

Logistics

STRONG BUY: 12M TP @ 2.85

Valuation Summary (TTM)

Price (AED)	2.20
PER TTM (x)	37.0
P/Book (x)	1.3
P/Sales (x)	0.6
EV/Sales (x)	0.8
EV/EBITDA (x)	6.2
Dividend Yield (%)	2.0
Free Float (%)	46%
Shares O/S (mn)	1,464
YTD Return (%)	-38%
Beta	0.7

(mn)	AED	USD
Market Cap	3,221	877
Total Assets	4,684	1,275

Price performance (%)	1M	3M	12M
Aramex PJSC	-15%	-21%	-39%
Dubai Financial Market Gen	0%	-2%	16%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (AED ,000)	3,448	7,374	4,656
Avg Daily Volume (,000)	3,862	3,141	1,913

52 week	High	Low	CTL*
Price (AED)	3.69	2.10	4.8

* CTL is % change in CMP to 52wk low

Major shareholders

Geopost SA	28%
Abu Dhabi Ports Co P	22.3%
Mawer Investment Man	3.5%
Others	46.2%

Other details

Exchange	DFM
Sector	Transportation
Index weight (%)	1.5%

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%



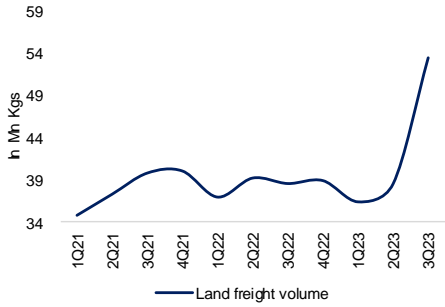
Aramex: bottoming out

Aramex has been facing lower volumes and declining yields across all segments including courier, freight and logistics for over one year. This has translated into a linear decline in quarterly revenues since 2022. During 3Q23, once again revenue was lower by 5.4% YoY and 2.8% QoQ. While we had forecasted for a weak quarter, the reported number was lower than our expectations by 3.4%. Courier revenues which includes both international and domestic, contributed to 64% of the top line but declined by 2.7% YoY. While domestic volumes were flat (+0.2% YoY) international volumes declined by 5.4%. This quarter was also impacted to an extent by the seasonality factor, decline in e-commerce and weakness in retail. While we are likely to witness improvement in international volumes once the full integration of myUS takes place, domestic volumes have been resilient and we are optimistic on the same. On the freight segment, there was a positive surprise on the land freight volume during the quarter which witnessed a spike of 39% YoY on account of significant shifts from air to sea and land. Despite a modest increase in volumes across the board, lower yields led to decline in revenue in the segment (-15% YoY). Logistics business was negatively impacted by loss of a major customer during the quarter and revenue remained flattish (+1% YoY). The weakness in revenue was compensated by robust cost control in all segments and group gross margins were steady 24.8% (vs 22.5% in 3Q22) resulting in a growth in gross profit by 4.3% YoY. EBITDA margins also held at 9.7% in 3Q23 (vs 10.2% in 3Q22). On a consolidated basis net profit was reported at AED 9mn for 3Q23 (-76% YoY). For the 9M23 period group revenue was at AED 4.17bn (-5% YoY) and net profit was AED 51 mn (-60.1% YoY). The miss in top and bottom line requires us to revise our forecast downwards. We reduce our full year 2023e revenue by 5.2% to AED 5.7bn and net profit by 10% to AED 82mn. We also reduce our target price to AED 2.85 per share. The revised target price is 29.5% from the current price and hence we maintain our **STRONG BUY** rating on the stock.

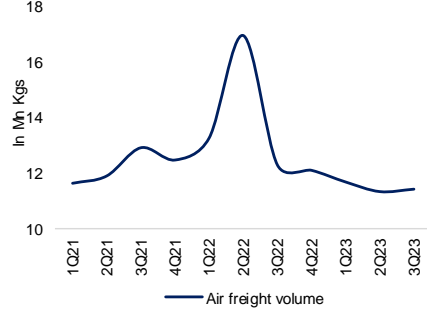
Growth to emerge from 2024 onwards: Aramex has been undergoing a low phase over the last one year on the back of global weakness in the sector and declining yields. We are optimistic on the asset light nature of the business, the proactive acquisition of myUS and the financial discipline evidenced thus far. We believe steps taken to improve the operations in the Oceania region and integration of the US operations will start yielding results from 2024 onwards. The GCC markets have been resilient and regional tie-ups have been strengthened post the new management takeover. We expect volume offtake to take place leading to improvement in top line growth and eventual increase in profitability.

Outlook and valuation: Aramex has declined by 37.8% YTD and 39.5% over a one-year period, which is a significant underperformance. We believe the sell-off is unprecedented considering that the company belongs to a systemically important sector and the only one listed in the region. We view Aramex as a modern tech based multinational company with strong parentage and legacy clientele from across the world. We expect volumes to bottom out in 2023 and growth to emerge going forward. The current price does not reflect the true potential of the company and offers significant upside

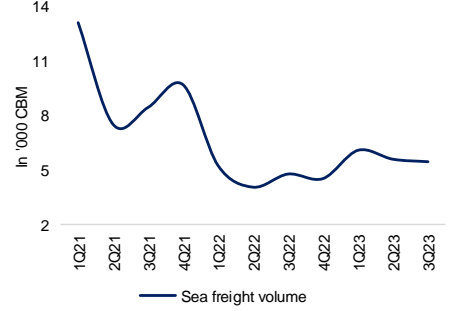
Land freight volume spikes during the quarter



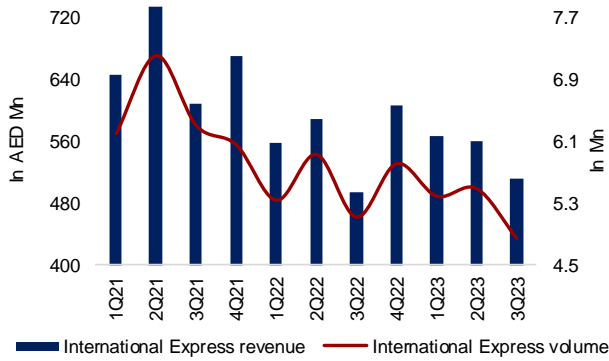
Air freight languishes at lows



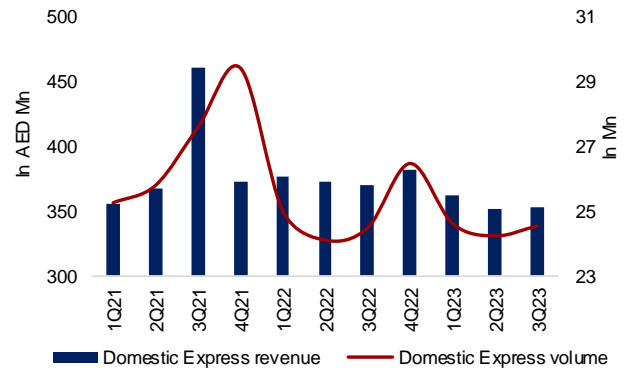
Sea freight volumes better in 9M23 vs 2022 levels



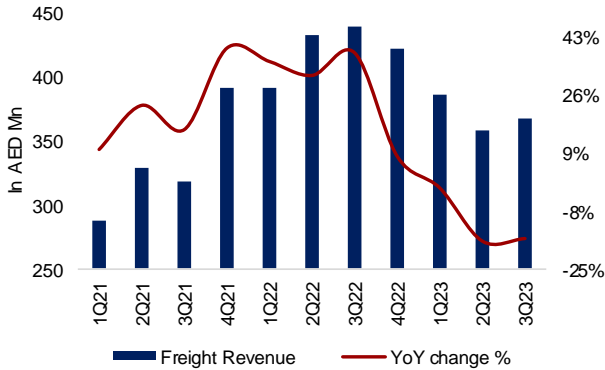
Seasonal weakness in international express segment



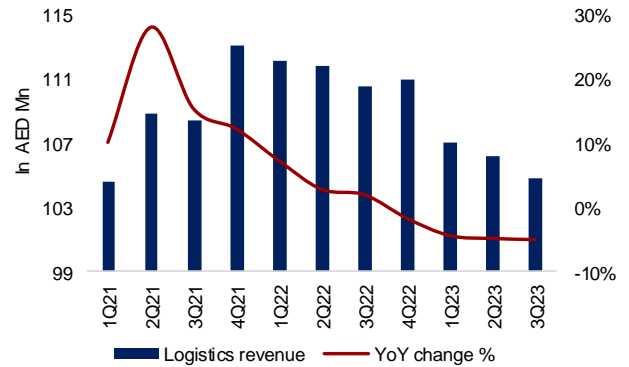
Domestic courier volumes holding steady in 3Q23



Marginal recovery in freight revenue on a QoQ basis

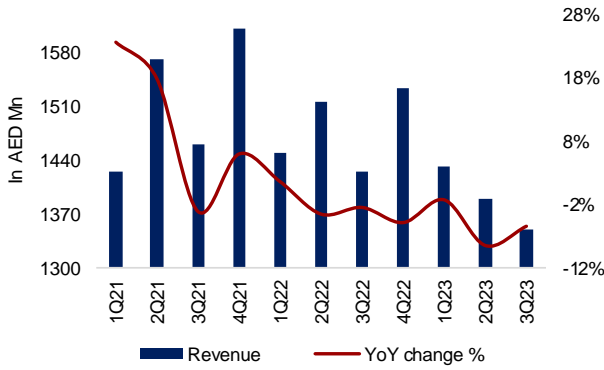


Logistics continues its downward trend

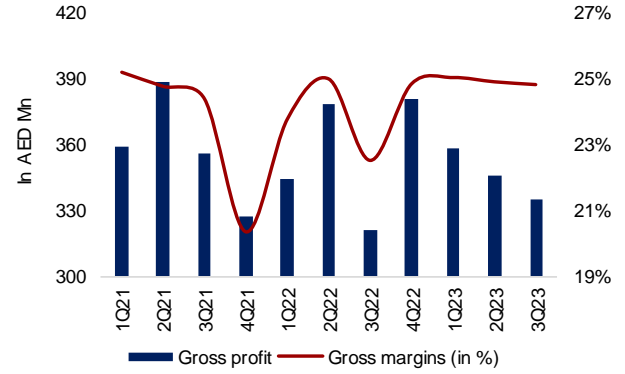


Source: Company reports, US Research

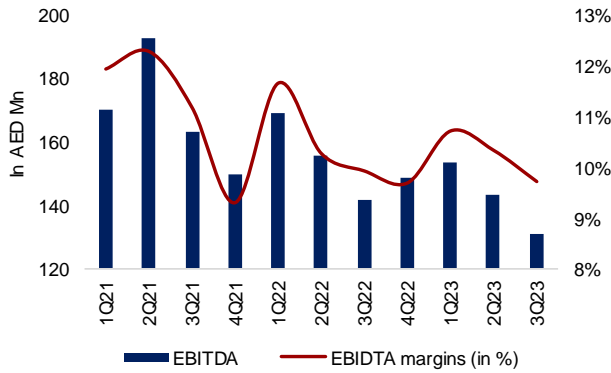
Revenue declines 2.8% QoQ and 5.4% YoY basis



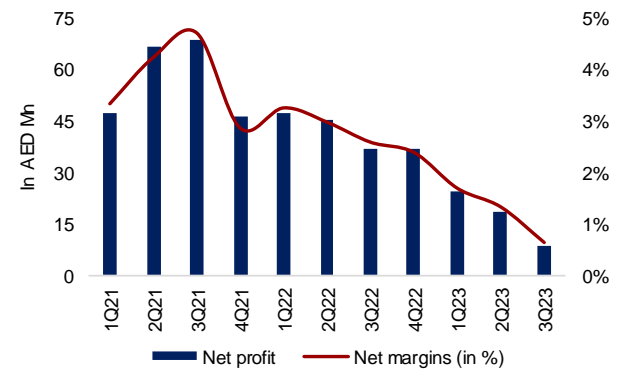
Gross margins hold steady during the quarter



EBITDA declines in line with revenue



Seasonal weakness, languishing volumes impact net profit



Source: Company reports, US Research

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	5,733	6,086	6,589	7,170	7,949
Cost of services	-2,468	-3,977	-4,638	-4,502	-4,313	-4,599	-4,970	-5,401	-5,977
Gross profit	2,778	1,534	1,431	1,424	1,421	1,487	1,618	1,769	1,972
Selling and marketing expenses	-204	-221	-273	-258	-301	-304	-310	-337	-374
Administrative expenses	-885	-792	-888	-908	-874	-913	-1,021	-1,129	-1,256
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	225	259	277	293	332
EBITDA	979	760	668	609	573	650	742	843	1,011
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	109	202	222	237	320
Income tax expense	-82	-109	-81	-26	-27	-51	-55	-59	-80
Profit for the year from cont ops	501	246	181	161	82	152	166	178	240
Extraordinary items	-	23	47	4	-	-	-	-	-
Profit for the year	501	270	228	165	82	152	166	178	240

Balance Sheet (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	1,005	957	941	884	844	846	851	859	874
Right of use assets	854	890	894	861	933	1,067	1,212	1,361	1,684
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	3,933	4,073	4,223	4,380	4,721
Accounts receivable, net	1,196	1,094	1,219	1,130	1,147	1,217	1,318	1,434	1,351
Other current assets	272	272	294	284	216	230	249	270	299
Bank balances and cash	1,000	1,255	769	768	716	778	801	855	555
Total current assets	2,469	2,621	2,283	2,183	2,078	2,226	2,368	2,559	2,205
Assets held for sale	-	218	11	7	-	-	-	-	-
TOTAL ASSETS	5,743	6,115	5,400	6,093	6,011	6,298	6,590	6,939	6,925
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	-409	-394	-377	-360	-336
Retained earnings	1,520	1,504	1,501	1,445	1,461	1,492	1,525	1,560	1,608
Total Equity attributable to shareholders	2,617	2,691	2,665	2,510	2,516	2,562	2,612	2,665	2,737
Non-controlling interests	15	16	11	9	10	10	10	11	11
Total equity	2,633	2,707	2,676	2,518	2,526	2,572	2,622	2,676	2,748
Interest-bearing loans and borrowings	158	162	137	1,086	1,050	1,038	1,027	934	65
Lease liabilities	673	701	755	757	821	939	1,067	1,198	1,482
Employees' end of service benefits	147	149	149	164	175	176	180	195	217
Deferred tax liabilities	50	58	42	31	30	30	30	30	30
Other non-current liabilities	-	-	18	16	13	10	10	10	10
Total non-current liabilities	1,027	1,071	1,101	2,054	2,089	2,194	2,313	2,367	1,803
Accounts payable	267	329	344	325	323	345	373	405	478
Lease liabilities	190	187	180	182	205	235	267	299	370
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	788	883	956	1,037	1,176
Total current liabilities	2,083	2,243	1,618	1,515	1,396	1,533	1,655	1,896	2,375
Liabilities held for sale	-	94	5	5	-	-	-	-	-
Total liabilities	3,110	3,408	2,724	3,574	3,485	3,726	3,968	4,263	4,178
TOTAL EQUITY AND LIABILITIES	5,743	6,115	5,400	6,093	6,011	6,298	6,590	6,939	6,925

Cash Flow (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Operating cash flow	860	1,107	317	566	481	520	596	703	1,157
Investing cash flow	-674	-199	367	-932	-110	-86	-94	-103	-114
Financing cash flow	-252	-562	-1,061	479	-516	-338	-393	-381	-1,067
Change in cash	163	255	-485	-1	-52	62	23	53	-300
Beginning cash	837	1,000	1,255	769	768	716	778	801	855
Ending cash	1,000	1,255	769	768	716	778	801	855	555

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (AED)	0.342	0.184	0.156	0.113	0.056	0.104	0.114	0.121	0.164
BVPS (AED)	1.798	1.849	1.828	1.720	1.725	1.757	1.791	1.827	1.877
DPS (AED)	0.165	0.130	0.130	0.095	0.045	0.083	0.091	0.097	0.131
FCF per share (AED)	0.127	0.620	0.467	-0.249	0.254	0.296	0.343	0.410	0.712
Valuation									
Market Cap (AED ,Mn)	5,212	6,413	6,003	5,154	3,221	3,221	3,221	3,221	3,221
EV (AED,Mn)	5,103	5,931	5,551	5,642	3,635	3,551	3,506	3,455	3,081
EBITDA	979	760	668	609	573	650	742	843	1,011
P/E (x)	10.4	23.8	26.3	31.2	39.3	21.2	19.4	18.1	13.4
EV/EBITDA (x)	5.2	7.8	8.3	9.3	6.3	5.5	4.7	4.1	3.0
Price/Book (x)	2.0	2.4	2.2	2.0	1.3	1.3	1.2	1.2	1.2
Dividend Yield (%)	4.6%	3.0%	3.2%	2.7%	2.0%	3.8%	4.1%	4.4%	6.0%
Price to sales (x)	1.0	1.2	1.0	0.9	0.6	0.5	0.5	0.4	0.4
EV to sales (x)	1.0	1.1	0.9	1.0	0.6	0.6	0.5	0.5	0.4
Liquidity									
Cash Ratio (x)	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Current Ratio (x)	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.5
Quick Ratio (x)	0.7	0.7	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Returns Ratio									
ROA (%)	8.7%	4.4%	4.2%	2.7%	1.4%	2.4%	2.5%	2.6%	3.5%
ROE (%)	19.0%	10.0%	8.5%	6.6%	3.2%	5.9%	6.3%	6.6%	8.7%
ROCE (%)	13.7%	7.0%	6.0%	3.6%	1.8%	3.2%	3.4%	3.5%	5.3%
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%	1.4%	2.5%	2.5%	2.5%	3.0%
EBITDA Margins (%)	18.7%	13.8%	11.0%	10.3%	10.0%	10.7%	11.3%	11.8%	12.7%
PBT Margins (%)	11.1%	6.4%	4.3%	3.2%	1.9%	3.3%	3.4%	3.3%	4.0%
EBIT Margins (%)	12.4%	7.3%	5.0%	4.1%	3.9%	4.3%	4.2%	4.1%	4.2%
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	414	330	285	234	-140
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	0.2
Net Debt/Equity (x)	-0.0	-0.2	-0.2	0.2	0.2	0.1	0.1	0.1	-0.1

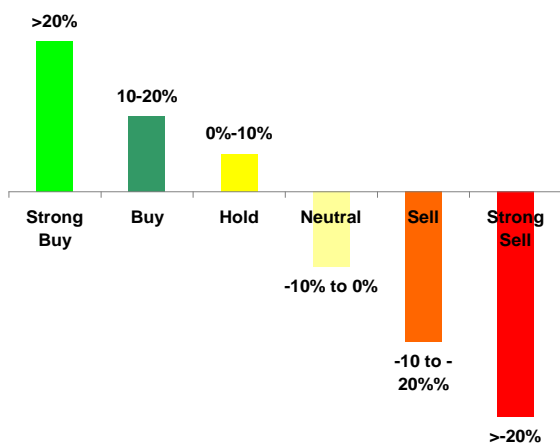
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Rating Criteria and Definitions

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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