Aramex

Outperform

CMP 7-May-2015	AED 3.42
Target Price	AED 4.12
Upside/Downside	+20.5%

Investment Thesis

We initiate coverage with 'Outperform' rating; fair value of AED 4.12 per share results in an upside of 20.5%: *Our investment thesis is centered around an asset-light business model, diversified and growing revenue stream, potential expansion in margins due to changing business mix towards high-margin courier segment, and predictable free cash flows resulting in attractive FCF and dividend yield. In addition, the experienced management's inorganic growth strategy results in the right kind of momentum required to propel Aramex's steady business model. The company, a serial acquirer, with proven integration capabilities, has earmarked USD 150 Mn to fund its future acquisition strategy, which will mainly be focused on targets in high-growth emerging markets.*

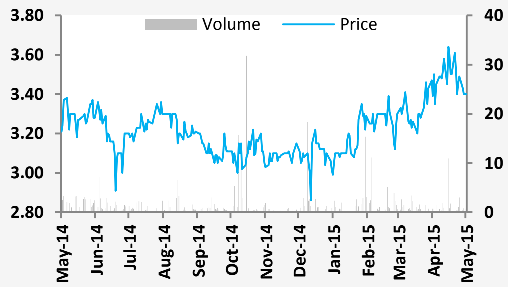
Margin accretive acquisitions likely to bolster growth going forward; additional leverage likely to result in RoAE expansion: *The company has recently finalized a USD 150 Mn five-year loan with a consortium of local banks which will be used to fund three acquisitions in 2015 - in Africa (particularly Nigeria), Asia and in the GCC. We have not incorporated these acquisitions in our model due to absence of any further information. Aramex, currently a net debt free company (net cash of AED 431 Mn / USD 117.5 Mn), plans to increase its debt-to-equity ratio to 0.4x thus leading to RoAE expansion going forward. We forecast average RoAE of 15.9% during 2015-19 compared to last 5-yr avg. of 13%.*

Solid financials: *We forecast total revenue to increase at a 5-year CAGR of 8.7% mainly due to international and domestic express segment (5-year CAGR of 11.5% and 12.2%). We forecast EBITDA margin to average 13.3% during 2015-2019 compared to last five-year average of 12.3% mainly benefiting from change in revenue mix towards high-margin courier segment. We forecast net profit to grow at a 5-year CAGR of 9.3%.*

Stock appears attractive on all valuation parameters: *The stock currently trades at a discount of 18.3% and 29% on forward EV/EBITDA and forward PE multiple compared to peer median. The stock also appears attractive on ttm dividend and FCF yield of 4.1% and 4.2% compared to peer average of 1.8% and 2.5%. Armaex currently trades at a forward dividend and FCF yield of 5.1% and 7.9% based on 2016 payout and cash flows.*

	2014	2015f	2016f	2017f	2018f	2019f
Revenue (AED Mn)	3,650	3,968	4,326	4,705	5,115	5,545
EBITDA (AED Mn)	460	515	579	632	681	734
Net profit (AED Mn)	318	347	390	430	464	498
GPM (%)	55.0%	55.7%	56.2%	56.7%	57.0%	57.3%
EBITDA margin (%)	12.6%	13.0%	13.4%	13.4%	13.3%	13.2%
ROAE (%)	15.0%	15.4%	15.9%	16.2%	16.1%	16.0%
PE (x)	15.7	14.4	12.8	11.6	10.8	10.1
EV/EBITDA (x)	9.3	9.2	8.2	7.5	7.0	6.4
Div. yield (%)	4.5%	4.5%	5.1%	5.6%	6.0%	6.5%
FCF yield (%)	4.6%	3.3%	7.9%	8.4%	8.9%	9.5%

Sources: KAMCO Research, Bloomberg and Aramex



Price Perf.	1M	3M	12M
Absolute	-2.3%	4.0%	5.6%
Relative	-10.9%	-1.6%	28.2%

Stock Data	
Bloomberg Ticker	ARMX DB
Reuters Ticker	ARMX.DU
Last Price (AED)	3.42
MCap (AED Mn)	5,007
EV (AED Mn)	4,722
Stock Perfromance - YTD (%)	10.3%
PE - ttm (x)	15.3
EV/EBITDA - ttm (x)	9.9
Dividend yield - ttm (%)	4.1%
Foreign ownership (%)	36.5%
52-Week Range (AED)	3.64 / 2.86
52-Week ADVT (AED Mn)	4.9

Sources: KAMCO Research and Bloomberg

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Valuation and Recommendation

"Outperform" rating with a price target of AED 4.12 per share resulting in an upside of 20.5%

We have arrived at a fair value of AED 4.12 per share for Aramex by using two valuation methods: discounted cash flow (DCF) and relative valuation (25% weightage). We have used two multiples – forward EV/EBITDA multiple (15% weightage) and forward price-to-earnings multiple (10% weightage) for calculating our fair value under relative valuation method. We have assigned specific weights to each method as seen in the table below to arrive at our fair value.

Weighted Average Fair Value

	Fair value per share (AED)	Weight (%)	Weighted Value (AED)
DCF	4.04	75%	3.03
Forward EV/EBITDA multiple	4.04	15%	0.61
Forward PE multiple	4.82	10%	0.48
Weighted Average Fair Value per Share			**4.12**
Current market price			3.42
Upside/Downside			***20.5%***

Sources: KAMCO Research and Bloomberg

Discounted Cash Flow Method

Our DCF method values the stock at AED 4.04 per share. Our DCF valuation is based on explicit forecast of free cash flows (accounts for 47.5% of value of operations) for the next ten years (2015f-2024f) and terminal value thereafter. We have assumed terminal growth rate of 3%, which is consistent with the management's internal guidance.

DCF Valuation

	Fair Value of Equity (AED Mn)	Fair Value Per Share (AED)
Present value of FCFF	2,768	1.89
Present value of terminal value	3,065	2.09
Present value of cash flow	**5,832**	**3.98**
Investments / other non-current assets (Q12015 end)	8.2	0.01
Cash and cash equivalent (Q12015 end)	388.1	0.27
Debt (Q12015 end)	(161.9)	(0.11)
Minority interest and other liabilities (Q12015 end)	(147.5)	(0.10)
Fair Value of Equity	**5,919**	**4.04**

Sources: KAMCO Research and Aramex

Adjustments to non-operating assets and liabilities

- Investments / other non-current assets consist of deferred tax assets of AED 2.78 Mn and other non-current assets of AED 5.4 Mn.
- Cash and cash equivalent balance of AED 593 Mn accounted for 18.5% of total assets as of end of Q12015 and accounts for 11.8% of current market capitalization. We have deducted dividend of AED 205 Mn (DPS of AED 0.14 per share) for 2014, which was paid during April 2015.

- Goodwill, which stood at AED 1.08 Bn as of Q12015 end, accounts for 33.6% of total assets and 21.5% of current market capitalization. In the absence of information on upcoming acquisitions, we assume it to remain constant over our forecast period.

We have assumed cost of equity of 13.1%, which we have arrived at by using risk free rate of 2.9% (YTM for US government 30-year Treasury bond), UAE's equity risk premium of 7.6% and an additional 170 basis points to reflect exposure to high-risk countries in Africa and Asia and beta of 1.09. Our weighted average cost of capital of 12.2% in 2015 is in line with management's internal estimate of 12%, which is used as a discount rate for annually testing goodwill for impairment.

The company is currently debt-free on a net-debt basis with cash and cash equivalent and total debt of AED 593 Mn and AED 161.9 Mn respectively . The company has recently finalized a USD 150 Mn five-year loan with a consortium of local banks, which will be used to fund three acquisitions in. We have not incorporated these acquisitions in our model due to absence of any further information. We have assumed an average effective cost of borrowing of 4.8% (4.1% in 2015, annual increase of 25 bps until 2019 to reach 5% and then steady at that level). We forecast debt-to-equity ratio to gradually scale up to 0.4x by 2019 because of financing future acquisitions.

Weighted Average Cost of Capital

Factors		**Source**
Risk Free Rate (UAE)	2.9%	YTM of 30-year US govt. treasury bond
Equity Risk Premium (UAE)	9.3%	Ashwath Damodaran - 2015
Beta for Aramex	1.09	KAMCO Research
Cost of Equity	**13.1%**	

Weighted average cost of capital computation

Components	**Weights**	**Post-tax Cost (%)**	**Cost of Capital**
Debt	9.2%	3.7%	0.3%
Equity	90.8%	13.1%	11.9%
WACC	**100%**		**12.2%**

Sources: KAMCO Research, Bloomberg and Ashwath Damodaran's website

Sensitivity Analysis

We show below a sensitivity analysis to highlight changes in our fair value with respect to changes in cost of equity and terminal growth rate.

Sensitivity Analysis

Price Sensitivity based on DCF Model

		Cost of Equity				
		12.1%	**12.6%**	**13.1%**	**13.6%**	**14.1%**
Terminal growth rate	**2.50%**	4.38	4.20	4.03	3.88	3.73
	2.75%	4.39	4.21	4.04	3.88	3.74
	3.00%	4.39	4.21	**4.04**	3.89	3.74
	3.25%	4.40	4.22	4.05	3.89	3.74
	3.50%	4.40	4.22	4.05	3.90	3.75

Source: KAMCO Research

We highlight below main assumptions relating to our DCF model. Our main assumption relating to organic growth involves increased contribution from high-margin international and domestic express segment with combined contribution from these two segments gradually increasing to 62.5% by 2015 and 67.5% by 2024 compared to 54.4% in 2014 (2010-2014 average of 49.9%). We forecast gross profit margin to average 56.6% during 2015-2019 (last 5-year average of 53.9%). We forecast EBITDA margin to average 13.3% during 2015-2019 (last 5-year average of 12.3%). We forecast EBIT margin to average 10.7% during 2015-2019 (last 5-year average of 10%). We forecast net profit to grow at a 5-year CAGR of 9.3%. The only major expansion capex is related to a new 50,000 sq.m warehousing space in UAE, which is expected to be operational beginning of 2016. The management expects total capital outlay between USD 50-60 Mn (AED 183.5 – 220 Mn). We assume maintenance capex to average 2.9% of revenue over our forecast period starting 2016.

DCF – Main Assumptions

	2015f	2016f	2017f	2018f	2019f	Terminal year 2024f
Revenue						
International express (AED Mn)	1,387	1,557	1,736	1,927	2,120	3,307
Freight forwarding (AED Mn)	1,272	1,307	1,343	1,383	1,425	1,652
Domestic express (AED Mn)	857	964	1,080	1,207	1,345	2,232
Logistics (AED Mn)	218	248	278	310	344	544
Others (AED Mn)	233	250	268	288	310	471
Total revenue (AED Mn)	3,968	4,326	4,705	5,115	5,545	8,207
Gross profit (AED Mn)	2,208	2,432	2,666	2,917	3,178	4,827
EBITDA (AED Mn)	515	579	632	681	734	1,131
EBIT (AED Mn)	421	470	512	549	589	909
Net profit (AED Mn)	347	390	430	464	498	774
Margin						
Gross profit margin (%)	55.7%	56.2%	56.7%	57.0%	57.3%	58.8%
EBITDA margin (%)	13.0%	13.4%	13.4%	13.3%	13.2%	13.8%
EBIT margin (%)	10.6%	10.9%	10.9%	10.7%	10.6%	11.1%
Net profit margin (%)	8.8%	9.0%	9.1%	9.1%	9.0%	9.4%
Capex						
Capex (AED Mn)	294.3	115.3	129.4	141.7	154.7	235.1
Capex as a % of total revenue (%)	7.4%	2.7%	2.7%	2.8%	2.8%	2.9%
Asset replacement ratio (x)	3.3	1.1	1.1	1.1	1.1	1.1
Cost of capital and terminal growth rate						
Weightage of equity (%)	90.8%	83.1%	76.6%	73.7%	71.1%	71.1%
Weightage of debt (%)	9.2%	16.9%	23.4%	26.3%	28.9%	28.9%
Cost of equity (%)	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Cost of debt (%)	4.1%	4.3%	4.5%	4.8%	5.0%	5.0%
WACC (%)	12.2%	11.5%	11.0%	10.8%	10.6%	10.59%
Terminal growth rate (%)						3.00%
Cash flow and dividend						
Free cash flow (AED Mn)	157.2	373.8	395.5	421.5	452.0	735.4
Cash dividends (AED Mn)	225.9	253.3	279.6	301.7	323.6	503.1
Dividend payout ratio (%)	65.0%	65.0%	65.0%	65.0%	65.0%	65.00%
FCF payout ratio (%)	143.6%	67.8%	70.7%	71.6%	71.6%	68.4%

Sources: KAMCO Research and Aramex

Risks: General slowdown in economic activity is likely to result in downside risk to our fair value. Any decrease/increase in oil prices leading to lower/higher airfreight expense can result in upside/down side risk to our forecasts.

Relative Valuation

We compared Aramex to a peer group of 15 international logistics players. As mentioned earlier for computing our fair value under this method we have used two multiples - forward EV / EBITDA multiple and forward PE multiple. Applying forward EV / EBITDA multiple we have arrived at a fair value of AED 4.02 per share thus implying an upside potential of 17.5%. We have calculated enterprise value for Aramex based on median of peer forward EV/EBITDA multiple (11.3x). The stock currently trades at a forward EV/EBITDA multiple of 9.2x implying a discount of 18.3% compared to the peer basket.

Aramex trades at a 29% discount to its peer on forward PE multiple; unjustified considering margin superiority: The stock currently trades at a forward PE multiple of 14.4x implying a discount of 29% (28.2% discount on ttm PE) compared to the median peer forward PE multiple. Applying the median forward PE multiple of 20.3x for the peer basket we value the stock at AED 4.82 per share thus implying an upside potential of around 41% compared to last close. We believe that this is unjustified considering Aramex's margin superiority (ttm EBITDA margin of 12.8% vs. peer average of 9.6%, ttm net profit margin of 8.8% vs. peer average of 4%). The forward PE multiple differential increases further if we compare Aramex to the small and mid-cap (SMID) companies (average Mcap of USD 1.2 Bn compared to Aramex's USD 1.36 Bn) in our peer group. The median forward PE multiple for 8 SMID companies (refer to below table – Singapore Post, Blue Dart, UTI, Super Group, Freightways, UK Mail group, Gati Ltd. and Integer) is currently at 22.8x which implies that Aramex currently trades at a discount of around 37%.

Comparatively higher dividend and FCF yield further supports our overall investment case: The stock also appears attractive on ttm dividend and FCF yield of 4.1% and 4.2% compared to peer basket average of 1.8% and 2.5% (average excluding outliers). The stock currently trades at a forward dividend and FCF yield of 5.1% and 7.9% based on 2016 payout and cash flows.

Peer Comparison

Company Name	Country	Market Data			Margin			Valuation						Stock Performance	
		CMP	MCap.	EV	EBITDA Margin	EBIT Margin	NPM	PE - ttm	Fwd PE (x)	EV / ttm EBITDA	EV / 2015 EBITDA	Dividend Yield	FCF Yield	YTD	1-year
		(LC)	(USD mn)	(USD mn)	TTM (%)	TTM (%)	TTM (%)	(x)	2015 eps	(x)	(x)	2014 payout	TTM (%)	(%)	(%)
United Parcel Service	USA	99.22	89,523	97,044	11.8%	8.8%	5.2%	20.3	18.7	14.1	9.9	2.8%	3.7%	-10.7%	0.4%
FedEx Corp	USA	169.56	48,114	51,864	14.3%	8.8%	4.6%	19.5	16.5	7.7	6.7	0.4%	2.5%	-2.4%	22.4%
Deutsche Post	Germany	28.97	39,786	42,260	8.0%	5.6%	3.7%	16.9	16.3	8.5	8.4	2.9%	3.5%	7.1%	8.2%
CH Robinson Worldwide	USA	64.55	9,544	10,538	6.1%	5.7%	3.3%	20.5	19.1	12.7	11.7	2.3%	6.1%	-13.8%	10.9%
Yamato Holdings Co Ltd	Japan	2,517.00	9,208	8,321	8.2%	4.9%	2.7%	27.8	26.2	8.6	8.6	0.01%	0.01%	5.1%	14.0%
Expeditors International	USA	48.11	9,193	8,163	10.0%	9.3%	5.7%	23.5	21.7	12.1	11.3	2.0%	3.4%	7.8%	15.8%
Nippon Express Co Ltd	Japan	676.00	5,894	7,017	5.2%	2.4%	1.5%	21.4	21.5	8.5	8.8	1.5%	0.3%	10.1%	40.8%
Singapore Post Ltd	Singapore	1.90	3,058	3,082	25.1%	21.1%	17.4%	28.4	22.8	18.9	19.5	3.1%	2.8%	-1.3%	34.4%
Blue Dart Express Ltd	India	5,543.20	2,048	2,030	9.0%	7.6%	6.3%	107.3	87.4	74.9	58.1	0.9%	0.9%	-12.6%	77.9%
UTi Worldwide	USA	9.47	1,000	1,474	-0.6%	-2.6%	-4.9%	nm	nm	73.0	12.7	0.0%	-8.5%	-21.5%	3.0%
Super Group Ltd	South Africa	3,373.00	884	1,029	12.9%	9.0%	5.1%	12.9	12.7	6.0	5.9	0.0%	9.8%	-1.4%	18.7%
Freightways Ltd	NewZealand	6.11	705	835	19.7%	16.8%	9.6%	20.4	18.1	12.3	11.4	3.8%	5.8%	5.3%	23.2%
UK Mail Group	UK	490.00	409	393	6.1%	4.6%	3.4%	25.7	16.0	8.4	8.9	4.4%	-1.8%	2.4%	-15.5%
Gati Ltd	India	207.20	282	349	6.5%	6.5%	2.6%	40.3	39.1	15.5	14.0	nm	nm	-26.5%	144.2%
Integer.pl SA	Poland	153.50	333	420	6.4%	-0.2%	-1.6%	nm	29.6	38.9	40.2	nm	-35.0%	-0.3%	-39.3%
Simple average					**9.9%**	**7.2%**	**4.3%**	**29.6**	**26.1**	**21.3**	**15.7**	**1.9%**	**2.2%**	**-3.5%**	**23.9%**
Simple average (excluding outliers)					**9.6%**	**6.9%**	**4.0%**	**22.4**	**22.1**	**11.6**	**13.2**	**1.8%**	**2.5%**		
Weighted average								**20.8**	**18.9**	**12.0**	**9.6**	**2.0%**	**3.1%**		
Median					**8.2%**	**6.5%**	**3.7%**	**21.4**	**20.3**	**12.3**	**11.3**	**2.0%**	**2.6%**		
Aramex		**3.42**	**1,364**	**1,290**	**12.8%**	**10.6%**	**8.8%**	**15.3**	**14.4**	**9.9**	**9.2**	**4.1%**	**4.2%**	**10.3%**	**1.5%**

Sources: KAMCO Research, respective companies' financials and Bloomberg

Lack of exactly similar peer limits our regional comparison; undervaluation case remains intact: In the absence of exactly similar peers, we compared Aramex to a peer group of four regional logistics players that are at best similar to at least one of the business lines of Aramex but quite different when compared to the overall business model. Hence, we did not include these companies in our earlier peer group to calculate our fair value. Agility is similar to Aramex when it comes to its freight forwarding and warehousing segment whereas Gulf Warehousing and KGL Logistics are both mainly pure-play warehousing companies. DP World, the region's largest port operator, is probably the most dissimilar compared to Aramex but we included it in our peer group considering it is a regional logistics heavyweight.

Comparison with Regional Peers

Company Name	Country	Market Data			Margin			Valuation				Stock Performance	
		CMP	MCap.	EV	EBITDA Margin	EBIT Margin	NPM	PE - ttm	EV / ttm EBITDA	Dividend Yield	FCF Yield	YTD	1-year
		(LC)	(USD mn)	(USD mn)	TTM (%)	TTM (%)	TTM (%)	(x)	(x)	2014 payout	TTM (%)	(%)	(%)
DP World Ltd	UAE	22.4	18,592	21,253	42.4%	30.2%	20.2%	26.5	14.5	1.1%	2.7%	6.7%	18.0%
Agility Public Warehousing (	Kuwait	790.0	3,024	2,453	5.6%	3.4%	3.7%	17.2	9.8	5.1%	4.1%	6.8%	2.4%
Gulf Warehousing Co	Qatar	76.8	1,003	1,246	35.9%	24.0%	20.8%	24.1	18.8	2.0%	5.4%	36.2%	38.4%
KGL Logistics Co KSCC	Kuwait	80.0	161	165	24.3%	20.3%	20.6%	8.4	8.1	6.3%	-26.9%	-23.1%	-52.7%
Simple average					**27.1%**	**19.5%**	**16.3%**	**19.1**	**12.8**	**3.6%**	**-3.7%**	**6.6%**	**1.5%**
Simple average (excl. outliers)					**30.1%**	**22.2%**	**20.5%**	**20.7**	**12.1**	**3.5%**	**3.4%**		
Median					**30.1%**	**22.2%**	**20.4%**	**20.7**	**12.1**	**3.5%**	**3.4%**		
Aramex		**3.42**	**1,364**	**1,290**	**12.8%**	**10.6%**	**8.8%**	**15.3**	**9.9**	**4.1%**	**4.2%**	**10.3%**	**1.5%**

Sources: KAMCO Research, respective companies' financials and Bloomberg

In spite of outperforming most of its regional peers on a YTD basis, the stock trades currently trades at a discount of 25.7% and 18.2% on ttm PE and ttm EV / EBITDA. We believe high margin business models (with the exception of Agility) for the peer group (ttm EBITDA margin and ttm net profit margin of 30.1% and 20.5% respectively) explains the premium valuation.

Recently announced international acquisitions supports our case for relative undervaluation

Recent Acquisitions in Global Logistics Industry

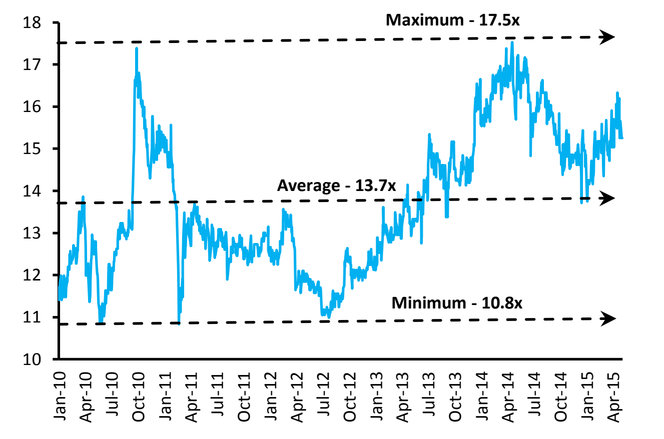
Date	Target	Acquirer	Deal value	Premium offered	Implied PE	Implied EV / EBITDA
			(USD billion)	(%)	(x)	(x)
18/Feb/15	Toll Group	Japan Post	5.1	49%	21.8	11.3
2/Apr/15	TNT	FedEx	4.8	33%	na	38.8

Source: KAMCO Research and respective company financials

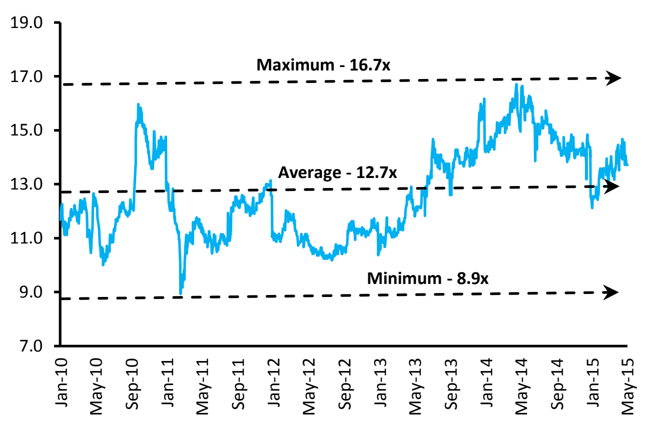
If we were to assume recent acquisition bids within an industry/sector as a proxy to price similar assets within that particular industry then these two recently announced acquisition bids by Japan Post and FedEx point to multiples that are at a premium to Aramex's current multiples (ttm PE of 15.3x and ttm EV / EBITDA of 9.9x).

Historical trend in valuation multiples

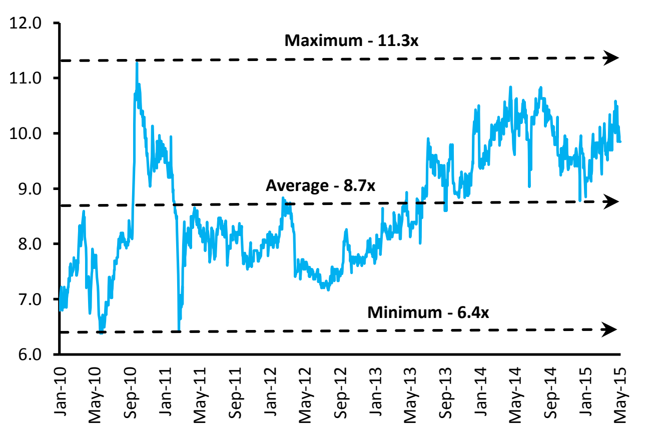
Price-Earnings Ratio (TTM)



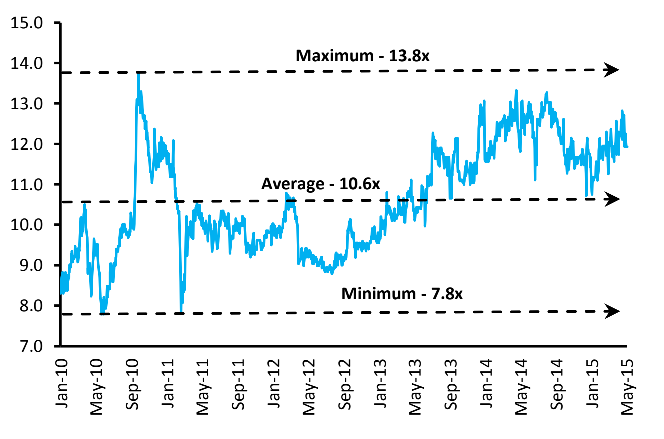
Forward Price-Earnings Ratio



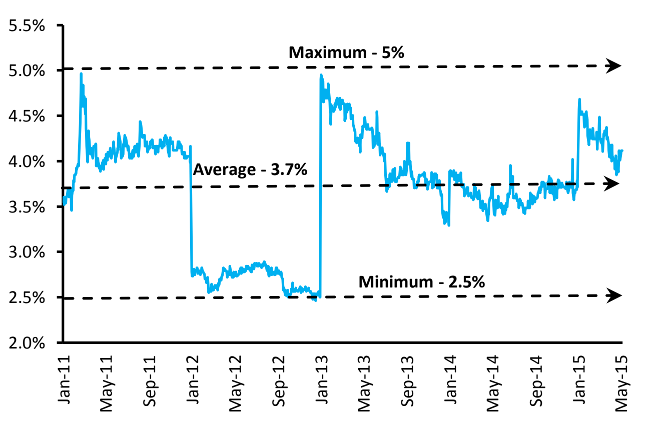
EV-EBITDA Ratio (TTM)



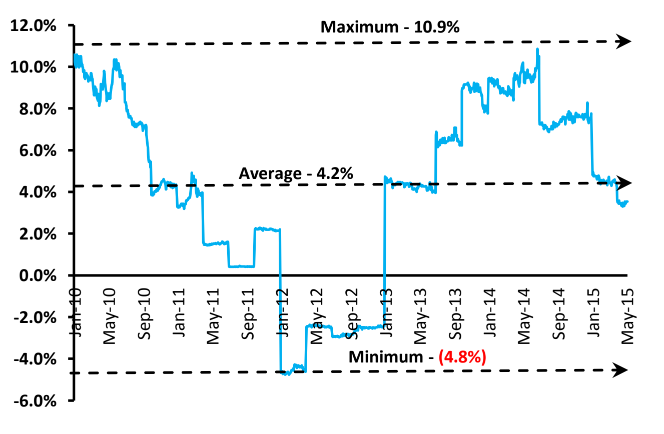
EV-EBIT Ratio (TTM)



Dividend Yield (TTM)



FCF Yield (TTM)

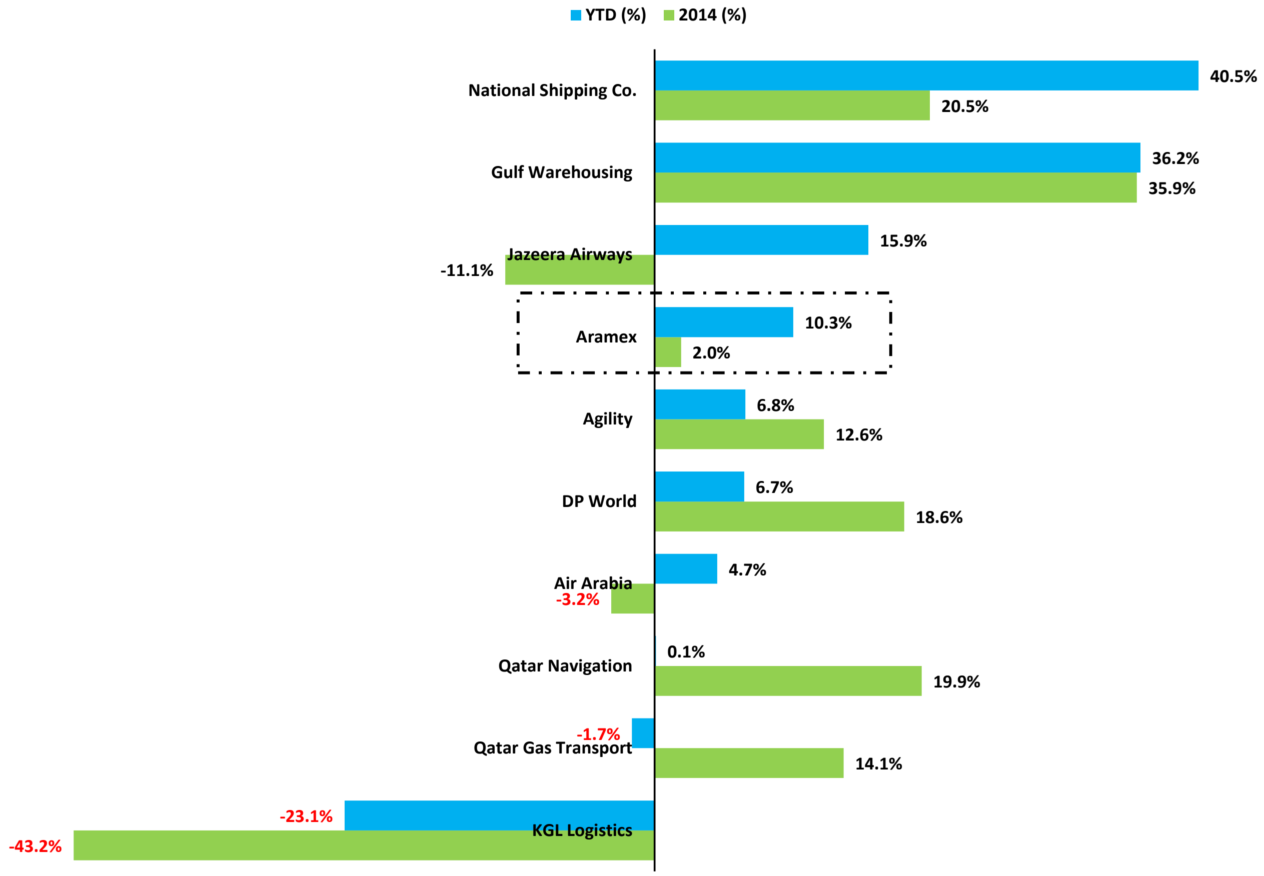


Sources for all charts: KAMCO Research, Aramex and Bloomberg

Valuation conundrum: Historical trend in multiples points to stretched valuation: Though we have not used historical trend in valuation multiples for valuing Aramex but we have nevertheless highlighted them to run a quick check on the stock's current valuation. This leads to a valuation conundrum, as the stock currently appears stretched on most valuation multiples (with the exception of dividend yield) when compared to the average since beginning of 2010 as can be seen in the charts in earlier page. A run up in the stock price during this period partly explains the currently rich valuations.

Stock performance has been rather lackluster in the recent past: The stock has managed to outperform the DFM index (Aramex +10.3% vs. DFM index +8.7%) on an YTD basis but has underperformed the index since 2012 beginning. The stock has done fairly well this year when compared to some of its regional logistics and transportation peers.

Stock Performance of Regional Logistics & Transportation Peers



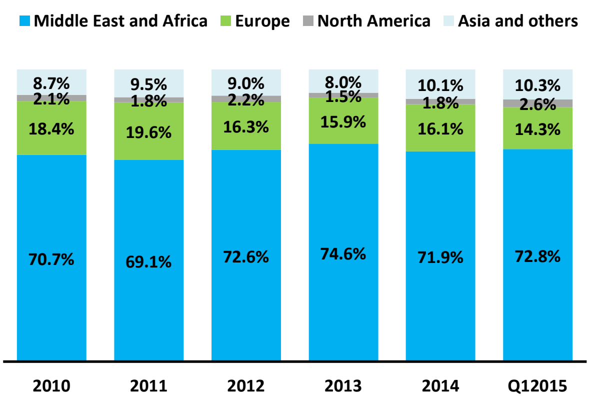
Source: KAMCO Research and Bloomberg

Company Background

Aramex, established in 1982, is one of the premier logistics company in the region. The company has operations in 60 countries through 353 offices in 200 major cities worldwide. The company's main hubs are in Amman, Dubai, Hong Kong, Liege, London, New York and Singapore. The company has close to 13,000 employees as of 2014 end, which has almost doubled since 2007. Aramex is a founding member and heads the Global Distribution Alliance (GDA), which brings together over 40 leading express and logistics providers in more than 240 countries. It is also the co-founder of the WFA World Freight Alliance.

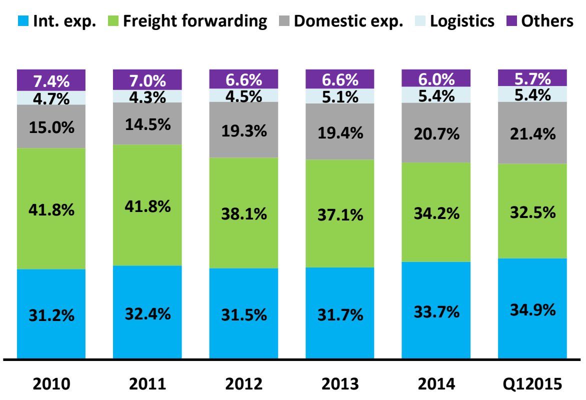
Aramex is mainly a courier, parcel and express business (CEP) company since two of its main segments operate within the CEP domain. International express and domestic express segment accounted for 54.4% of total revenue in 2014 (2012-14 average of 52.1% and 46.1% in 2010). These two segments also accounted for two-third of the company's gross profit in 2014 (2012-14 average of 65% and 60.3% in 2010). The revenue mix as per geography has remained almost constant over the last five years with Middle East & Africa and Asia increasing their share in the revenue pie while Europe and North America losing theirs. The stock has more than doubled since 2011 end supported by a 3-year CAGR of 12.4% and 14.6% in total revenue and net profit respectively.

Revenue Mix - Geography



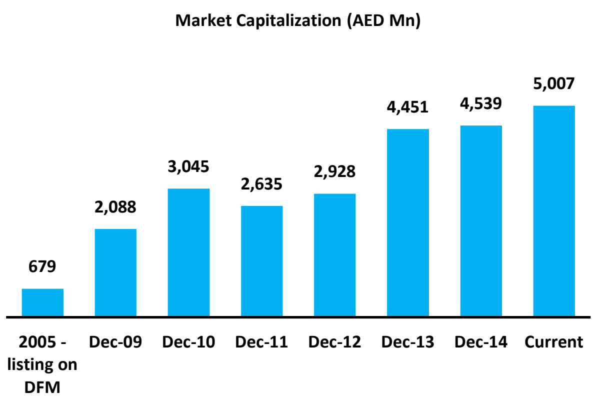
Sources: KAMCO Research and Aramex

Revenue Mix - Business Segments



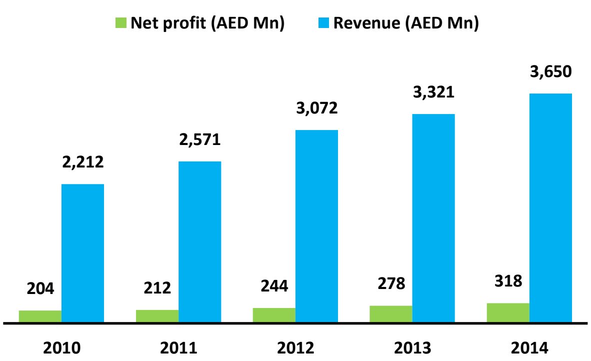
Sources: KAMCO Research and Aramex

Market Capitalization



Sources: KAMCO Research and Aramex

Revenue and Net Profit



Sources: KAMCO Research and Aramex

Business Segments

Aramex operates through five business segments: international express, domestic express, freight forwarding, logistics and others (includes publication and distribution). As mentioned earlier, international and domestic express segment are the two main segments in terms of share in total revenue and gross profit.

International express segment: includes delivery of small packages across the globe to both, retail and wholesale customers. **Segment contribution:** International express segment accounted for 33.7% of total revenue in 2014 (2012-14 average of 32.3% and 31.2% in 2010) and 40.7% of gross profit in 2014 (2012-14 average of 39.7% and 38.7% in 2010). **Segment financials:** Revenue growth rates for the international express segment, though modest compared to the domestic express segment, has a grown at a grow at a 5-year and 3-year CAGRs of 14.5% and 13.9% respectively (14-year and 10-year CAGR of 14.9% and 15.7%)

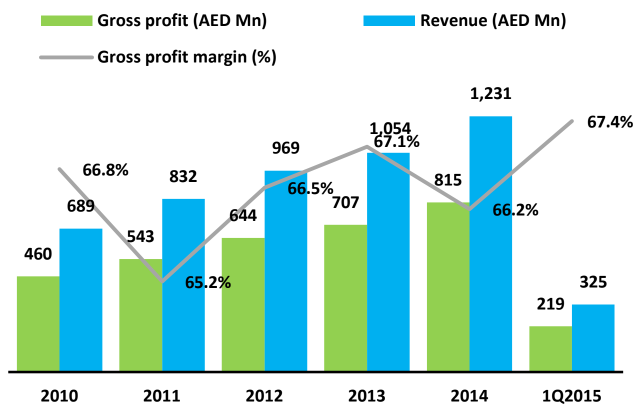
Domestic express segment: includes express delivery of small parcels and pick-up and delivery shipments within the country. **Segment contribution:** Domestic express segment accounted for 20.7% of total revenue in 2014 (2012-14 average of 19.8% and 15% in 2010) and 25.5% of gross profit in 2014 (2012-14 average of 25.4% and 21.6% in 2010). **Segment financials:** Domestic express segment has seen its revenue grow at impressive 5-year and 3-year CAGRs of 20.1% and 26.5% respectively (14-year and 10-year CAGR of 22.8% and 23.3%).

Freight forwarding segment: includes forwarding of loose or consolidated freight through air, land and ocean transport, customer clearance and break bulk service. **Segment contribution:** Freight forwarding segment accounted for 34.2% of total revenue in 2014 (2012-14 average of 36.5% and 41.8% in 2010) and 16.7% of gross profit in 2014 (2012-14 average of 17.9% and 22.1% in 2010). **Segment financials:** Freight forwarding segment has seen its revenue grow at 5-year and 3-year CAGRs of 10.5% and 5.1% respectively (14-year and 10-year CAGR of 16.3% and 17.7%).

Logistics segment: includes warehousing and its management distribution, supply chain management, inventory management as well as other value added services. The company currently has 300,000 sq.m of warehousing space that is equally split between owned and leased warehouses. Around 90,000 sq. m is currently in UAE with a plan to increase it by another 50,000 sq.m by beginning of 2016. According to management, current occupancy levels are between 80%-85%, which is considered as full utilization by industry standards. **Segment contribution:** Logistics segment accounted for 5.4% of total revenue in 2014 (2012-14 average of 5% and 4.7% in 2010) and 7.8% of gross profit in 2014 (2012-14 average of 7.4% and 6.9% in 2010). **Segment financials:** Logistics segment has seen its revenue grow at impressive 5-year and 3-year CAGRs of 9.7% and 21.4% respectively (14-year and 10-year CAGR of 22% and 39.9%).

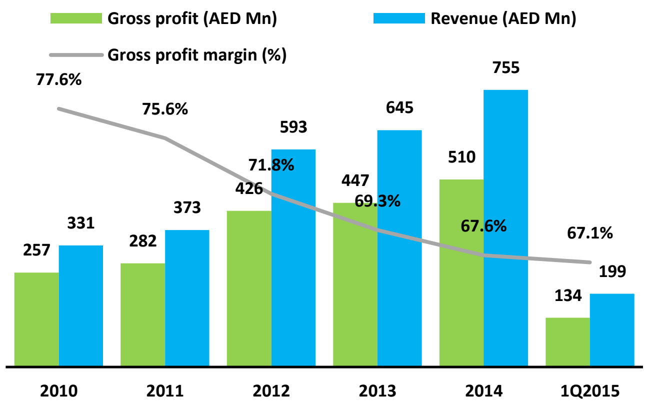
Others: includes catalogue shipping services, document storage, airline ticketing and travel, visa services and publication and distribution. **Segment contribution:** This segment accounted for 6% of total revenue in 2014 (2012-14 average of 6.4% and 7.4% in 2010) and 9.3% of gross profit in 2014 (2012-14 average of 9.7% and 10.7% in 2010). **Segment financials:** Revenue from this segment grew at a 5-year and 3-year CAGR of 8% and 6.5% respectively (14-year and 10-year CAGR of 24.5% and 13.4%).

International Express Segment



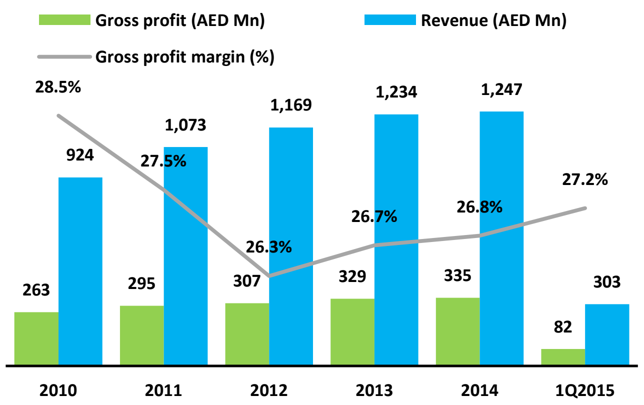
Sources: KAMCO Research and Aramex

Domestic Express Segment



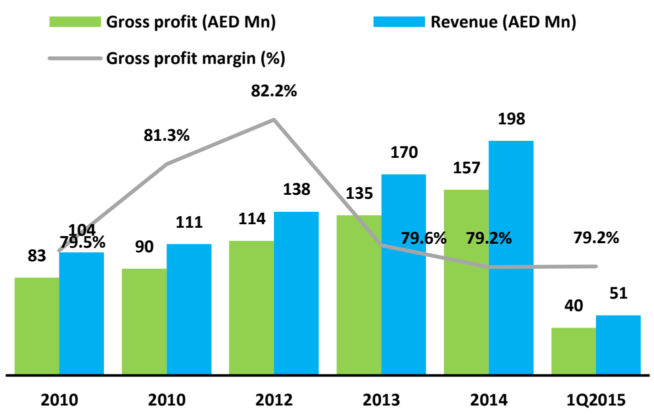
Sources: KAMCO Research and Aramex

Freight Forwarding Segment



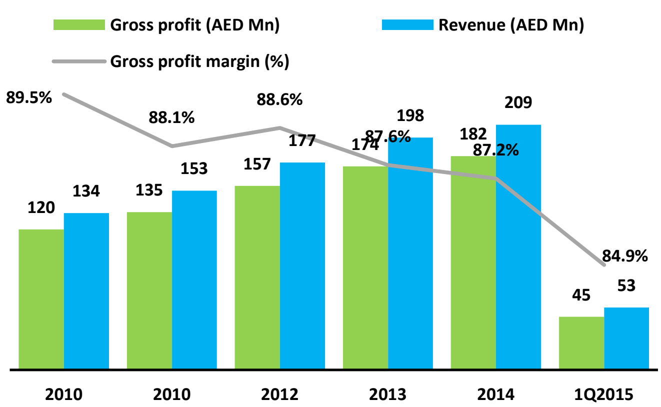
Sources: KAMCO Research and Aramex

Logistics Segment



Sources: KAMCO Research and Aramex

Others



Sources: KAMCO Research and Aramex

Gross Profit Mix - Business Segments

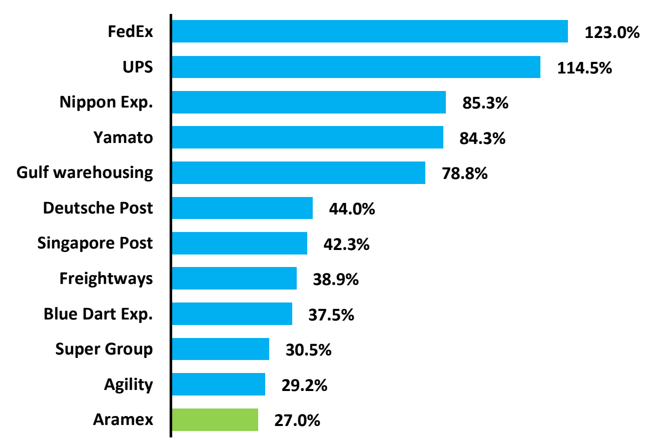
Sources: KAMCO Research and Aramex

Asset light business model

Aramex differentiates itself from its peers by having an asset light business model. We compared Aramex to eleven logistics players across the globe (including regional players) and observed that it had the lowest gross fixed asset (gross block) as a percentage of total assets. Gross fixed asset accounted for 27% of total assets during 2014.

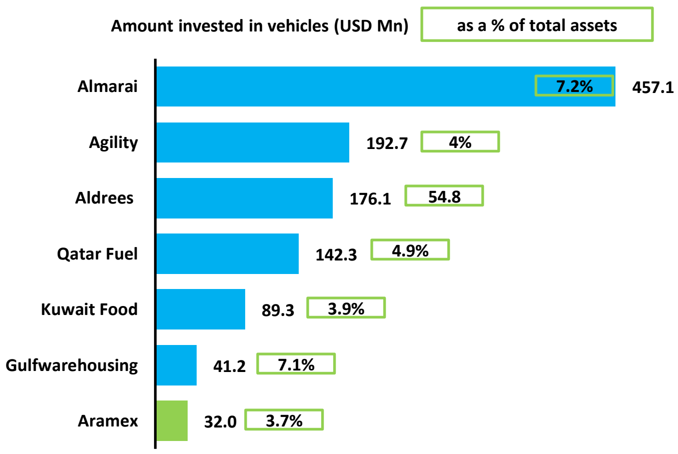
We also analyzed specific items (investment in vehicles) within the gross block of property, plant and equipment (PP&E) and found that Aramex has the lowest investment in vehicles compared to some of the regional companies. Our scope of comparison does not limit to only regional logistics players but also includes prominent food companies, grocery chains and oil marketing companies which rely heavily on their distribution network. These companies generally invest significantly in vehicles/trucks to build and maintain their distribution network. Aramex has investment worth USD 32 Mn in vehicles in 2014, which is 3.7% of its total assets. Both dollar amount-wise and as a percentage of total assets Aramex has the least investment in vehicles when compared to these regional companies.

Gross Fixed Asset (As a % of Total Assets)



Sources: KAMCO Research, Bloomberg and Aramex

Investment in Vehicles – Regional Comparison



Sources: KAMCO Research, respective company financials and Aramex

Acquisition Strategy

Aramex has a clear strategy of growing through acquisitions. The experienced management's inorganic growth strategy results in the right kind of momentum required to propel Aramex's steady business model. The company, a serial acquirer, with proven integration capabilities, has earmarked USD 150 Mn to fund its future acquisition strategy, which will mainly be focused on targets in high-growth emerging markets. The company has recently finalized a USD 150 Mn five-year loan with a consortium of local banks which will be used to fund three acquisitions in 2015 - in Africa (particularly Nigeria), Asia and in the GCC. We have not incorporated these acquisitions in our model due to absence of any further information.

As per the company's corporate presentation, Aramex's acquisition strategy is built around the following guidelines:

- Profitable company with margins in line with Aramex's margins
- Capacity to support reasonable levels of leverage to allow for financing
- Proper financial disciplines with accredited auditors
- Non-asset based companies
- Experienced management teams that are willing to continue post acquisition
- Track history of having met projections and budgets
- Diversified client base with minimal reliance on top clients or on network of agents
- Not part of or affiliated with an already established network
- Strong corporate culture that is in line with Aramex's
- Ability to change and incorporate the Aramex Accounting and IT systems

One of the main reasons why Aramex has been able to maintain its margins at all levels in spite of acquiring numerous companies across the globe is because of acquiring targets that have a margin profile similar to Aramex. We analyzed trend in margin for some of the recent and bigger acquisitions like Post Net in South Africa, Mail Call Couriers in Australia and Berco Express in South Africa. As per Aramex's financial statements, Post Net generated earnings before tax (EBT) margin of 14.9% and Mail Couriers in the range of 23%-25%. Berco Express had a lower margin of around 7%. Overall Aramex has kept a tight control in choosing asset-light targets with margins, which are either higher or equal to Aramex's margins. Since 2006 Aramex has spent AED 553.6 Mn for acquiring companies with AED 354.9 Mn being spent since 2011 onwards.

Acquisitions Over the Years

Date	Acquistion / increase in stake	Target company	Country	Ownership (%)	Purchase Consideration (AED '000)	Net amount paid (AED'000)
Dec-14	Acquisition	Post Net	South Africa	100%	60,772	58,139
Sep-14	Increase in stake (10% increase)	Ramallah Modern Int. Express Transport co.		80%	3,673	3,673
Jun-14	Acquisition	Mail Call Couriers	Australia	100%	113,645	110,657
Jan-14	Increase in stake (29% increase)	Aramex	Malaysia	70%	10,577	10,577
Apr-12	Increase in stake (20% increase)	Aramex Courier, Freight, Logistics - Erbil		100%	918	918
Dec-11	Acquisition	Berco Express	South Africa	100%	203,663	207,148
Jan-11	Acquisition	One World Courier Ltd.	Kenya	70%	10,283	9,939
2010	Acquisition	Number of companies	Africa / Far East	-	16,407	11,908
Dec-10	Increase in stake (50% increase)	Aramex Hava Cargo		100%	13,770	13,770
Jan-09	Acquisition	Metrofile Middle East	UAE	100%	55,458	54,934
Dec-08	Increase in stake (15% increase)	Two Way Holland		100%	2,180	2,180
Nov-07	Acquisition	GDA Singapore	Singapore	100%	1,640	1,640
May-07	Increase in stake (50% increase)	Aramex Lanka Aramex Freight Corp.	Sri Lanka	100%	5,910	5,910
Apr-06	Acquisition	Two Way	UK	100%	95,100	95,100
Jan-06	Acquisition	Freight Prof.	Egypt	100%	31,870	31,870

Source: KAMCO Research and Aramex

Financial Performance and Forecasts

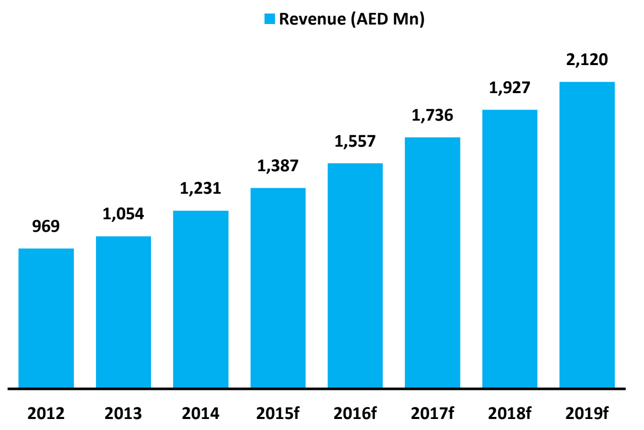
Revenue and Gross profit

In this section, we discuss the historical and future trends of total revenue and gross profit for Aramex. We perform detailed analysis on each business segment and discuss our assumptions relating to revenue and gross profit.

International Express Segment

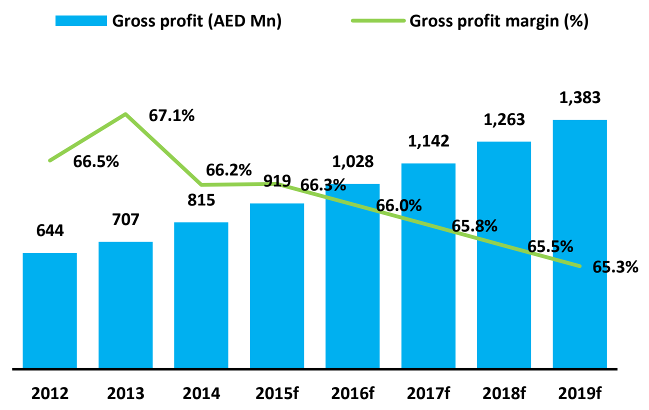
We assume international express segment revenue to increase by a 5-year and 10-year CAGR of 11.5% and 10.4% over our forecast period (historical trend – 5-year and 10-year CAGR of 14.5% and 15.7%). Our forecast reflects management's guidance for this segment. Growth in packet volumes will be the main driver for revenue. Management also expects this segment to benefit from the increased contribution from E-commerce, which currently contributes around 15% - 20% of the company's total revenue. As per management guidance, we assume yield per packet to reflect inflation only. Accordingly, we expect revenue contribution from this segment to increase gradually to 38.2% by 2019 and 40.3% by 2024 compared to 33.7% in 2014 (2010-2014 average of 32.1%). We assume segmental gross profit margin to average 65.8% for the period during 2015-2019, which is almost in line with the last 5-year average of 66.4%. Prevailing lower rates for airfreight is likely to positively impact margins in the short-term.

Revenue



Sources: KAMCO Research and Aramex

Gross Profit and Gross Profit Margin



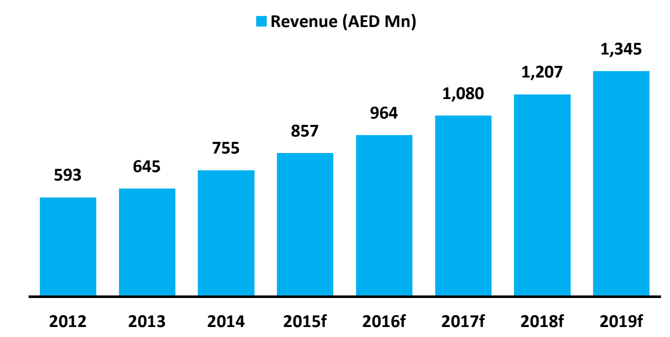
Sources: KAMCO Research and Aramex

Domestic Express Segment

We expect overall assumptions for domestic express to mimic our main assumptions for international express segment as we expect packet volumes to drive revenue going forward. We assume domestic express segment revenue to increase by a 5-year and 10-year CAGR of 12.2% and 11.4% over our forecast period (historical trend – 5-year and 10-year CAGR of 20.1% and 23.3% mainly driven by inorganic growth). Accordingly, we expect revenue contribution from this segment to increase gradually to 24.3% by 2019 and 27.2% by 2024 compared to 20.7% in 2014

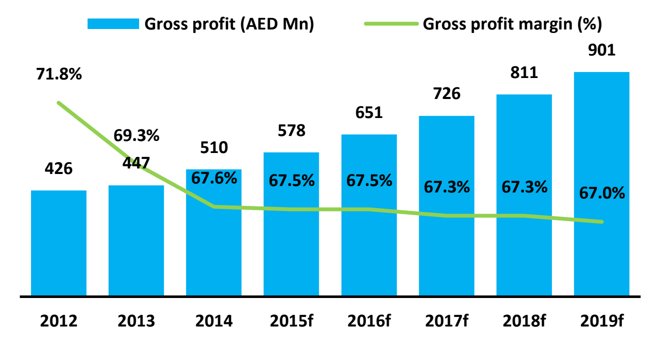
(2010-2014 average of 17.8%). We assume segmental gross profit margin to average 67.3% for the period during 2015-2019. This is in line with the management guidance.

Revenue



Sources: KAMCO Research and Aramex

Gross Profit and Gross Profit Margin

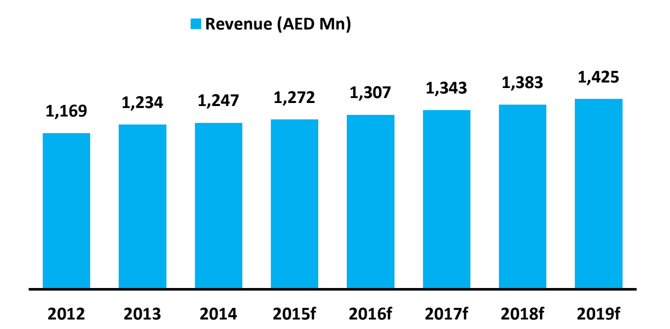


Sources: KAMCO Research and Aramex

Freight Forwarding Segment

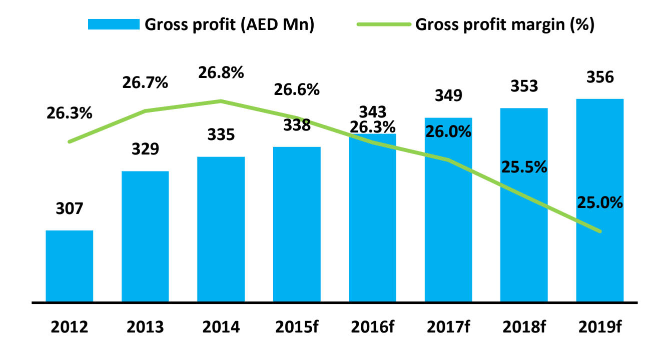
Management expects revenue growth for this segment to be in the range of 3% - 5% over the medium term. However, we conservatively, assume revenue from this segment to increase by a 5-year and 10-year CAGR of 2.7% and 2.8% over our forecast period (historical trend – 5-year and 3-year CAGR of 10.5% and 5.1%). Management confirmed during our call that they expect negligible investments in this particular segment going forward which will limit growth. Segmental revenue grew at 1.1% and 1.4% YoY during 2014 and Q12015 respectively. Accordingly, we expect revenue contribution from this segment to decrease gradually to 25.7% by 2019 and 20.1% by 2024 compared to 34.2% in 2014 (2010-2014 average of 38.6%). We assume segmental gross profit margin to average 25.9% for the period during 2015-2019. This is in line with the management guidance and historical trend (last 5-year average of 27.1%).

Revenue



Sources: KAMCO Research and Aramex

Gross Profit and Gross Profit Margin

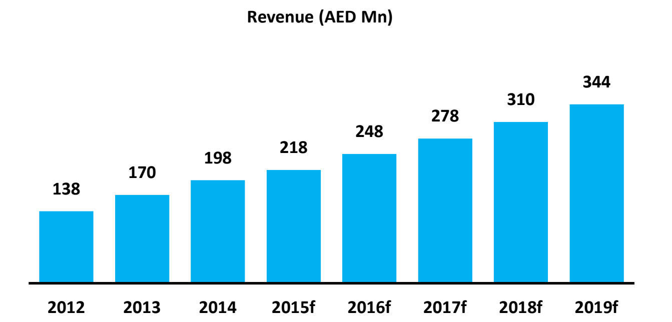


Sources: KAMCO Research and Aramex

Logistics Segment

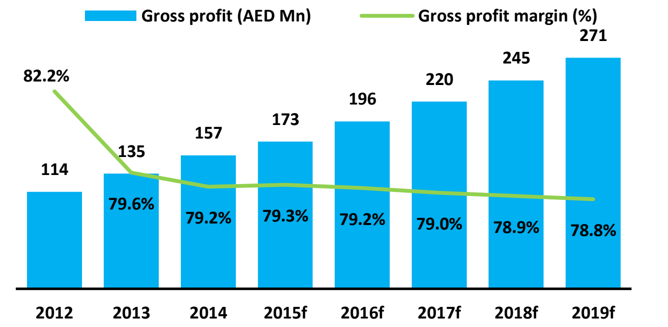
The logistics segment is expected to grow at an impressive rate over the short-term due to the upcoming warehouse space of 50,000 sq.m. in UAE. According to management, current occupancy levels are between 80% - 85%, which is considered as full utilization by industry standards. Hence, growth in revenue will be propelled by space addition rather than growth in rentals and increase in occupancy rates. We have only incorporated the upcoming warehouse in UAE though there are talks about new investments in Saudi Arabia as well. We assume logistics segment revenue to increase by a 5-year and 10-year CAGR of 11.7% and 10.6% over our forecast period (historical trend – 5-year and 3-year CAGR of 9.7% and 21.4%). Our forecast reflects management's guidance on this segment. Accordingly, we expect revenue contribution from this segment to increase gradually to 6.2% by 2019 and 6.6% by 2024 compared to 5.4% in 2014 (2010-2014 average of 4.8%). We assume segmental gross profit margin to average 79% for the period during 2015-2019, which is almost similar to historical long-term average of 78.4% during 2006-2014.

Revenue



Sources: KAMCO Research and Aramex

Gross Profit and Gross Profit Margin



Sources: KAMCO Research and Aramex

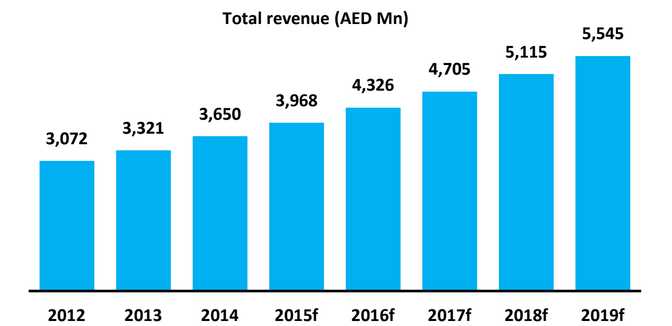
Others

We assume revenue from this segment to increase by a 5-year and 10-year CAGR of 7.2% and 8% over our forecast period (historical trend – 5-year and 10-year CAGR of 8% and 13.4%). We expect revenue contribution from this segment to average 5.7% over our forecast period compared to similar contribution in 2014 (2010-2014 average of 6.7%). We assume segmental gross profit margin to average 87.5% for the period during 2015-2019, which is almost similar to last three-year average of 87.8%.

Total Revenue

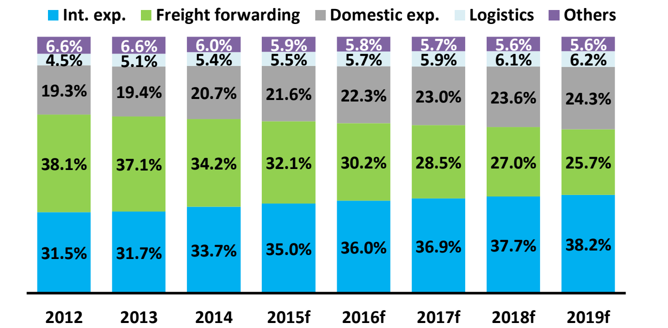
Accordingly, we forecast total revenue to increase at a 5-year and 10-year CAGR of 8.7% and 8.4%. We are a bit conservative compared to management guidance of around 10% growth in topline over the medium term. As discussed earlier the company will benefit from higher contribution from high-margin international and domestic express segment with combined contribution from these two segments gradually increasing to 62.5% by 2015 and 67.5% by 2024 compared to 54.4% in 2014 (2010-2014 average of 49.9%).

Total Revenue



Sources: KAMCO Research and Aramex

Revenue Mix – Business Segments

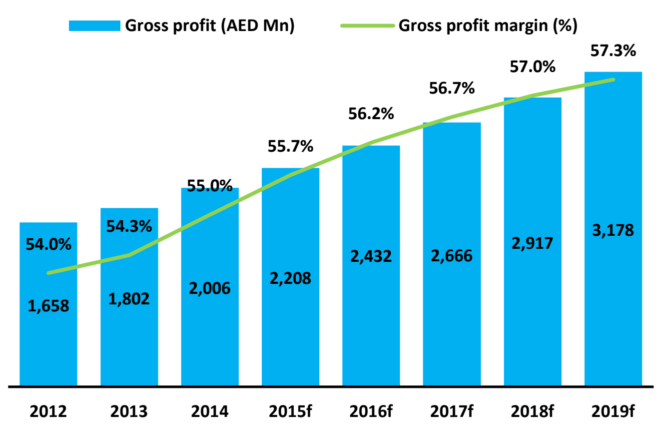


Sources: KAMCO Research and Aramex

Cost Structure and Margins

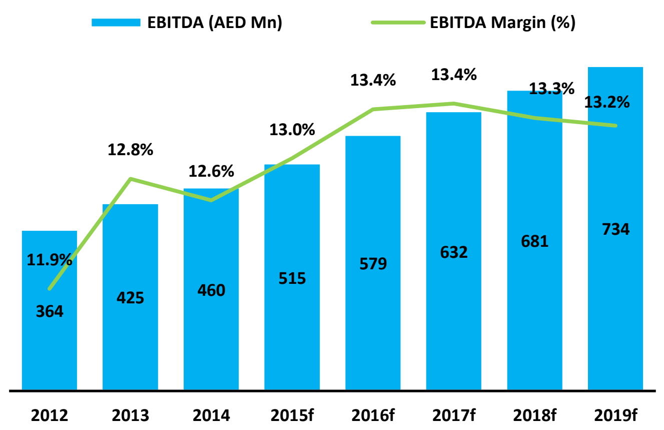
As mentioned earlier we expect gradual change in revenue mix towards high-margin business segments will result in margin expansion at gross profit level. Further expansion in GPM cannot be ruled out completely considering favorable pricing from airlines operator in the short-term due to lower oil prices and free capacity. We expect selling and marketing expenses, administrative expenses and operating expenses to follow historical trend, which is also in line with management guidance. We forecast selling and marketing expenses to average 5.25% of revenue during 2015-2019 compared to last five-year average of 4.8%. We assume administrative and operating expenses to average 18.2% and 19.8% respectively during 2015-2019 compared to last five-year average of 17.5% and 19.2%. Accordingly, we forecast gross profit margin to average 56.6% during 2015-2019 compared to last five-year average of 53.9%. We forecast EBITDA margin to average 13.3% during 2015-2019 compared to last five-year average of 12.3%. We forecast EBIT margin to average 10.7% during 2015-2019 compared to last five-year average of 10%. We forecast net profit to grow at a 5-year CAGR of 9.3%.

Gross Profit and Gross Profit Margin



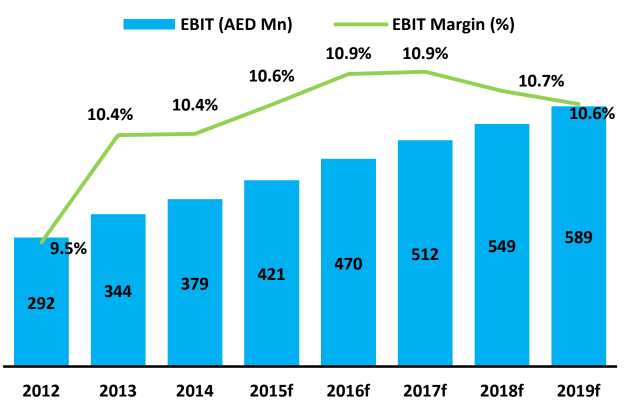
Sources: KAMCO Research and Aramex

EBITDA and EBITDA Margin



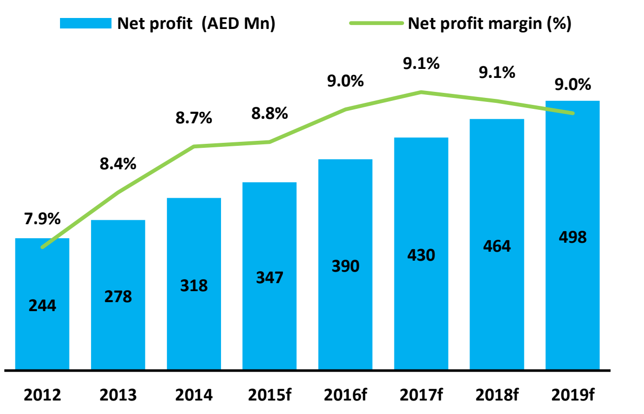
Sources: KAMCO Research and Aramex

EBIT and EBIT Margin



Sources: KAMCO Research and Aramex

Net Profit and Net Profit Margin



Sources: KAMCO Research and Aramex

Interest Expense, Interest Income and Tax Expense

We assume an average annual return of 1.75% on cash and cash equivalents, which is equal to last five years average. We grow expected annual return by 25 basis points each year to reach 2.25% in 2019 compared to 1.27% in 2015.

We forecast debt-to-equity ratio to gradually scale up to 0.4x by 2019 because of financing future acquisitions. We assume effective cost of borrowing to gradually increase from 4.1% in 2014 to 5% by 2020.

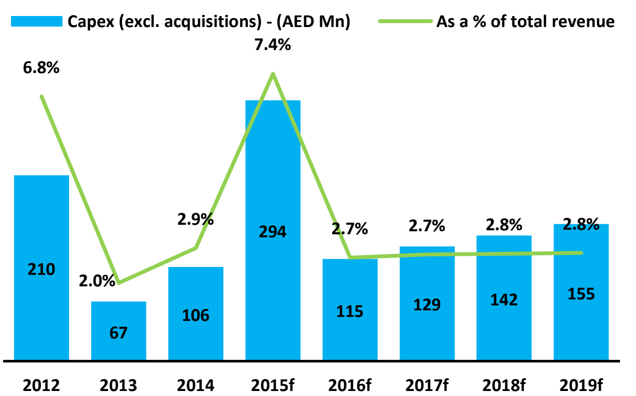
We assume miscellaneous income to average 0.1% of total revenue over our forecast period compared to last five-year average of 0.3%.

We assume income tax expense to average 9.6% of pre-tax profit our forecast period which is in line with the effective tax rate in 2014 (last three year average of 9.3%).

Capex and Depreciation

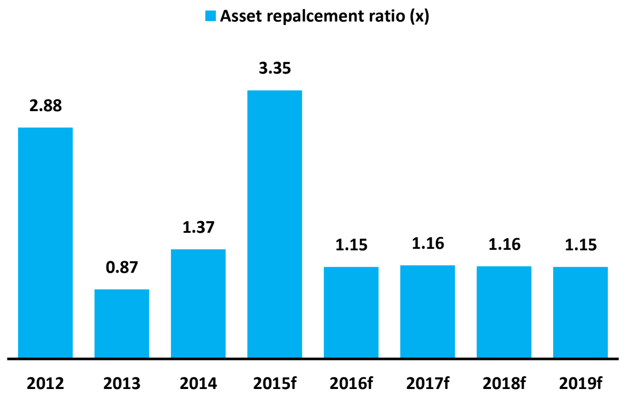
The only major expansion capex is related to a new 50,000 sq.m warehousing space in UAE, which is expected to be operational beginning of 2016. The management expects total capital outlay between USD 50 - 60 Mn (AED 183.5 – 220 Mn). We assume capital expenditure of AED 201 Mn relating to the new warehouse. We assume maintenance capex to average 2.9% of revenue over our forecast period starting 2016. This is a bit higher than the 2.5% guided by the management. Our assumption is below the last three-year average of 3.82%, which would shrink to 3.5% if we exclude the purchase of land in 2012. We forecast annual depreciation charge relating to PP&E block to average 9.3% of average gross block during 2015-2019, which is in line with the 5-year average of 9.4%. We forecast annual amortization charge of 8% on intangibles over our forecast period, which is also similar to historical trend.

Capital Expenditure



Sources: KAMCO Research and Aramex

Asset Replacement Ratio

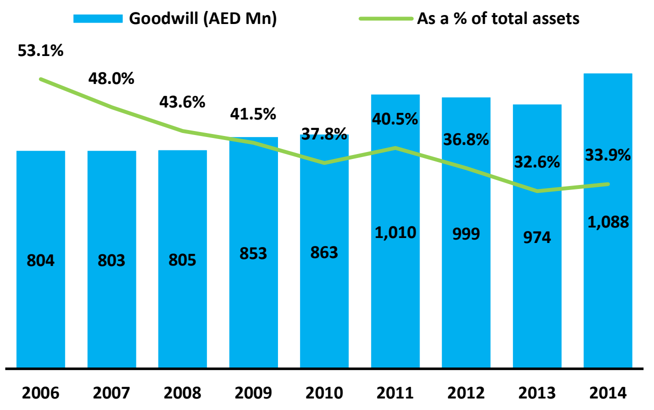


Sources: KAMCO Research and Aramex

Goodwill

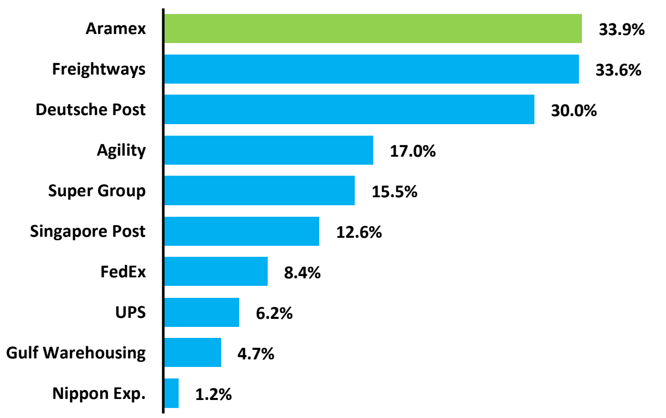
Goodwill, which stood at AED 1.08 Bn as of Q12015 end, accounts for 33.6% of total assets and 21.5% of current market capitalization. In the absence of management guidance and further information on upcoming acquisitions, we assume it to remain constant over our forecast period. However, continuing with the company's future acquisition strategy we expect this amount to swell further going forward. We believe that goodwill is one of the main reasons for Aramex's lower return on average equity compared to its global peers. As we see in the chart below that Aramex has the highest portion of its assets locked in goodwill compared to its global peers, which unfavorably impacts the company's asset turnover ratio thus leading to lower return on equity. Aramex's debt-free status also negatively contributes to its comparatively lower return ratios.

Historical Trend in Goodwill



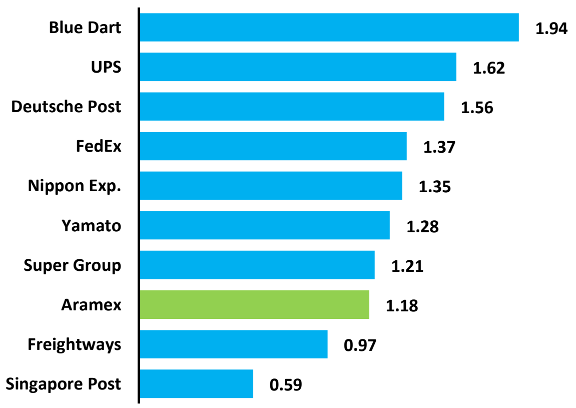
Sources: KAMCO Research and Aramex

Goodwill as a % of Total Assets – Global Comparison



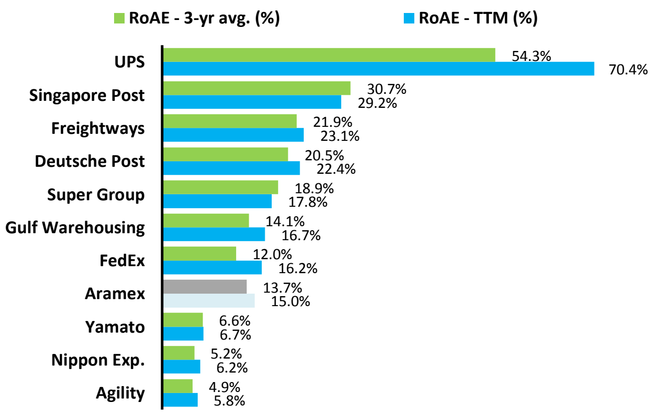
Sources: KAMCO Research, Bloomberg and Aramex

Asset Turnover Ratio – Global Comparison



Sources: KAMCO Research, Bloomberg and Aramex

Return on Average Equity – Global Comparison



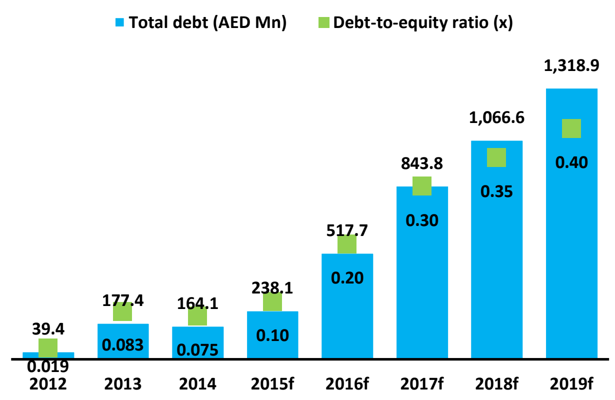
Sources: KAMCO Research, Bloomberg and Aramex

Leverage and Return Ratios

The company has recently finalized a USD 150 Mn five-year loan with a consortium of local banks which will be used to fund three acquisitions in 2015 - in Africa (particularly Nigeria), Asia and in the GCC. We have not incorporated these acquisitions in our model due to absence of any further information. Aramex, currently a net debt free company (net cash of AED 431 Mn / USD 117.5 Mn). We forecast debt-to-equity ratio to gradually scale up to 0.4x by 2019 because of financing future acquisitions. We assume effective cost of borrowing to gradually increase from 4.1% in 2014 to 5% by 2020.

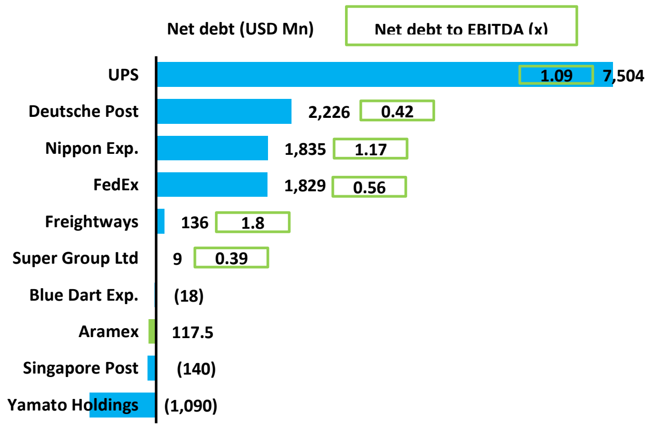
As mentioned in the earlier segment, the high amount of goodwill negatively impacts Aramex's return ratios by decreasing asset turnover ratio. The company's net-debt free status also negatively contributes in bringing down return of average equity. However, if we deduct the goodwill amount from equity and recalculate RoAE, then we see that the ratio significantly jumps from the reported levels (refer to chart RoAE – Adjusting Goodwill)

Total Debt and Debt-to-Equity Ratio



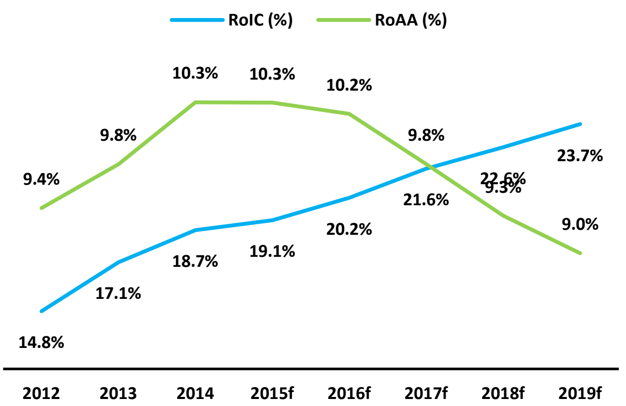
Sources: KAMCO Research and Aramex

Leverage – Global Comparison



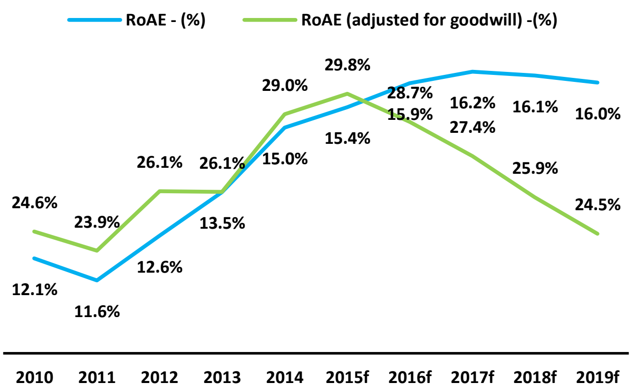
Sources: KAMCO Research, Bloomberg and Aramex

RoAA and RoIC



Sources: KAMCO Research and Aramex

RoAE – Adjusting Goodwill



Sources: KAMCO Research and Aramex

Free Cash Flow / Dividend Analysis

We expect the company to generate significant free cash flows going forward. As discussed earlier Aramex's asset light business results in minimal capex and hence we expect free cash flows to significantly increase from 2016 onwards once the payment for the new warehouse is completed. However, the company's acquisition strategy will continue to use the excess cash generated from operations. The management has guided us to a target dividend payout ratio of 60%-65%. We have assumed dividend payout ratio of 65% over our forecast period. On a ttm basis, the stock is trading at a dividend yield of 4.1% and free cash flow yield of 4.2%. Our free cash flow analysis suggests there is still significant upside potential for the dividend yield from current levels, taking into account notable free cash generation from 2016 onwards.

Free Cash Flow and Dividend Analysis

	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
FCF (AED Mn)	123	374	198	157	374	395	422	452
Cash dividends (AED Mn)	146	168	205	226	253	280	302	324
Dividend per share (AED)	0.10	0.12	0.14	0.15	0.17	0.19	0.21	0.22
FCF / Net Profit (%)	50%	134%	62%	45%	96%	92%	91%	91%
Dividend Cover (x)	0.84	2.22	0.97	0.70	1.48	1.41	1.40	1.40
Dividend Payout Ratio (%)	60%	61%	64%	65%	65%	65%	65%	65%
FCF Yield (%)	4.4%	8.8%	4.6%	3.3%	7.9%	8.4%	8.9%	9.5%
Dividend Yield (%)	5.0%	3.8%	4.5%	4.5%	5.1%	5.6%	6.0%	6.5%

Sources: KAMCO Research and Aramex

We positively view the 21.7% increase in DPS in 2014 to AED 0.14 per share compared to AED 0.115 per share in 2013 and expect the company to grow its dividend going forward in line with growth in FCF.

Financial Indicators

Balance Sheet (AED Mn)	2012	2013	2014	2015f	2016f	2017f	2018f
Assets							
Cash and cash equivalents	334	657	620	694	1,165	1,686	2,110
Receivables	583	604	687	744	811	882	959
Total current assets	1,053	1,388	1,498	1,645	2,184	2,794	3,314
Net property, plant and equipment	570	542	531	736	746	759	772
Goodwill	999	974	1,088	1,088	1,088	1,088	1,088
Other assets	94	83	91	87	83	80	76
Total assets	**2,715**	**2,986**	**3,207**	**3,555**	**4,100**	**4,720**	**5,250**
Liabilities							
Long-term debt	12	128	97	238	518	844	1,067
Accounts payable and other liabilities	156	163	179	197	215	234	254
Short-term debt	27	49	67	0	0	0	0
Total liabilities	**702**	**896**	**1,042**	**1,213**	**1,555**	**1,955**	**2,255**
Shareholders' Equity							
Share capital	1,464	1,464	1,464	1,464	1,464	1,464	1,464
Retained earnings	481	587	708	851	1,014	1,191	1,376
Other reserves	15	-67	-185	28	67	110	156
Total Shareholders Equity	**2,014**	**2,090**	**2,165**	**2,342**	**2,545**	**2,765**	**2,996**
Total liabilities and equity	**2,715**	**2,986**	**3,207**	**3,555**	**4,100**	**4,720**	**5,250**

Income Statement (AED Mn)	2012	2013	2014	2015f	2016f	2017f	2018f
Revenue	3,072	3,321	3,650	3,968	4,326	4,705	5,115
Cost of goods sold	(1,414)	(1,518)	(1,643)	(1,759)	(1,894)	(2,039)	(2,198)
Gross profit	**1,658**	**1,802**	**2,006**	**2,208**	**2,432**	**2,666**	**2,917**
General and administrative expenses	(703)	(737)	(836)	(913)	(995)	(1,101)	(1,215)
Other operating expenses	(586)	(636)	(707)	(778)	(854)	(929)	(1,018)
Other operational Income/Loss	(4.0)	(5)	(4)	(4)	(4)	(4)	(4)
EBITDA	**364**	**425**	**460**	**515**	**579**	**632**	**681**
Depreciation and amortization	(73)	(81)	(81)	(93)	(109)	(120)	(132)
EBIT	**292**	**344**	**379**	**421**	**470**	**512**	**549**
Finance costs	(2.8)	(8.5)	(7.1)	(7.1)	(9.9)	(13.7)	(21.9)
Interest/investment income	4.3	6.3	7.7	8.3	13.9	24.9	37.9
Other Income/Loss	3.7	5.9	4.3	4.5	4.8	5.2	5.6
Net profit before taxes	**297**	**348**	**384**	**427**	**479**	**528**	**570**
Provision for Income Taxes	(27)	(32)	(37)	(41)	(46)	(51)	(55)
Net profit after taxes	**270**	**316**	**347**	**386**	**433**	**478**	**516**
Minority interest	(27)	(37)	(29)	(39)	(43)	(48)	(51)
Net profit attributable to parent	**243**	**279**	**318**	**347**	**390**	**430**	**464**
EPS (AED)	**0.17**	**0.19**	**0.22**	**0.24**	**0.27**	**0.29**	**0.32**

Cash Flow (AED Mn)	2012	2013	2014	2015f	2016f	2017f	2018f
Net cash from operating activities	370.2	444.7	459.0	467.5	507.0	543.8	583.7
Net cash (used in) from investing activities	(234.4)	(59.9)	(250.4)	(266.9)	(81.1)	(83.5)	(82.0)
Net cash from (used in) financing activities	(99.0)	(40.1)	(245.4)	50.6	45.4	60.5	(77.4)
Change in cash and cash equivalents	36.8	344.7	(36.8)	251.3	471.3	520.8	424.3
Cash at the end of the year	**333.7**	**657.0**	**620.0**	**693.6**	**1,164.9**	**1,685.7**	**2,110.0**

Source : KAMCO Research and Aramex

Key Financial Ratios

Key Ratios	2012	2013	2014	2015f	2016f	2017f	2018f
Asset Structure and Leverage Ratios							
Total Liabilities / Total Assets (%)	25.8%	30.0%	32.5%	34.1%	37.9%	41.4%	42.9%
Total Debt / Total Assets (x)	0.01	0.06	0.05	0.07	0.13	0.18	0.20
Total Debt / Equity (x)	0.02	0.08	0.08	0.10	0.20	0.31	0.36
Interest Coverage Ratio (x)	103	41	54	60	47	37	25
Liquidity Ratios							
Current Ratio (x)	1.9	2.2	1.9	2.1	2.6	3.2	3.6
Quick Ratio (x)	1.6	2.0	1.6	1.8	2.4	2.9	3.3
Cash Ratio (Cash & Eq./Current Liabilities) (x)	0.6	1.0	0.8	0.9	1.4	1.9	2.3
Operating Efficiency Ratios							
Receivables Turnover (x)	5.7	5.6	5.7	5.5	5.6	5.6	5.6
Days sales outstanding	69	71	70	66	66	66	66
Accounts Payable Turnover (x)	8.9	9.5	9.6	9.4	9.2	9.1	9.0
Days payable outstanding	41	38	38	39	40	40	40
Total Assets Turnover Ratio (x)	1.2	1.2	1.2	1.2	1.1	1.1	1.0
Cash conversion cycle	28	32	32	27	26	26	25
Profitability Ratios							
Return on Average Assets (%)	9.4%	9.8%	10.3%	10.3%	10.2%	9.8%	9.3%
Return on Average Equity (%)	12.6%	13.5%	15.0%	15.4%	15.9%	16.2%	16.1%
ROIC (%)	14.8%	17.1%	18.7%	19.1%	20.2%	21.6%	22.6%
Margins							
Gross profit margin (%)	54.0%	54.3%	55.0%	55.7%	56.2%	56.7%	57.0%
EBITDA margin (%)	11.9%	12.8%	12.6%	13.0%	13.4%	13.4%	13.3%
EBIT margin (%)	9.5%	10.4%	10.4%	10.6%	10.9%	10.9%	10.7%
Net profit margin (%)	7.9%	8.4%	8.7%	8.8%	9.0%	9.1%	9.1%
Payout Ratios							
Dividend Payout (%)	60.0%	60.6%	64.4%	65.0%	65.0%	65.0%	65.0%
Free Cash Flow Payout (%)	119.2%	45.1%	103.6%	143.6%	67.8%	70.7%	71.6%
Market Data and Valuation Ratios							
Closing Share Price (AED)	2.0	3.0	3.1	3.4	3.4	3.4	3.4
Number of Shares (Mn)	1464.1	1464.1	1464.1	1464.1	1464.1	1464.1	1464.1
Market Capitalization (AED Mn)	2,928	4,451	4,539	5,007	5,007	5,007	5,007
Enterprise Value (AED Mn)	2,810	4,243	4,276	4,734	4,734	4,734	4,734
Earnings Per Share (AED)	0.17	0.19	0.22	0.24	0.27	0.29	0.32
Book Value Per Share (AED)	1.38	1.43	1.48	1.60	1.74	1.89	2.05
Dividend Per Share (AED)	0.10	0.12	0.14	0.15	0.17	0.19	0.21
PE (x)	12.0	16.0	14.3	14.4	12.8	11.6	10.8
EV/EBITDA (x)	7.7	10.0	9.3	9.2	8.2	7.5	7.0
PB (x)	1.5	2.1	2.1	2.1	2.0	1.8	1.7
Dividend Yield (%)	5.0%	3.8%	4.5%	4.5%	5.1%	5.6%	6.0%
FCF Yield (%)	4.4%	8.8%	4.6%	3.3%	7.9%	8.4%	8.9%

Source : KAMCO Research and Aramex

Note : Forward Valuation ratios are based on current market prices

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