

Aramex PJSC

Equity Research Update

Sector – Transportation

Quest towards total logistics solutions

Regaining IE growth independently & via other product verticals. Retain Neutral
International Express (IE) confirmed its volume rebound from Q4-2023 with a stronger y-o-y performance in Q1-2024 and achieved an expansion in GP margins, but higher volumes came at a significant drop in revenue per shipment from a change in mix of shipments towards lighter shipments, and volume migrations to other product verticals. ARMX seeks to avoid a loss of IE volumes to competitors by moving volumes through their other three product lines. We maintain our Neutral rating and wait for confirmed offsetting signs of IE segment's revenue loss from lower pricing to be visible from growth in Freight Forwarding, Logistics & Domestic Express segments' revenues. Moreover, while ARMX has achieved SG&A efficiencies and continues to focus on growing organic revenues, it would need to execute M&A transactions to lift its ROIC (~5%-6% currently) above its near term WACC of ~7.5%.

IE volumes rediscover momentum but migrate towards lighter shipments

Volumes in the IE segment rebounded y-o-y in Q4-2023 (+31%) and Q1-2024 (+44%), with the Q1-2024 jump ascribed to new customer wins and early Ramadan seasonality, with notable expansion driven by ecommerce and banking sectors. However, revenue per shipment was down ~21% y-o-y in Q1-2024 as the mix of shipments included lighter & smaller parcels as compared to a year ago. Nevertheless, GP margins for the segment improved by ~150bps y-o-y to 34% in Q1-2024 as the company focused on shipments with high-yielding margins. For full year 2024E, we forecast a volume growth of ~30% y-o-y, while the drop in revenue per shipment should normalize at 15% for 2024E, thereby leading segment revenues to grow by 16.2% y-o-y from AED 2.30 Bn (2023) to AED 2.61 Bn in 2024E and thereafter to AED 2.95 Bn by 2026E. Further we do expect volatility in volumes and revenue per shipment trends going forward as international brands eventually migrate from international cross-border shipments to regional sourcing. This migration is ascribed to these e-tailers achieving a certain recurring volumes threshold for certain products, which are then sourced from regional and local hubs as witnessed from trends of ARMX's clients such as Next and SHEIN.

Thesis inflection hinges on other products lines compensating IE's pricing drop

ARMX seeks to avoid IE volumes leakage to competitors by servicing clients through their other three product offerings. The company enables high demand goods volumes to be sourced regionally through its freight solutions, followed by warehousing and last-mile delivery solutions via its Logistics and Domestic Express segments. This should further boost ARMX's logistics footprint by increasing key trade lanes activity along with the company's ambitions to double specialized warehouse capacity from 800k sq.m to 1.6 Mn sq. m by 2027E (Capex: ~USD 150-180 Mn). We believe ARMX's renewed long term thesis now hinges on the Logistics Cluster product offerings of Freight Forwarding & Logistics offsetting the revenue drop from the International Express segment's lower pricing. We look for early evidence of this trend to materialize before including them in our forecasts, excluding which we expect Logistics Cluster revenues to reach AED 2.09 Bn by 2026E, at GP margins of ~15%, as the revenue-mix from specialized verticals remains stable. Apart from maintaining SG&A efficiencies and registering organic volumes growth, M&A continues to be a complementary potential catalyst for ARMX achieving higher ROIC aspirations from the current 5%-6%. The company guided that it is performing due-diligence on few high margin opportunities that are small-to-mid sized transactions while they wait for lower interest rates to tap debt-funding.

Valuation & Risks – TP raised to AED 2.80 (previous: AED 2.40)

Our revised TP of AED 2.80/share is based on a blend of DCF and 2025E EV/EBITDA multiple of 7.0x. Key upside risks: 1) Faster ramp-up of B2B business lines to compensate for IE pricing drop; 2) Execution of value-accretive M&A. Key downside risks: 1) Global recession and geopolitical risks impacting trade and consumer sentiment 2) Higher competition and lower pricing for logistics services 3) FX risks.

Neutral

CMP 17-May-24: AED 2.75

Target Price (TP): SAR 2.80

Upside: +1.9%



Price Perf.	1M	3M	12M
Absolute	5.8%	20.1%	-10.4%
Relative	8.3%	25.0%	-25.2%

Stock Data

Bloomberg Ticker	ARMX DB
Reuters Ticker	ARMX.DU
Last Price (AED)	2.75
MCap (AED Mn)	4,026
MCap (USD Mn)	1,097
EV (AED Mn)	5,273
Stock Performance - YTD (%)	20.1%
PE - 2024E (x)	25.0
EV/EBITDA - 2024E (x)	7.6
Dividend yield - 2024E (%)	-
52-Week Range (AED)	1.96 / 3.11

Sources: Kamco Invest Research & Bloomberg

ARMX Financials	2023	2024E	2025E
Revenue (AED Mn)	5,694	6,072	6,359
GP margins (%)	25.1%	26.1%	26.6%
EBITDA (AED Mn)	603	695	754
EPS (AED/share)	0.089	0.110	0.126
PE (x)	25.7	25.0	21.8
EV/EBITDA (x)	8.0	7.6	6.8

Source: Kamco Invest Research, Aramex

Thomas Mathew

+ (965) 2233 6914

tmathew@kamcoinvest.com

Valuation and Risks

Revised TP of AED 2.80/share; maintain 'Neutral' rating

We rolled over our ARMX forecasts and now forecast group revenues to grow from AED 5.69 Bn in 2023 to AED 6.63 Bn in 2026E at CAGR of 5.2%. Key driver for group revenue growth is an 8.8% CAGR of International Express revenues from strong growth in volumes (2023-26E CAGR: 12.4%). Platform efficiencies across four product verticals should enable group GP margins to increase from 25.1% in 2023 to 26.6% in 2026E, while strong focus on SG&A containment via automation should enable group EBITDA to grow from AED 603 Mn in 2023 to AED 754 Mn in 2026. We see more room to upgrade our EPS forecasts from our current AED 0.110/share for 2024E, 0.126/share for 2025E and AED 0.138/share for 2026E but prefer to wait for confirming trends of higher revenues from the Logistics Cluster during the remainder of 2024.

Weighted Average Fair Value

	Fair value per share (AED)	Weight (%)	Weighted Value (AED)
DCF	2.46	70%	1.72
EV/EBITDA (2025E)	3.60	30%	1.08
Weighted Average Fair Value per Share			2.80
Current market price (17 May 2024)			2.75
Upside			1.9%

Sources: Kamco Invest Research and Bloomberg

Our revised TP of AED 2.80/share is based on a 70:30 blend of DCF, and 2025E EV/EBITDA valuation. In our DCF valuation, we have assumed an average WACC of 7.0% over our forecast period, and a terminal growth rate of 1.5% which we believe adequately represents the sustainable long-term growth rate for the company, given the nature of technological advancement and disruption in the sector. For the terminal value, we have assumed a return on new investment capital (RONIC) that is comparable to the terminal year WACC.

We apply a 2025E EV/EBITDA multiple of 7.0x which is largely in-line with the average of global peers and reflects the challenges in ARMX's operating environment across geographies. We maintain our Neutral rating on the stock and wait for early offsetting signs of IE segment's revenue loss from lower pricing to be visible from growth in Freight Forwarding, Logistics & Domestic Express segments revenues. Moreover, while ARMX has achieved SG&A efficiencies and continues to focus on growing organic revenues, it would need to execute M&A transactions to lift its ROIC (~5%-6% currently) above its near term WACC of ~7.5%.

Upside/downside risks to our rating & forecasts include:

Upside risks:

- Compensatory volumes & stable pricing from Domestic Express to offset lower IE revenue per shipment.
- Faster ramp-up of B2B business lines via strategic partnerships and alliances.
- Strong growth of Logistics cluster.
- Execution of value-accretive M&A transactions.

Downside risks:

- Global recession, geopolitical risks impacting key trade lanes activity and consumer sentiment.
- Higher competition, lower pricing leverage.
- Higher interest rate environment for an extended period, impacting debt funding costs and potential M&A returns.
- Rise of further restrictions from border security and increasing customs duty in the region.
- Lower consumer confidence, leading to lower-than-expected B2C & B2B volumes.
- FX related risks for existing operations, and potential M&A targets.

Aramex Financials						
Balance Sheet (AED Mn)	2021	2022	2023	2024E	2025E	2026E
Assets						
Cash and cash equivalents	769	768	575	728	1,034	1,201
Receivables	1,219	1,130	1,090	1,096	1,148	1,197
Other current assets	294	284	266	284	296	308
Total current assets	2,283	2,183	1,932	2,108	2,478	2,706
Net property, plant and equipment	941	884	881	864	870	873
Goodwill	1,003	1,758	1,750	1,750	1,750	1,750
Other assets	1,173	1,268	1,265	1,291	1,297	1,302
Total assets	5,400	6,093	5,828	6,013	6,395	6,632
Liabilities						
Current Liabilities	1,257	1,163	1,071	1,257	1,286	1,318
Total debt	1,253	2,195	2,067	1,974	2,118	2,101
Other Liabilities	214	216	222	245	270	289
Total liabilities	2,724	3,574	3,360	3,475	3,673	3,708
Shareholders' Equity						
Share capital	1,464	1,464	1,464	1,464	1,464	1,464
Retained earnings	1,501	1,445	1,405	1,475	1,659	1,862
Minority Interest	11	9	7	7	7	7
Other Equity	-299	-399	-408	-408	-408	-408
Total Equity	2,676	2,518	2,468	2,537	2,722	2,924
Total liabilities and equity	5,400	6,093	5,828	6,013	6,395	6,632
Income Statement (AED Mn)	2021	2022	2023	2024E	2025E	2026E
Revenue	6,069	5,926	5,694	6,072	6,359	6,628
Cost of goods sold	(4,638)	(4,502)	(4,267)	(4,488)	(4,668)	(4,855)
Gross profit	1,431	1,424	1,427	1,584	1,692	1,773
SG&A	(1,160)	(1,165)	(1,154)	(1,265)	(1,334)	(1,391)
Other operating income & adjustments	406	357	329	377	397	411
EBITDA	677	616	603	695	754	792
Depreciation and amortization	(371)	(371)	(336)	(371)	(402)	(416)
EBIT	305.7	245.3	266.7	324.2	352.5	376.2
Finance costs	(60.1)	(72.8)	(128.2)	(125.1)	(117.7)	(116.1)
Interest income	6.4	4.9	8.4	6.5	6.6	6.0
Share of JV and associates	10.2	9.2	5.6	10.0	10.0	10.0
Net profit before taxes	262	187	152	216	251	276
Provision for Income Taxes	(81)	(26)	(23)	(54)	(66)	(73)
Net profit after taxes	180.8	161.0	129.7	162	185	203
Minority interest	(1)	(0)	0.9	(1)	(1)	(1)
Net profit attributable to parent	179	161	131	161	184	202
EPS (AED)	0.122	0.110	0.089	0.110	0.126	0.138

Cash Flow (AED Mn)	2021	2022	2023	2024E	2025E	2026E
Net cash from operating activities	315.0	566.5	508.1	774.1	632.2	663.1
Net cash (used in) from investing activities	367.0	(931.6)	(60.9)	(444.4)	(393.0)	(403.4)
Net cash from (used in) financing activities	(1,058.3)	479.5	(504.4)	(177.3)	67.4	(92.5)
Change in cash and cash equivalents	(376.2)	114.3	(57.2)	152.4	306.7	167.2
FX and other adjustments	27.5	(115.3)	(136.1)			
Cash and cash equivalents at the end of the year	769	768	575	728	1,034	1,201

Source : Kamco Invest Research and Aramex

Ratios	2021	2022	2023	2024E	2025E	2026E
Asset Structure and Leverage Ratios						
Total Debt / Total Assets (x)	0.23	0.36	0.35	0.33	0.33	0.32
Total Debt / Equity (x)	0.47	0.87	0.84	0.78	0.78	0.72
Profitability Ratios						
Return on Average Assets (%)	3.3%	2.6%	2.2%	2.7%	2.9%	3.1%
Return on Average Equity (%)	6.7%	6.4%	5.3%	6.3%	6.8%	6.9%
ROIC (%)	5.7%	4.7%	5.4%	6.0%	5.9%	6.0%
Margins						
Gross profit margin (%)	23.6%	24.0%	25.1%	26.1%	26.6%	26.8%
EBITDA margin (%)	11.1%	10.4%	10.6%	11.5%	11.9%	12.0%
EBIT margin (%)	5.0%	4.1%	4.7%	5.3%	5.5%	5.7%
Net profit margin (%)	3.0%	2.7%	2.3%	2.6%	2.9%	3.1%
Per Share Data and Valuation Ratios						
Earnings Per Share (AED)	0.122	0.110	0.089	0.110	0.126	0.138
Book Value Per Share (AED)	1.828	1.720	1.686	1.733	1.859	1.997
Dividend Per Share (AED)	0.130	0.095	0.00	0.00	0.00	0.00
PE (x)	33.5	32.0	25.7	25.0	21.8	19.9
EV/EBITDA (x)	9.6	10.7	8.0	7.6	6.8	6.2
PB (x)	2.2	2.0	1.4	1.6	1.5	1.4
Dividend Yield (%)	3.2%	2.7%	0.0%	0.0%	0.0%	0.0%

Source : Kamco Invest Research and Aramex

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Kamco Investment Company - K.S.C. (Public)

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 2233 6600 Fax: (+965) 2249 2395

Email : kamcoird@kamcoinvest.com

Website : www.kamcoinvest.com