

ARAMEX - 4Q23 Results Review

Analyst: Neetika Gupta

Previous Recommendation:

Buy

Previous Reco. & Date:

TP: AED 3.50 per share; Buy on 17-August-2023

Target Price (AED):

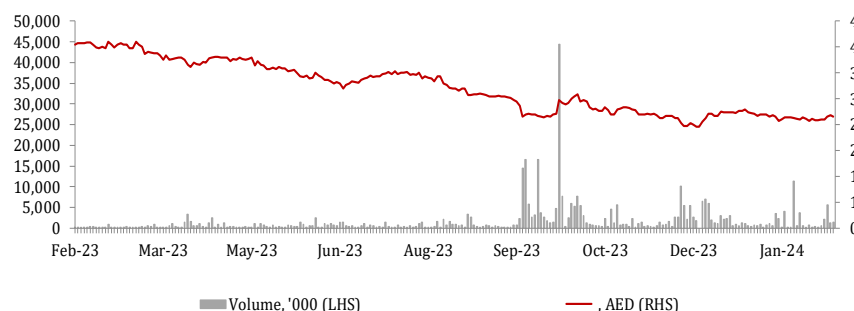
3.50

Upside / (Downside):

62.0%

Date: 11-02-2024

Bloomberg Ticker	ARMX UH
Current Market Price (AED)	2.160
52wk High / Low (AED)	3.61/1.93
12m Average Vol. (mn)	2,553.3
Mkt.Cap. (AED bn)	854/3,162
Shares Outstanding (mn)	1,464.1
Free Float (%)	50%
3m Avg Daily Turnover (AED mn)	4,144.3
6m Average Daily Turnover (AED mn)	5,774.5
P/E'24e (x)	21.2x
EV/EBITDA'24e (x)	6.9x
Dividend Yield '24e (%)	6.6%
Price Perf. (1m/3m) (%)	-0.5%/-1.8%



Revenue decreases 1% YoY for 4Q23, in-line with U-Capital estimate.

The company's revenue for 4Q23 was AED 1,524mn (-1% YoY and 13% QoQ) which aligns closely with U-Capital's estimate of AED 1,494mn and the Bloomberg consensus of AED 1,554mn. The notable QoQ increase in 4Q23 is propelled by the expansion in the International express segment, which experienced a 28% growth in 4Q23 compared to 3Q23. This expansion is fuelled by the addition of new customers and the integration of Shop & Ship and MyUS. For FY23, revenue amounted to AED 5,694mn, indicating a 4% decrease compared to the previous year. However, when excluding the impact of currency translation, the decline in full-year revenue was only 1%.

Gross profit increased 2% YoY and Operating profit increased 76% YoY for 4Q23.

The company reported a gross profit of AED 389 mn for the quarter (2% YoY and 16% QoQ), in line with U-Capital's estimate of AED 390mn and Bloomberg's consensus of AED 388mn. The operating profit reached AED 106mn (76% YoY and 138% QoQ) beating our estimate of AED 81mn and Bloomberg's consensus of AED 75mn. This notable growth in operating income is attributed to Aramex's investment in efficiency-enhancing initiatives, cost optimization, and its ongoing emphasis on generating quality revenues. Additionally, the group witnessed an increase in other income driven by better currency translation in 4Q23. For FY23, operating income amounted to AED 267mn, reflecting a 9% growth compared to FY22.

Net profit for 4Q23 increase 58% YoY – ahead of Bloomberg consensus and U Capital estimate.

The company's net income for the quarter totalled to AED 77 mn (58% YoY and 698% QoQ), surpassing our estimated AED 37 million and the Bloomberg consensus estimate of AED 57 million. The significant beat in net income is attributed to higher-than-expected operating margins (7% vs 5% expected) and lower-than-expected exchange losses. For FY23, net income amounted to AED 129mn, marking a 22% decline compared to FY22 primarily due to increased finance expenses associated with the MyUS acquisition loan taken in Q4 2022, and to a lesser extent, the currency translation impact. Net income for the organic business increased by 7% YoY in 2023.

Maintaining Target Price.

The shipping industry is expected to face short-term challenges amid the conflict in West Asia and the Red Sea. However, Aramex possesses a resilient network and infrastructure in the region, facilitating the utilization of alternate transportation routes. Aramex's emphasis on operational efficiency positions it for sustained growth in the logistics sector. The increasing customer base in the international express segment, coupled with the division's expansion plan to diversify across various verticals and markets, will benefit Aramex in the long run. The turnaround strategy in the Oceania region, which accounts for 40% of volumes in the domestic segment, is expected to yield benefits in 2024. Considering all these factors, we maintain a **Buy** rating on the stock.

Valuation.

Aramex is trading at 2024e P/E of 21.2x compared to the historical average 1-year forward P/E of 24.2x. Similarly, the stock is valued at a fair EV/EBITDA multiple of 6.9x, based on the FY24 estimate, compared to the historical average of 7.5x.

Income Statement												
(AED mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales/Revenue	1,534	1,431	1,389	1,350	1,524	1,494	-1%	13%	2%	5,926	5,694	-4%
Gross Profit (Loss)	381	358	346	335	389	390	2%	16%	0%	1,424	1,427	0%
Operating Profit (Loss)	60	63	53	45	106	81	76%	138%	31%	245	267	9%
Net Profit/(loss)	49	24	18	10	77	37	58%	698%	106%	165	129	-22%
Balance Sheet												
(AED mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholders' Equity	2,510	2,515	2,378	2,395	2,461	2,465	-2%	3%	0%	2,546	2,461	-3%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Gross Margin	25%	25%	25%	25%	26%	26%				24%	25%	
Operating Profit Margin	4%	4%	4%	3%	7%	5%				4%	5%	
Net Profit Margin	3%	2%	1%	1%	5%	2%				3%	2%	
Return on Equity (RoE)	8%	4%	3%	2%	13%	6%				26%	21%	

Source: Financials, ADX Disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).

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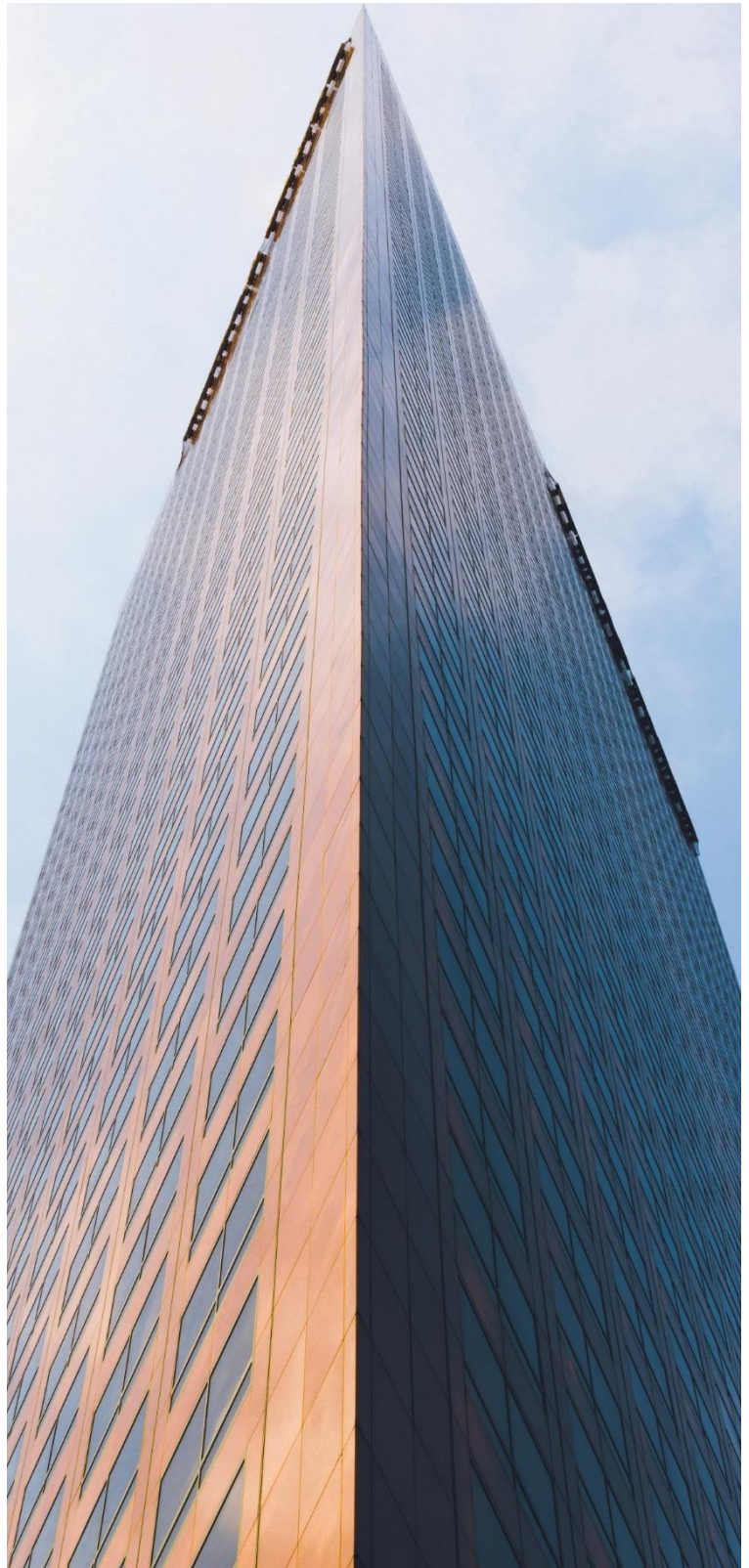
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%