

## Aramex PJSC

Equity Research Update

Sector – Transportation

### Rebasing of scale economics continues

**Segments continue to rebase; full potential growth by H2-2024E. Retain Neutral**  
ARMX's express segments would require until H2-2024E to fully realize its full potential operations with 1) International Express integrating operations and achieving synergies from its movement to Sarsota, and 2) Domestic Express completing its Oceania restructuring on new pricing and recapturing its network market share. We continue to view the company's strategy to increase revenue contribution from B2B & Logistics Clusters as more defensible, as it leverages its strategic alliances of key shareholders such as ADQ and Geopost. Nevertheless, we maintain our Neutral rating and wait for the Courier business to fully realize synergies, and for core B2B segments' revenues to achieve capex-led growth, before including EPS upgrades for our medium-term forecasts. Separately, potential value accretive M&A in the Logistics Cluster should provide a re-rating for ARMX as it supports the company's market share aspirations.

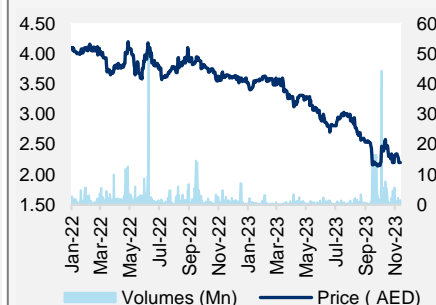
**Organic MyUS volumes recovery & integration required for International Express**  
International Express GP margins excluding MyUS should recover by +200 bps in 2023E (~33.8%) as per our estimates on normalized line-haul costs, despite lower Cash on Delivery (COD) business, and increased competition from global players such as DHL, Fedex and local post offices. The vertical also added a new client that is expected to be one of its largest single customers from 2024E onwards. Operations will begin with international cross border orders and move to holding stock in the region and will eventually utilize ARMX's last mile services. Nevertheless, MyUS volumes were down by double digits in percentage terms in 9M-2023, while the movement and integration from JFK to Sarsota is expected to be completed for major destinations such as UAE & Saudi by Jun-2024E. We have penciled in volume growth of ~7% for 2024E and revenues to grow by 8.6% y-o-y from AED 2.22 Bn (2023E) to AED 2.42 Bn in 2024E driven by higher margin direct brand and B2B business, along with full integration and efficiencies of the combined Shop & Ship and MyUS offerings. Domestic Express should recover especially in the Oceania region with the new base pricing set by Australia Post. The new pricing set allows players such as ARMX to adapt and control their network competitively. Further, ARMX will continue to remain opportunistic on PUDO services from clients. As a result, we forecast Courier cluster revenues to reach AED 3.64 Bn in 2023E (2022: AED 3.75 Bn) and recover to AED 3.99 Bn by 2025E and achieve GP margins of ~29.5% over 2023E-25E (2022: 28.9%).

**Logistics revenues to track capex spend and potential M&A over medium term**  
ARMX expects to boost its logistics footprint by increasing key trade lanes activity and doubling the specialized warehouse capacity from 800k sq.m to 1.6 Mn sq. m by 2027E (Capex: ~USD 150-180 Mn). The company aims to increase capacity and leverage on its strong expertise in O&G and Pharma to achieve more low-churn specialized B2B business. Catalysts for the freight business include the NVOCC JV (ARMX:49%) with AD Ports (51%) utilizing their infrastructure and fleet of ships of AD Ports to develop connectivity across the GCC, Indian and West African markets with a target of 10,000 containers in the short term. In terms of M&A, ARMX is more likely to execute in its Logistics Cluster due to better size availability of potential targets in the Freight Forwarding and Logistics verticals. Based on Logistics organic capacity guidance, and stabilization in Freight Forwarding, we forecast Logistics Cluster revenues to recover to AED 2.04 Bn by 2025E, while GP margins should grow by ~190 bps (2025E: 16.0%) from 2022 (14.1%) on higher quality revenue-mix from specialized verticals.

#### Valuation & Risks – revised TP of AED 2.40

Our revised TP of AED 2.40/share is based on a blend of DCF and 2024E EV/EBITDA multiple of 7.0x. Key upside risks: 1) Faster ramp-up of B2B business via strategic partnerships; 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 10-Nov-23: AED 2.20**
**Target Price (TP): SAR 2.40**
**Upside: +9.3%**


Price Perf.	1M	3M	12M
Absolute	-14.7%	-20.6%	-39.1%
Relative	-14.8%	-18.2%	-55.6%

#### Stock Data

Bloomberg Ticker	ARMX DB
Reuters Ticker	ARMX.DU
Last Price (AED)	2.20
MCap (AED Mn)	3,221
MCap (USD Mn)	878
EV (AED Mn)	4,521
Stock Performance - YTD (%)	-39.1%
PE - 2023E (x)	38.5
EV/EBITDA - 2023E (x)	7.2
Dividend yield - 2023E (%)	2.2%
52-Week Range (AED)	2.14 / 3.65

Sources: Kamco Invest Research &amp; Bloomberg

ARMX Financials	2022	2023E	2024E
Revenue (AED Mn)	5,926	5,670	5,961
GP margins (%)	24.0%	25.7%	26.0%
EBITDA (AED Mn)	616	629	666
EPS (AED/share)	0.110	0.057	0.081
PE (x)	32.0	38.5	27.1
EV/EBITDA (x)	10.7	7.2	6.7
Div Yield (%)	2.7%	2.2%	3.1%

Source: Kamco Invest Research, Aramex

**Thomas Mathew**

+ (965) 2233 6914

[tmathew@kamcoinvest.com](mailto:tmathew@kamcoinvest.com)

## Valuation and Risks

### Revised TP of AED 2.40/share; maintain 'Neutral' rating

We reworked our ARMX forecasts to reflect: 1) A double-digit percentage decline in MyUS volumes for the International Express segment in 2023, and 2) Lower Oceania region contribution for the Domestic Express segment. Our model reflects normalized operations from both verticals by H2-2024E. As a result, we forecast Courier cluster revenues to reach AED 3.64 Bn in 2023E (2022: AED 3.75 Bn) while we expect a recovery to AED 3.99 Bn by 2025E at GP margins of ~29.5% over 2023E-25E (2022: 28.9%). For ARMX's Logistics segment, the company aims to increase capacity and leverage its strong O&G and Pharma verticals experience to achieve more low-churn specialized B2B business. Catalysts on the freight business include the NVOCC JV (ARMX:49%) with AD Ports (51%) utilizing their infrastructure and fleet of ships of AD Ports with a target of 10,000 containers in the short term. We see more room to upgrade our EPS forecasts for 2024E (AED 0.081/share) & 2025E (0.097/share) but prefer to wait for confirming trends from H1-2024E.

#### Weighted Average Fair Value

	Fair value per share (AED)	Weight (%)	Weighted Value (AED)
DCF	2.07	70%	1.45
EV/EBITDA (2024E)	3.18	30%	0.95
<b>Weighted Average Fair Value per Share</b>			<b>2.40</b>
Current market price			2.20
<b>Upside</b>			<b>9.3%</b>

Sources: Kamco Invest Research and Bloomberg

Our revised TP of AED 2.40/share is based on a 70:30 blend of DCF, and 2024E 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 2024E 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 the company's Courier business to fully realize its operational synergies, and for core B2B segments' revenues to achieve its capex-led growth, before including EPS upgrades for our medium-term forecasts. Separately, ARMX is more likely to grow via M&A on its Logistics Cluster due to better size availability of potential targets in the Freight Forwarding and Logistics verticals.

### Upside/downside risks to our rating & forecasts include:

#### Upside risks:

- Faster ramp-up of B2B business via strategic partnerships and alliances.
- Strong growth of Logistics cluster.
- Execution of value-accretive M&A transactions.

#### Downside risks:

- Global recession, geopolitical risks impacting trade and consumer sentiment.
- Higher competition, lower pricing leverage.
- Rise of further restrictions from border security and increasing customs duty in the region.
- Lower consumer confidence, leading to lower-than-expected B2C volumes.
- FX related risks for existing operations, and potential M&A targets.

Aramex Financials					
Balance Sheet (AED Mn)	2021	2022	2023E	2024E	2025E
<b>Assets</b>					
Cash and cash equivalents	769	768	526	608	659
Receivables	1,219	1,130	960	1,015	1,046
Other current assets	294	284	249	268	277
<b>Total current assets</b>	<b>2,283</b>	<b>2,183</b>	<b>1,735</b>	<b>1,891</b>	<b>1,982</b>
Net property, plant and equipment	941	884	888	875	874
Goodwill	1,003	1,758	1,757	1,757	1,757
Other assets	1,173	1,268	1,253	1,286	1,317
<b>Total assets</b>	<b>5,400</b>	<b>6,093</b>	<b>5,632</b>	<b>5,809</b>	<b>5,930</b>
<b>Liabilities</b>					
Current Liabilities	1,257	1,163	1,133	1,193	1,214
Total debt	1,253	2,195	1,826	1,862	1,892
Other Liabilities	214	216	222	255	284
<b>Total liabilities</b>	<b>2,724</b>	<b>3,574</b>	<b>3,181</b>	<b>3,310</b>	<b>3,391</b>
<b>Shareholders' Equity</b>					
Share capital	1,464	1,464	1,464	1,464	1,464
Retained earnings	1,501	1,445	1,398	1,445	1,486
Minority Interest	11	9	16	16	16
Other Equity	-299	-399	-427	-427	-427
<b>Total Equity</b>	<b>2,676</b>	<b>2,518</b>	<b>2,451</b>	<b>2,499</b>	<b>2,540</b>
<b>Total liabilities and equity</b>	<b>5,400</b>	<b>6,093</b>	<b>5,632</b>	<b>5,809</b>	<b>5,930</b>
Income Statement (AED Mn)	2021	2022	2023E	2024E	2025E
Revenue	6,069	5,926	5,670	5,961	6,146
Cost of goods sold	(4,638)	(4,502)	(4,212)	(4,412)	(4,534)
<b>Gross profit</b>	<b>1,431</b>	<b>1,424</b>	<b>1,457</b>	<b>1,549</b>	<b>1,611</b>
SG&A	(1,160)	(1,165)	(1,254)	(1,312)	(1,344)
Other operating income & adjustments	406	357	426	428	418
<b>EBITDA</b>	<b>677</b>	<b>616</b>	<b>629</b>	<b>666</b>	<b>685</b>
Depreciation and amortization	(371)	(371)	(405)	(407)	(397)
<b>EBIT</b>	<b>305.7</b>	<b>245.3</b>	<b>224.2</b>	<b>258.7</b>	<b>288.0</b>
Finance costs	(60.1)	(72.8)	(121.4)	(107.5)	(104.5)
Interest income	6.4	4.9	7.7	8.5	8.5
Share of JV and associates	10.2	9.2	10.0	10.0	10.0
<b>Net profit before taxes</b>	<b>262</b>	<b>187</b>	<b>121</b>	<b>170</b>	<b>202</b>
Provision for Income Taxes	(81)	(26)	(36)	(50)	(59)
<b>Net profit after taxes</b>	<b>181</b>	<b>161</b>	<b>84</b>	<b>120</b>	<b>143</b>
Minority interest	(1)	(0)	(1)	(1)	(1)
<b>Net profit attributable to parent</b>	<b>179</b>	<b>161</b>	<b>84</b>	<b>119</b>	<b>142</b>
<b>EPS (AED)</b>	<b>0.122</b>	<b>0.110</b>	<b>0.057</b>	<b>0.081</b>	<b>0.097</b>

Cash Flow (AED Mn)	2021	2022	2023E	2024E	2025E
Net cash from operating activities	315.0	566.5	708.7	581.2	582.9
Net cash (used in) from investing activities	367.0	(931.6)	(389.0)	(400.6)	(398.9)
Net cash from (used in) financing activities	(1,058.3)	479.5	(570.8)	(98.7)	(132.6)
Change in cash and cash equivalents	(376.2)	114.3	(251.1)	81.9	51.4
FX and other adjustments	27.5	(115.3)	8.8		
<b>Cash and cash equivalents at the end of the year</b>	<b>769</b>	<b>768</b>	<b>526</b>	<b>608</b>	<b>659</b>

Source : Kamco Invest Research and Aramex

Ratios	2021	2022	2023E	2024E	2025E
<b>Asset Structure and Leverage Ratios</b>					
Total Debt / Total Assets (x)	0.23	0.36	0.32	0.32	0.32
Total Debt / Equity (x)	0.47	0.87	0.75	0.75	0.75
<b>Profitability Ratios</b>					
Return on Average Assets (%)	3.3%	2.6%	1.5%	2.0%	2.4%
Return on Average Equity (%)	6.7%	6.4%	3.4%	4.8%	5.6%
ROIC (%)	5.7%	4.7%	4.4%	4.8%	5.2%
<b>Margins</b>					
Gross profit margin (%)	23.6%	24.0%	25.7%	26.0%	26.2%
EBITDA margin (%)	11.1%	10.4%	11.1%	11.2%	11.1%
EBIT margin (%)	5.0%	4.1%	4.0%	4.3%	4.7%
Net profit margin (%)	3.0%	2.7%	1.5%	2.0%	2.3%
<b>Per Share Data and Valuation Ratios</b>					
Earnings Per Share (AED)	0.122	0.110	0.057	0.081	0.097
Book Value Per Share (AED)	1.828	1.720	1.674	1.707	1.735
Dividend Per Share (AED)	0.130	0.095	0.049	0.069	0.082
PE (x)	33.5	32.0	38.5	27.1	22.7
EV/EBITDA (x)	9.6	10.7	7.2	6.7	6.5
PB (x)	1.2	1.2	1.3	1.3	1.3
Dividend Yield (%)	3.2%	2.7%	2.2%	3.1%	3.7%

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](mailto:kamcoird@kamcoinvest.com)

Website : [www.kamcoinvest.com](http://www.kamcoinvest.com)