

Aramex

Lower Selling & overhead expenses supported the profitability

3Q21 profit lower than our estimate

Aramex reported a Net Profit of AED68 Mn in 3Q21, up from AED46 Mn in 3Q20 due to lower Selling and Administrative Expenses in 3Q21 and higher Profit from discontinued operations. The Company missed our expectations by 4.1%.

P&L highlights

Total Revenue decreased by 3% YOY to AED1,461 Mn in 3Q21, down from AED1,507 Mn in 3Q20 driven by double-digit growth in Domestic Express and a strong rebound in Logistics & Freight-Forwarding business. On the other hand, the Cost of Sales increased drastically by 39.2% YOY to AED1,105 Mn in 3Q21, up from AED794 Mn in 3Q20. Resultantly, the Gross Profit decreased significantly by 50.1% YOY to AED356 Mn in 3Q21 down from AED713 Mn in 3Q20. The Selling and Overhead Expenses decreased significantly by 69.1% YOY to AED84 Mn in 3Q21 as compared to AED272 Mn in 3Q20. The Shares of Results in joint Venture and Associates increased drastically to AED2 Mn in 3Q21 up from a loss of AED48 Mn in 3Q20. The Operating Profit decreased by 53.4% YOY to AED66 Mn in 3Q21, as compared to AED142 Mn in 3Q20. The Finance Income and Finance Cost decreased by 12.7% and 3.6% respectively in 3Q21 to AED1 Mn and negative AED15 Mn. Finally, the Profit after tax from discontinued operations recorded a gain of AED37 Mn compared to nil in 3Q20. This has led to an increase in net Income to AED68 Mn in 3Q21 up from AED46 Mn in 3Q20.

Balance sheet highlights

Total Assets increased by 3.7% YOY to AED5.83 Bn in 3Q21 from AED5.63 Bn in 3Q20. Whereas the Total Liabilities slightly decreased by 0.1% YOY standing at AED3.05 Bn. Total Equity has increased by 8.4% YOY to AED2.77 Bn in 3Q21 from AED2.55 Bn in 3Q20.

Target price and rating

We maintain our BUY rating on Aramex with a target price of AED5.00. Aramex is a leading global provider of comprehensive logistics and transportation solutions, based in the UAE and listed on the Dubai Financial Market (DFM). The company continue to build scale and increase capacity with the increase in shipment volumes. In 3Q21 the Domestic Express witnessed a solid growth momentum offset partially by the slight decrease in international Express business leading to 3Q21 increase by 3% on the Total Courier Business level. During 9M21, an increase by 12% was reported on the International Express level, Domestic Express witnessing an increase by 14% in shipment volumes, with a total of 13% increase in Total Courier Business. Aramex has been also working on decreasing its carbon emissions by signing a commitment with the Science Based Target to meet Paris Agreement's goals of decreasing the rise in global temperature to below 2 degrees Celsius, and later on toward reaching zero-

Rating : BUY

First Look Note – 3Q21

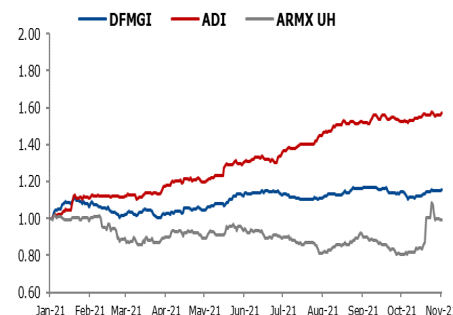
Sector: Transportation

Recommendation

Current Price (09-Nov)	4.15
Target Price	5.00
Upside/(Downside) (%)	+20%

Stock Information

Market Cap (mm)	6,076.02
Paid Up Capital (mm)	1,464.10
52 Week High	4.80
52 Week Low	3.50
3M Avg. daily value (AED)	15,149,800



Financial Ratios

Dividend Yield (12m)	3.13
Dividend Pay-out (%)	99.27
Price-Earnings Ratio (x)	36.45
Price-to-Book Ratio (x)	2.19
Book Value (AED)	1.89
Return-on Equity (%)	8.93
Earning Per Share (AED)	0.11
Beta	0.90

Stock Performance

5 Days	-8.39%
1 Months	15.60%
3 Months	11.86%
6 Months	3.75%
1 Year	4.27%
Month to Date (MTD)	-4.38%
Quarter to Date (QTD)	17.90%
Year to Date (YTD)	-5.25%

emission targets. The company reported growth in Domestic Express and an increase by 16% YOY in Logistics and Freight-Forwarding segments as at end of 3Q21 reaching AED426.4 Mn mainly driven by the rebound in economy especially the oil & gas and retail & fashion sectors. The pharmaceutical and Healthcare segment also witnessed an increase by 16% YOY to AED1.26 Bn. Net Profit increased in 3Q21 to AED68 Mn compared to AED46 Mn in 3Q20 excluding the completion of the sale on InfoFort and the insurance collected from the Beirut Blast in 2021; normalized Net Profit witnessed a decrease by 70% YOY to AED29.6 Mn compared to AED99 Mn same period last year. Over 9 months in 2021 Aramex witnessed a decrease in Net Profit to AED179 Mn compared to AED208 Mn during same period in 2020, excluding the Beirut Blast impact and Morocco warehouse fire incident in 2020. The normalized 9M21 Net Profit decreased by 46% to AED141 Mn compared to AED261 Mn in 9M20. Nevertheless, Aramex maintained a robust financial management strategy with a strong Balance Sheet and a strong Liquidity with Current Assets increasing by 7.9% YOY to AED2.59 Bn up from AED2.4 Bn in 3Q20 while Total Assets reporting a total increase by 3.7% YOY to AED 5.83 Bn up from AED5.63 Bn in 3Q20. Current liabilities decreased by 3.9% YOY to AED1.94 Bn while Non-Current Liabilities increased by 7.2% to AED1.1 Bn leading to Total Liabilities remaining stable at AED3.05 Bn. Aramex has a negative debt balance of AED357 Mn representing strong cash balance as at 3Q21. In addition, the company's proposal to pay a dividend of AED 0.130 per share was approved by the shareholders at AGM on 21st April 2021. Based on the above, we maintain our BUY rating on the stock.

Aramex - Relative valuation

(at CMP)	2017	2018	2019	2020	2021E
P/E (x)	14.01	12.38	12.24	22.86	25.35
P/B (x)	2.44	2.53	2.33	2.26	2.20
Dividend yield	3.9%	4.0%	4.0%	3.1%	3.6%

FABS estimate and Co data

Aramex P&L

AED mm	3Q20	2Q21	3Q21	3Q21F	Var.	YOY Ch.	QOQ Ch.	2020	2021F	YOY Ch.
Sales	1,507	1,571	1,461	1,618	-9.7%	-3.0%	-7.0%	5,510	5,963	8.2%
Cost of Sales	-794	-1,182	-1,105	-1,230	-10.1%	39.2%	-6.5%	-3,977	-4,472	12.5%
Gross profit	713	389	356	388	-8.3%	-50.1%	-8.4%	1,534	1,491	-2.8%
Selling & overhead expenses	-572	-296	-290	-288	0.7%	-49.2%	-1.9%	-1,059	-1,169	10.3%
EBITDA	142	93	66	100	-34.2%	-53.4%	-29.1%	105	-47	-144.8%
Depreciation & Amortization	272	100	84	105	-20.0%	-69.1%	-16.0%	369	369	0.0%
Operating profit	142	93	66	100	-34.2%	-53.4%	-29.1%	475	322	-32.2%
Other income (net)	3	7	2	7	-70.3%	-23.9%	-68.8%	15	19	29.1%
Share of results of JV & associate	-48	5	2	5	-60.5%	-104.0%	-58.5%	-79	11	-114.3%
Finance cost	-16	-15	-15	-16	-4.0%	-3.6%	0.8%	-66	-62	-4.9%
Finance income	2	1	1	1	-8.2%	-12.7%	-3.6%	10	6	-37.9%
Profit before zakat	82	90	56	97	-42.7%	-31.8%	-38.1%	355	296	-16.7%
Zakat	-35	-29	-24	-31	-22.9%	-31.3%	-19.0%	-109	-106	-2.8%
Profit before NCI	47	61	32	66	-51.9%	-32.2%	-47.4%	246	190	-22.8%
Profit from discontinued operations	0	5	37	5	632.9%	#DIV/0!	574.6%	23	54	131.7%
Non-controlling interests	-1	-1	-1	-1	6.0%	-13.8%	6.2%	-3	4	25.1%
Profit attributable	46	65	68	71	-4.1%	46.8%	3.6%	267	240	-9.9%

FABS estimate & Co Data

Aramex -Margins

AED mm	3Q20	2Q21	3Q21	YOY Ch.	QOQ Ch.	2020	2021F	YOY Ch.
GPM	47.3%	24.7%	24.4%	-2296	-38	27.8%	25.0%	-283
OPM	9.4%	5.9%	4.5%	-488	-141	8.6%	5.4%	-321
Net margin	3.1%	4.2%	4.6%	157	47	4.8%	4.0%	-81

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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