

Aramex PJSC (ARMX UH)

Target Price: AED 3.5/share
Upside: 28.5%

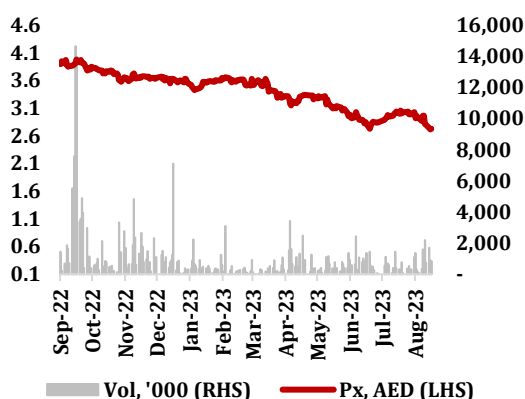
Recommendation	Buy
Bloomberg Ticker	ARMX UH
Current Market Price (AED)	2.70
52wk High / Low (AED)	4.200/2.650
12m Average Vol. (000)	996.7
Mkt. Cap. (USD/AED mn)	1,076/3,953
Shares Outstanding (mn)	1,464.10
Free Float (%)	50%
3m Avg Daily Turnover (AED'000)	1,844.8
6m Avg Daily Turnover (AED'000)	1,741.9
P/E'23e (x)	24.5 x
EV/EBITDA'23e (x)	8.4 x
Dividend Yield '23e (%)	4.8%

Price Performance:

1 month (%)	-9.1%
3 month (%)	-12.9%
12 month (%)	-28.9%

Source: Bloomberg, values as of 16 August 2023

Price-Volume Performance



Source: Bloomberg

- **Rapid growth in e-commerce and global trade set to boost the courier, logistics and freight sector**
- **Integrated technology, strategic partnerships, and acquisition to enhance revenue post-FY'23e.**
- **The group's cost reduction and margin progression strategy points to a promising future post-2023.**
- **Financial stability and resilience demonstrated by robust cash flows and declining leverage.**

We review our coverage of Aramex (ARMX UH Equity) and upgrade our rating to **Buy** with an increased **target price of AED 3.5** considering an upside potential of 28.5% from current levels. The company's earnings are expected to grow strongly as growth in e-commerce, strategic partnership, and acquisition drive revenues while margins to improve aided by group's cost reduction efforts. The stock is positioned for growth as it has bottomed-out and the financials post-FY'23e appears appealing. The stock is currently trading at a P/E of 24.5x based on our 2023 estimates, compared to its historical average 1-year forward P/E of 22.6x.

Investment Thesis

Aramex is the regional leader in logistics and courier services. The company presents promising investment prospects due to its strong financial performance, improving margins and return ratios with healthy cash conversion and efficient debt management.

- The surge in e-commerce growth globally is going to benefit the logistics, courier, and freight sectors.
- Integrated technology, strategic partnerships, and innovating last-mile delivery methods to enhance revenue generation.
- Strategic acquisition of MyUS and turnaround strategy in Oceania enhances the group's geographical presence in the US and Oceania.
- Aramex maintains a steady debt-to-equity and favorable leverage, highlighting its solid financial position. It is anticipated to deliver a solid dividend payout with steadily higher yield.

Valuation and risks: Our valuation is based on a mix of DCF (80% weight), and multiples approach (10% weight each to P/E and EV/EBITDA based multiples). Key downside risks: High inflation, disasters affecting supply chain, competition from local players, weak pricing etc.

Key Indicators

	FY21	FY22	FY23e	FY24e	FY25e
Sales	6,069	5,926	5,844	6,449	6,824
EBITDA	626	616	685	745	837
Operating profit	255	245	329	391	474
Finance costs	60	73	130	130	131
Net income	181	161	166	221	286
EPS (AED)	0.12	0.11	0.11	0.15	0.20
P/E	33.2x	32.0x	24.5x	23.8x	13.8x
EV/EBITDA	10.4x	10.7x	8.4x	7.7x	6.8x
Dividend yield (%)	3.2%	2.7%	4.8%	4.8%	4.8%

Source: Company Reports, U-Capital Research *P/E, EV/EBITDA and EV/Sales from 2023 onwards calculated on current price

Neetika Gupta

Head of Research

neetika@u-capital.net

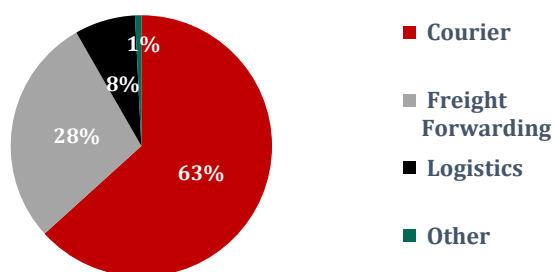
Tel: +968 24 94 90 36

Investment Rationale

Aramex: A leading transportation player

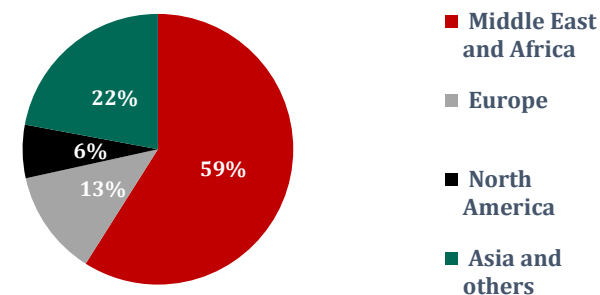
Aramex, a major player in transportation, excels in both domestic and international operations, offering comprehensive freight solutions by air, land, and sea. Their full-service approach, covering courier express, freight, warehousing, and supply chain services, gives them a distinct competitive advantage, especially in key markets. Around 63% of their revenue comes from courier services and the group operates on a global scale with 59% from the Middle East and Africa, and 22% from Asia and other regions. Aramex's strategic partners, Geopost/DPD and Abu Dhabi Ports, provide collaboration opportunities. With a strong strategic position, the company is poised for market growth.

Revenue by Segment (FY'22)



Source: Company Reports, U Capital Research

Revenue by Geography (FY'23)



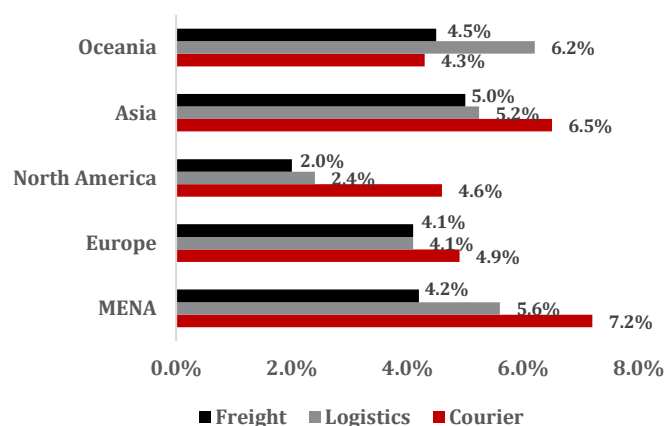
Source: Company Reports, U Capital Research

Navigating Challenges and Embracing Growth: Q2'23 Report and Industry Trends

In Q2'23, the revenue decreased by 8% compared to the previous year, mainly due to the challenging quarter marked by factors such as inflation, currency devaluation, and a reduction of two working days (which accounted for a -2% impact on the total revenue). Aramex is anticipated to undergo temporary challenges stemming from cost inflation, rising base rates, and the volatility in foreign exchange rates. The group expects Q3'23e to be stable with better Q4'23e depending on the purchasing power in the GCC region and strong holiday season. Additionally, with developments in Oceania on track we anticipate revenue contribution from Oceania to increase post-FY'23e.

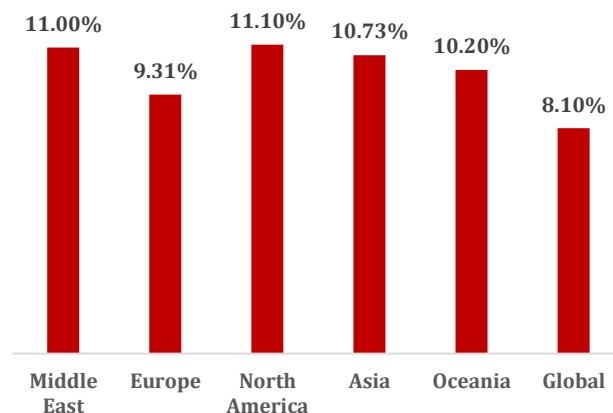
The courier, logistics, and freight industry is set for rapid growth due to factors like e-commerce, omnichannel retail, global trade, and technology adoption. Key trends include last-mile delivery, sustainability, and data utilization. Despite challenges, the sector is embracing new solutions, positioning it well for continued growth.

Freight, Logistics and Courier CAGR (2023-28e)



Source: Company Reports, U Capital Research

E-commerce CAGR (2023-28e)



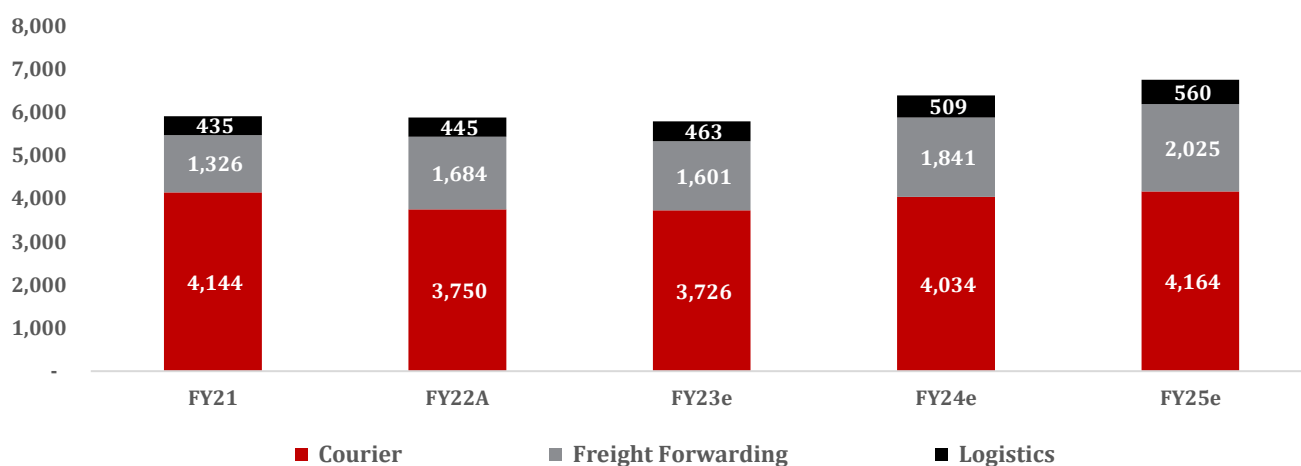
Source: Company Reports, U Capital Research

Integrating technology, strategic partnerships, and pioneering last-mile delivery boosting revenue

The group's effective operations and investments in cutting-edge technology are driving value realization and profitability. They have seamlessly integrated digital systems, automation, and AI-guided decisions. Furthermore, their strategic shareholders offer potential partnerships across all product lines. Additionally, Aramex is the first logistics company in the GCC to implement live tracking for last mile delivery using Google Maps Platform's Mobility Services in partnership with OniGroup. Beta testing for this feature is currently ongoing in the UAE, and upon successful completion, Aramex plans to launch the solution across the GCC for all last mile deliveries by 2024.

The acquisition of MyUS has further strengthened Aramex's position as a global player in transportation and with restructuring plans in Oceania in progress Aramex aims to achieve a solid market share in Oceania region as well. Thus, considering the developments we expect revenue would foresee a CAGR of ~8% between FY'23-25e.

Revenue forecast by segment

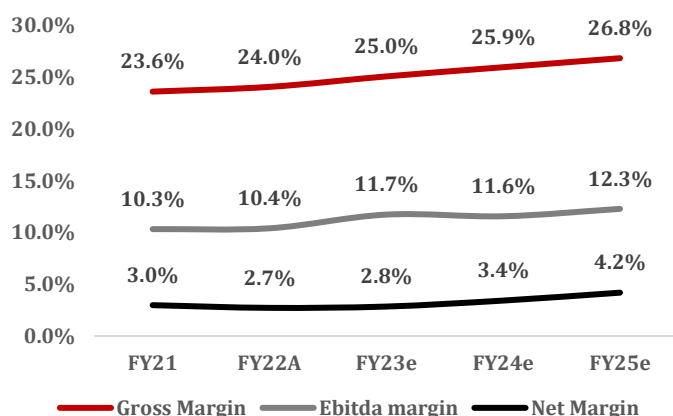


Source: Company Reports, U Capital Research

Aramex's margin to improve amid its cost reduction strategy

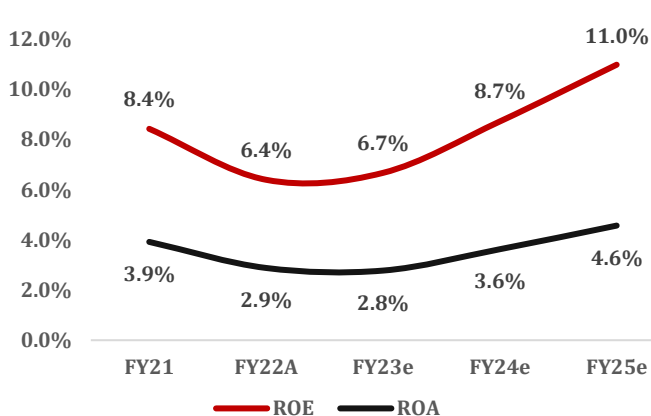
The group observed consistent margins between FY'21 and FY'22, with Gross, EBITDA, and Net margins in the range of 24%, 10%, and 3% respectively. As of Q2'23, the run rate resembled pre-COVID levels and the group holds a strong conviction that they will manage to reduce costs, encompassing not only general and administrative expenses but also selling expenses. Therefore, an enhancement in margins is anticipated for the period FY'23-25e, followed by an expectation of stable margins thereafter.

Margins set to improve from FY'23e



Source: Company Reports, U Capital Research

ROE & ROA: Recovery post-FY'23

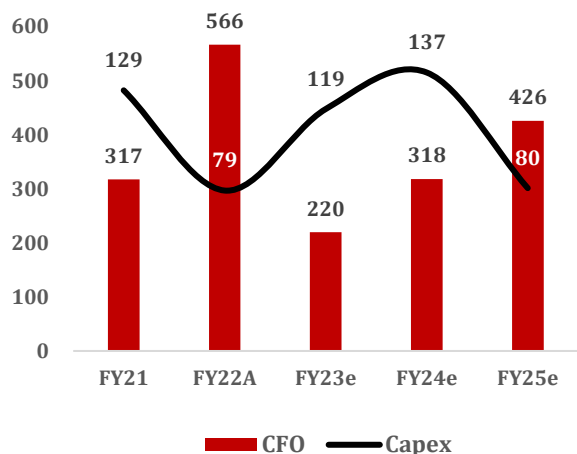


Source: Company Reports, U Capital Research

Navigating market fluctuations with strategic financial management

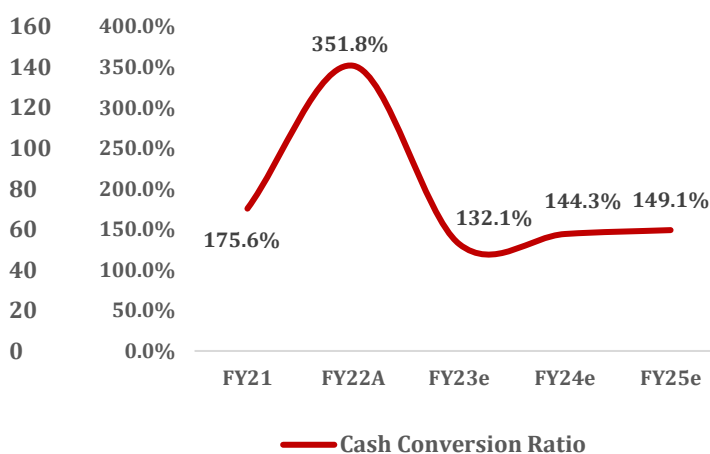
The group continues to prioritize investments for long-term growth, including operational efficiency, technology rollout, warehouse expansion, and strategic acquisitions. The acquisition of MyUS has expanded their reach in the US, with plans for similar expansion elsewhere. Capital expenditures are expected to increase in FY'23-24 for a turnaround strategy in Oceania and cost reduction, followed by a subsequent decrease and stabilization in the future.

Cash generation and capex



Source: Company Reports, U Capital Research

Cash conversion ratio

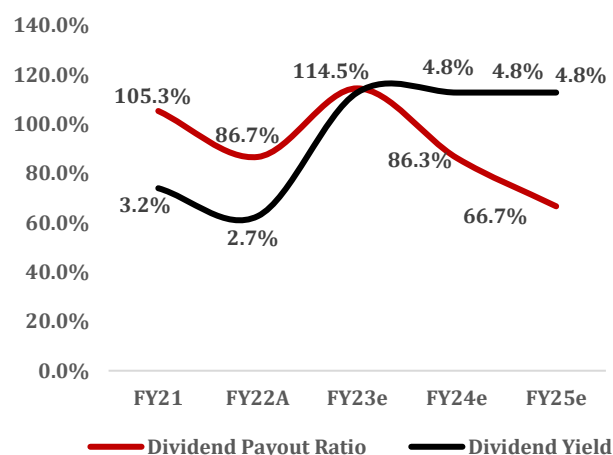


Source: Company Reports, U Capital Research

Prudent leverage demonstrates financial strength

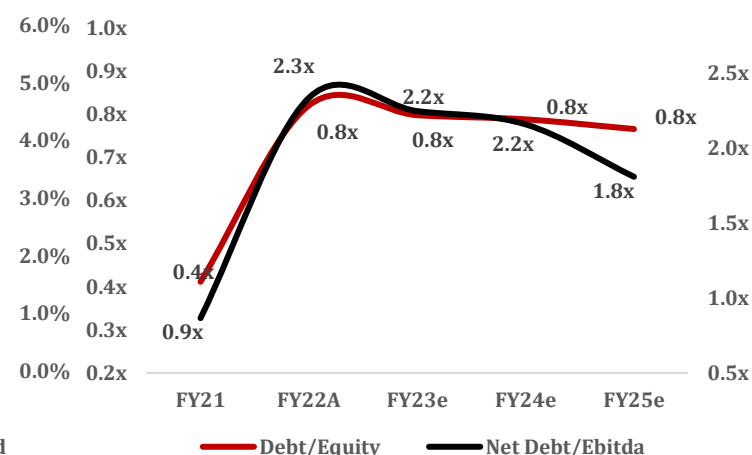
Aramex has demonstrated financial prudence by adopting a cautious approach to debt management, resulting in a strong financial position. The company's Debt-to-Equity ratio is expected to decrease, indicating a reduced reliance on debt as investments in turnaround strategy. Likewise, the Net Debt/EBITDA ratio is expected to decline, indicating a prudent approach to debt management and reinforcing the company's solid financial standing.

Dividend



Source: Company Reports, U Capital Research

Leverage



Source: Company Reports, U Capital Research

Sensitivity Analysis

Our TP for Aramex (Aramex UH) is sensitive to valuation inputs such as Cost of Equity (CoE) (+/- 1%) and terminal growth rate (+/- 0.25%). Between them, the higher sensitivity is towards Cost of Equity.

ARMX UH

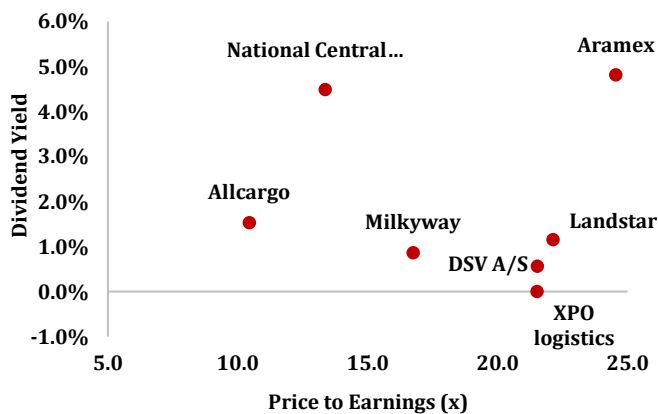
		Cost of Equity (%)				
		5.8%	6.8%	7.8%	8.8%	9.8%
Terminal Growth rate	0.50%	3.8	3.6	3.4	3.2	3.1
	0.75%	3.8	3.6	3.4	3.3	3.1
	1.00%	3.9	3.7	3.5	3.3	3.1
	1.25%	4.0	3.7	3.5	3.3	3.2
	1.50%	4.0	3.8	3.5	3.4	3.2

Peer Group Valuation

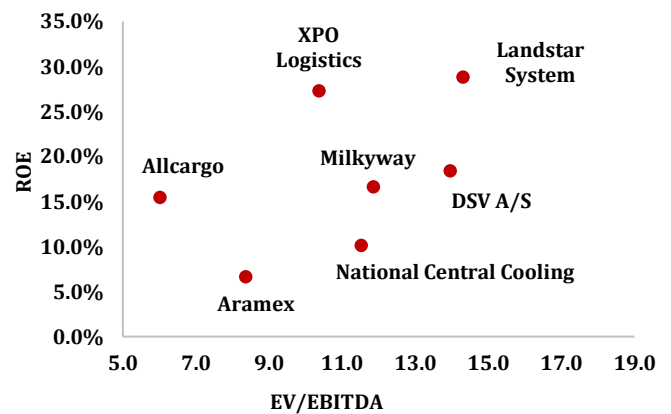
Name	Mkt Cap (AED mn)	Last Px	Px Change 1M, %	Px Change 3M, %	Px Change YTD, %	EV/EBITDA' 23e, (x)	P/E'23e, (x)	ROE'23e, (%)	Div Yield' 23e, (%)	FCF Yield'23e (%)
ARAMEX PJSC	3,953.1	2.70	-9.1%	-12.9%	-23.3%	8.4	24.5	6.7%	4.8%	12.9%
TABREED	9,503.2	3.34	11.3%	13.6%	12.8%	11.5	13.4	10.2%	4.5%	11.7%
DSV A/S	1,54,114.7	1314.00	-10.6%	-0.2%	19.8%	14.0	21.5	18.4%	0.6%	9.2%
LANDSTAR SYSTEM INC	25,412.1	192.47	-1.0%	8.2%	19.6%	14.3	22.1	28.8%	1.2%	8.6%
MILKYWAY CHEMICAL SUPPLY C.	7,372.6	89.33	3.6%	-3.9%	-23.4%	11.9	16.7	16.6%	0.9%	-1.4%
ALLCARGO LOGISTICS LTD	3,011.6	277.15	-3.8%	-3.6%	13.1%	6.0	10.4	15.5%	1.5%	22.1%
XPO INC	30,744.9	72.18	16.0%	53.2%	116.8%	10.4	21.5	27.3%	0.0%	3.7%
Average						10.9	18.6	17.6%	1.9%	9.5%
Median						11.5	21.5	16.6%	1.2%	9.2%

Source: Bloomberg, U Capital Research, na - not available, nm - not meaningful; *valued as of 16 August 2023 Market-cap weighted average multiples - EV/ EBITDA, and P/E

Price to Earnings & Dividend Yield



EV/EBITDA & ROE



Source: Bloomberg, U Capital Research; As of 16 Aug 23

Source: Bloomberg, U Capital Research; As of 16 Aug 23

Valuation

To value Aramex, we employed two valuation methods: the Discounted Cash Flow (DCF) and Relative Valuation. In our DCF analysis, given a weight of 80%, we used a WACC of 6.8%, a cost of equity of 7.8%, a risk-free rate of 4.5%, a beta of 0.6, and a risk premium of 5.5%. This method yielded a fair value of approximately AED 3.4 per share.

On the other hand, our Relative Valuation considered two multiples, P/E and EV/EBITDA, each with a 10% weight. We derived these multiples based on industry median values, resulting in a P/E multiple of 28.3x and an EV/EBITDA multiple of 11.6x. We then applied these multiples to our forecasted EPS of AED 0.1 and EBITDA of AED 685mn, yielding fair values of AED 3.2 and AED 4.5 per share respectively.

Taking a weighted average of these valuations, we arrived at an overall fair value of AED 3.5 per share.

Valuation

Aramex

DCF (80% weight)

PV of Free Cash Flow (AED mn)

2023e	135
2024e	202
2025e	330
2026e	267
2027e	297
Terminal value	5,151
Total PV of Future Cashflows (Enterprise Value, AED mn)	6,382

Assumptions

Risk Free Rate (%)	4.5%
Adjusted Beta	0.60
Risk Premium (%)	5.5%
Cost of Equity (COE) (%)	7.8%
WACC (%)	6.8%
Equity value (AED mn)	4,947
Outstanding Shares (mn)	1,464
Target Price (AED)	3.4

P/E based Relative Valuation (10% weight)

Target P/E multiple for 2023e	28.3x
EPS 2023e (AED)	0.1
Target Price (AED)	3.2

EV/EBITDA based Relative Valuation (10% weight)

Target EV/EBITDA multiple for 2023e	11.6x
EBITDA 2023e (AED mn)	685
Net Debt (AED mn)	1427
Target Price (AED)	4.5

Weighted Average Target Price (AED)

3.5

Current Market Price (AED)

2.7

Upside/(Downside), %

28.5%

Recommendation

Buy

Source: Company Financials, Bloomberg, U Capital Research

Financial tables

(AED Mn)	FY19	FY20	FY21	FY22	Prev.FY23e	FY23e	Prev.FY24e	FY24e	FY25e
Income Statement									
Sales	5,068	5,510	6,069	5,926	6,252	5,844	6,710	6,449	6,824
COGS	3,413	3,977	4,638	4,502	4,688	4,381	5,040	4,776	4,995
Gross Profit	1,655	1,534	1,431	1,424	1,563	1,464	1,669	1,672	1,829
G&A expenses	1,041	1,038	1,176	1,179	1,242	1,134	1,357	1,282	1,355
EBITDA	948	865	626	616	677	685	666	745	837
Depreciation and Amortization	333	369	371	371	355	355	354	354	363
Operating profit	615	496	255	245	322	329	312	391	474
Finance costs	80	66	60	73	122	130	72	130	131
Finance income	11	10	6	5	5	8	5	7	6
Income before tax	556	355	262	187	202	215	247	278	360
Income tax	79	109	81	26	28	48	34	58	75
Net income for the period	477	246	181	161	174	166	213	221	286
Balance Sheet									
Cash and bank balances	739	975	712	759	800	625	993	556	667
Trade and other receivables	1,196	1,094	1,219	1,130	1,349	1,187	1,312	1,370	1,336
Other current assets	272	272	294	284	300	280	322	309	327
Property, plant and equipment	1,005	957	941	884	839	948	802	1,021	1,018
Intangible assets and goodwill	1,343	1,352	1,204	2,082	2,074	2,074	2,066	2,066	2,058
Investments in joint ventures and associates	27	40	37	25	25	25	25	25	25
Right-of-use assets	854	890	894	861	878	830	909	830	845
Total assets	5,743	6,115	5,400	6,093	6,332	6,037	6,496	6,245	6,345
Trade and other payables	267	329	344	325	328	285	374	380	315
Loans and borrowings	740	705	165	1,125	1,125	1,125	1,125	1,125	1,125
Lease liabilities	863	888	935	939	958	905	992	906	922
Share capital	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464	1,464
Statutory reserve	367	409	441	472	472	472	472	472	472
Retained earnings	1,520	1,504	1,501	1,445	1,621	1,474	1,646	1,506	1,603
Total stockholders' equity	2,633	2,707	2,676	2,518	2,694	2,547	2,719	2,579	2,677
Total liabilities & stockholders' equity	5,743	6,115	5,400	6,093	6,334	6,037	6,500	6,245	6,345
Cash Flow Statement									
Cash from operating activities	860	1,107	317	566	170	220	505	318	426
Cash from investing activities	-674	-199	367	-932	-78	-111	-84	-131	-74
Cash from financing activities	-252	-562	-1,061	479	-51	-303	-228	-319	-305
Net changes in cash	-66	345	-376	114	41	-195	193	-132	47
Cash at the end of the period	588	907	712	759	800	625	993	556	667
Key Ratios									
Current ratio	1.2	1.2	1.4	1.4	1.6	1.4	1.6	1.4	1.4
Debtors' turnover ratio	4.3	4.8	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Creditors turnover ratio	12.2	13.4	13.8	13.5	14.4	14.4	14.4	14.4	14.4
Operating margin	12.1%	9.0%	4.2%	4.1%	5.1%	5.6%	4.7%	6.1%	6.9%
Net profit margin	9.4%	4.5%	3.0%	2.7%	2.8%	2.8%	3.2%	3.4%	4.2%
EBITDA margin	18.7%	15.7%	10.3%	10.4%	10.8%	11.7%	9.9%	11.6%	12.3%
Average return on equity	19.8%	10.0%	8.4%	6.4%	6.8%	6.7%	8.0%	8.7%	11.0%
Average return on assets	9.5%	4.5%	3.9%	2.9%	2.8%	2.8%	3.4%	3.6%	4.6%
Debt/Equity (x)	0.6x	0.6x	0.4x	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x
Interest coverage ratio (x)	7.7x	7.6x	4.2x	3.4x	2.6x	2.5x	4.4x	3.0x	3.6x
P/E	11.0x	26.0x	33.2x	32.0x	26.7x	24.5x	24.7x	23.8x	13.8x
EV/EBITDA	6.6x	8.1x	10.4x	10.7x	8.5x	8.4x	8.6x	7.7x	6.8x
EV/Sales	1.2x	1.3x	1.0x	0.0x	0.9x	0.9x	0.9x	0.8x	0.8x
EPS (AED)	0.33	0.17	0.12	0.11	0.12	0.11	0.15	0.15	0.20
Dividend payout ratio	50.7%	77.2%	105.3%	86.7%	109.3%	114.5%	89.2%	86.3%	66.7%
Dividend yield (%)	4.6%	3.0%	3.2%	2.7%	4.4%	4.8%	4.4%	4.8%	4.8%
Net debt (cash)	1,015	685	541	1,436	1,415	1,536	1,255	1,606	1,512
Net debt/ EBITDA	1.1	0.8	0.9	2.3	2.1	2.2	1.9	2.2	1.8
ROCE	16.8%	13.1%	6.8%	5.4%	6.8%	7.2%	6.5%	8.5%	10.0%

Disclaimer

Recommendation

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

Ubhar Capital SAOC (U Capital)

Website: www.u-capital.net
PO Box 1137
PC 111, Sultanate of Oman
Tel: +968 2494 9000
Fax: +968 2494 9099
Email: research@u-capital.net

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