72	-71	-71	-27
Share of profits from JV/associates	4	11	10	9	5	10	10	10	10
Profit before tax	583	355	262	187	122	194	213	227	310
Income tax expense	-82	-109	-81	-26	-30	-49	-53	-57	-77
Profit for the year from cont ops	501	246	181	161	91	146	160	170	232
Extraordinary items	-	23	47	4	-	-	-	-	-
Profit for the year	501	270	228	165	91	146	160	170	232

Balance Sheet (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	1,005	957	941	884	849	856	865	878	897
Right of use assets	854	890	894	861	952	1,101	1,259	1,419	1,751
Goodwill	1,128	1,136	1,003	1,758	1,758	1,758	1,758	1,758	1,758
Other intangible assets	214	216	201	324	321	321	321	321	321
Other non-current assets	72	78	67	77	78	81	81	81	84
Total non-current assets	3,274	3,277	3,107	3,903	3,958	4,116	4,283	4,456	4,810
Accounts receivable, net	1,196	1,094	1,219	1,130	1,210	1,284	1,388	1,509	1,421
Other current assets	272	272	294	284	228	244	263	286	316
Bank balances and cash	1,000	1,255	769	768	727	813	862	943	697
Total current assets	2,469	2,621	2,283	2,183	2,165	2,340	2,513	2,738	2,434
Assets held for sale	-	218	11	7	-	-	-	-	-
TOTAL ASSETS	5,743	6,115	5,400	6,093	6,123	6,456	6,796	7,194	7,244
Share capital	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464
Reserves	-367	-278	-299	-399	-408	-394	-378	-361	-338
Retained earnings	1,520	1,504	1,501	1,445	1,481	1,540	1,603	1,672	1,764
Total Equity attributable to shareholders	2,617	2,691	2,665	2,510	2,537	2,610	2,690	2,775	2,891
Non-controlling interests	15	16	11	9	10	10	11	11	12
Total equity	2,633	2,707	2,676	2,518	2,547	2,620	2,701	2,786	2,902
Interest-bearing loans and borrowings	158	162	137	1,086	1,050	1,038	1,027	934	65
Lease liabilities	673	701	755	757	838	969	1,108	1,248	1,541
Employees' end of service benefits	147	149	149	164	175	186	189	206	228
Deferred tax liabilities	50	58	42	31	30	30	30	30	30
Other non-current liabilities	-	-	18	16	14	10	10	10	10
Total non-current liabilities	1,027	1,071	1,101	2,054	2,107	2,233	2,364	2,428	1,873
Accounts payable	267	329	344	325	342	366	395	428	505
Lease liabilities	190	187	180	182	209	242	277	312	385
Bank overdrafts	151	68	153	131	36	31	26	21	16
Interest-bearing loans and borrowings	583	543	27	39	43	38	33	133	333
Other current liabilities	893	1,117	913	838	837	926	1,001	1,084	1,228
Total current liabilities	2,083	2,243	1,618	1,515	1,469	1,603	1,732	1,980	2,468
Liabilities held for sale	-	94	5	5	-	-	-	-	-
Total liabilities	3,110	3,408	2,724	3,574	3,576	3,836	4,096	4,408	4,341
TOTAL EQUITY AND LIABILITIES	5,743	6,115	5,400	6,093	6,123	6,456	6,796	7,194	7,244

Cash Flow (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Operating cash flow	860	1,107	317	566	478	530	598	708	1,179
Investing cash flow	-674	-199	367	-932	-116	-91	-99	-108	-120
Financing cash flow	-252	-562	-1,061	479	-516	-327	-359	-343	-1,027
Change in cash	163	255	-485	-1	-41	86	49	81	-246
Beginning cash	837	1,000	1,255	769	768	727	813	862	943
Ending cash	1,000	1,255	769	768	727	813	862	943	697

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (AED)	0.342	0.184	0.156	0.113	0.062	0.099	0.109	0.116	0.159
BVPS (AED)	1.798	1.849	1.828	1.720	1.740	1.790	1.845	1.903	1.982
DPS (AED)	0.165	0.130	0.130	0.095	0.037	0.060	0.065	0.070	0.095
FCF per share (AED)	0.127	0.620	0.467	-0.249	0.247	0.299	0.341	0.409	0.723
Valuation									
Market Cap (AED ,Mn)	5,212	6,413	6,003	5,154	4,085	4,085	4,085	4,085	4,085
EV (AED,Mn)	5,103	5,931	5,551	5,642	4,488	4,380	4,310	4,231	3,802
EBITDA	979	760	668	609	585	647	742	846	1,017
P/E (x)	10.4	23.8	26.3	31.2	44.7	28.0	25.6	24.0	17.6
EV/EBITDA (x)	5.2	7.8	8.3	9.3	7.7	6.8	5.8	5.0	3.7
Price/Book (x)	2.0	2.4	2.2	2.0	1.6	1.6	1.5	1.5	1.4
Dividend Yield (%)	4.6%	3.0%	3.2%	2.7%	1.3%	2.1%	2.3%	2.5%	3.4%
Price to sales (x)	1.0	1.2	1.0	0.9	0.7	0.6	0.6	0.5	0.5
EV to sales (x)	1.0	1.1	0.9	1.0	0.7	0.7	0.6	0.6	0.5
Liquidity									
Cash Ratio (x)	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Quick Ratio (x)	0.7	0.7	0.7	0.5	0.5	0.5	0.5	0.6	0.5
Returns Ratio									
ROA (%)	8.7%	4.4%	4.2%	2.7%	1.5%	2.3%	2.3%	2.4%	3.2%
ROE (%)	19.0%	10.0%	8.5%	6.6%	3.6%	5.6%	5.9%	6.1%	8.0%
ROCE (%)	13.7%	7.0%	6.0%	3.6%	2.0%	3.0%	3.2%	3.3%	4.9%
Cash Cycle									
Accounts Payable turnover (x)	9.2	12.1	13.5	13.9	13.3	13.3	13.3	13.3	12.5
Receivables turnover (x)	4.4	5.0	5.0	5.2	5.0	5.0	5.0	5.0	5.9
Payable Days	39.5	30.2	27.1	26.3	27.4	27.4	27.4	27.4	29.2
Receivables days	83.3	72.5	73.3	69.6	73.0	73.0	73.0	73.0	62.1
Cash Cycle	43.8	42.3	46.3	43.3	45.6	45.6	45.6	45.6	32.9
Profitability Ratio									
Net Margins (%)	9.6%	4.9%	3.8%	2.8%	1.5%	2.3%	2.3%	2.3%	2.8%
EBITDA Margins (%)	18.7%	13.8%	11.0%	10.3%	9.7%	10.1%	10.7%	11.2%	12.2%
PBT Margins (%)	11.1%	6.4%	4.3%	3.2%	2.0%	3.0%	3.1%	3.0%	3.7%
EBIT Margins (%)	12.4%	7.3%	5.0%	4.1%	3.9%	3.9%	3.9%	3.7%	3.8%
Effective Tax Rate (%)	14.0%	30.7%	31.1%	13.8%	25.0%	25.0%	25.0%	25.0%	25.0%
Leverage									
Total Debt (AED ,Mn)	891	773	318	1,257	1,130	1,108	1,087	1,089	414
Net Debt (AED ,Mn)	-109	-482	-452	488	403	295	225	146	-283
Debt/Capital (x)	0.6	0.5	0.2	0.9	0.8	0.8	0.7	0.7	0.3
Debt/Total Assets (x)	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
Debt/Equity (x)	0.3	0.3	0.1	0.5	0.4	0.4	0.4	0.4	0.1
Net Debt/Equity (x)	-0.0	-0.2	-0.2	0.2	0.2	0.1	0.1	0.1	-0.1

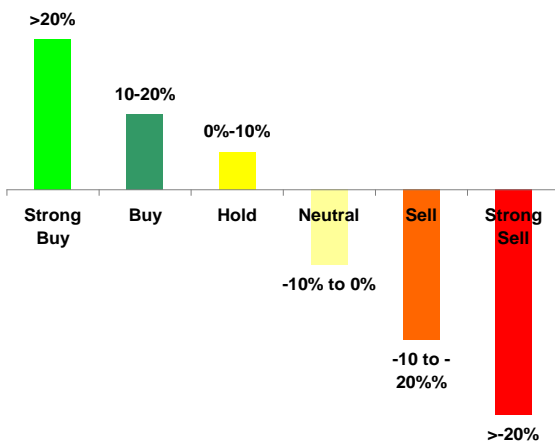
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Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

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