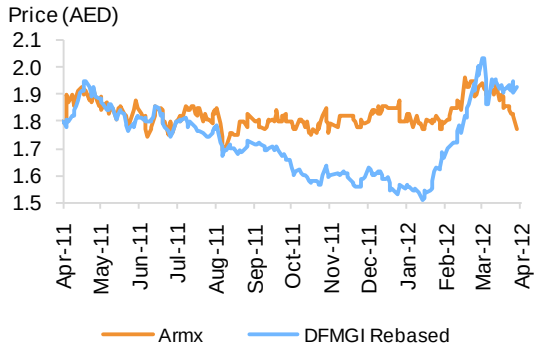
Aramex: All falling into place – BUY (from ACCUMULATE)

- **Aramex posted 4Q11 revenue of AED682m, up 18% YoY and 5% QoQ, in line with our estimate of AED679m. The growth was driven by strong performance in the GCC, healthy European business, and contributions from acquisitions**
- **4Q11 EBITDA margin dipped 0.8pps YoY to 11.4%, slightly below our estimate of 11.6%. Net profit reached AED57m, up 4% YoY and 19% QoQ and 3% below our estimate**
- **We expect the contribution from South African operator Berco – an excellent buy in 4Q11 – to boost 2012 earnings**
- **We forecast a second year of double-digit revenue growth in all segments (except Logistics) in 2012, which would deliver earnings growth of 15%**
- **We raise our 2012E and 2013E earnings estimates by 13% and 15%, respectively, upgrade our recommendation to BUY (from ACCUMULATE), and raise our target price (TP) to AED2.38 from AED2.09**

A solid 4Q11, given the backdrop. Despite the fallout from the Arab Spring, Aramex posted a solid performance in 4Q11, reporting revenue of AED682m, +18% YoY and +5% QoQ, in line with our estimate of AED679m. This growth was underpinned by several factors: strong performance in the GCC countries especially the UAE and Saudi Arabia, along with healthy growth in Aramex's businesses in Europe, and the diversification of its operations into new emerging markets. All business lines saw double-digit revenue growth (Figure 1), with significant growth in the Domestic Express segment: +22% YoY and +14% QoQ.

We expect 15% top-line growth in 2012. In spite of the unrest in the MENA region in 2011 that negatively impacted shipment volumes in the International Express (IE) and Freight Forwarding (FF) segments, both segments saw double-digit revenue growth: +22% YoY and +14% YoY, respectively. We remain bullish on volume growth for 2012 and see yields rising as well, owing partly to a higher fuel cost pass-through, and partly to strengthened demand. We also expect Aramex to see the full-year effect of the acquisition of South African operator Berco in 2012. We forecast total revenue growth of 15% in 2012, of which 8% should come from acquisitions. With regard to Aramex's geographic segments, we believe Egypt (which normally accounts for c. 7% of the group's revenue) will still be down on to pre-revolution levels (although we expect it to experience YoY growth), while Libya and Syria will also remain challenged.

ARMX vs. DFMGI Rebased



Source: Bloomberg, NAEEM Research

Market Price (AED)	1.77
Target Price (AED)	2.38
Upside Potential (%)	34
Free Float (%)	90
Foreign Ownership Limit (%)	49
Market Cap. (AEDm)	2,591
Market Cap. (USDm)	705
Reuters Code	ARMX.DU
Bloomberg Code	ARMX UH

Year to 31 Dec.	2010a	2011a	2012e	2013f	2014f
Revenue (AED)	2,212	2,576	2,961	3,421	3,906
Revenue (% Δ)	12.8	16.5	14.9	15.6	14.2
EBITDA (AED)	274	305	352	413	460
EBITDA Margin (%)	12.4	11.8	11.9	12.1	11.8
EPS (USD)	0.14	0.14	0.17	0.20	0.22
EPS (% Δ)	10.7	3.6	15.6	17.7	13.0
P/E	12.7	12.3	10.6	9.0	8.0
P/FCF	21.6	28.3	18.8	10.2	8.3
Yield (%)	4.2	3.3	3.3	3.9	4.4
ROE (%)	12.0	11.5	12.4	13.2	13.4
Net Debt/Equity (x)	nm	nm	nm	nm	nm
Int. Cov. (x)	nm	nm	nm	nm	nm

Source: Company data, Reuters, NAEEM estimates
Closing price as of 1 April 2012

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Margins to hold steady in 2012. Aramex's 2011 gross margin dipped 1pps YoY, while its EBITDA margin narrowed to 11.8% from 12.4% in 2010. Nevertheless, this was not as bad as expected, given the firming cargo rates charged by airlines, the increased costs associated with the start-up of a number of greenfield operations in Africa, and a one-off wage increase (16% YoY). We expect less margin pressure in 2012, however, owing to contributions from Aramex's new operations, a positive influence from the consolidation of the South Africa operation, small or zero wage increases, and stronger pricing. This may be offset by the impact of higher airline fuel surcharges (these are largely passed through, but not wholly), and secondly, given Aramex's increased size, it is now going after larger accounts and these often attract bigger volume discounts.

International Express (IE). In 4Q11, IE's revenue grew 22% YoY and 9% QoQ, backed by strong growth in its e-commerce business, which comprised 20% of the segment's revenue. Meanwhile, IE's revenue for full-year 2011 grew 21%. According to management, the e-commerce business is growing by more than 30% annually. The segment's gross margin was down just 100bps YoY due to higher cargo rates but up 30bps QoQ. We forecast the IE segment to generate 16% revenue growth in 2012. However, we believe margins will continue to be squeezed slightly by higher fuel prices, as the pass-through may not be perfect.

Domestic Express (DE). DE surprised on the upside in 4Q11, growing by 22% YoY and 14% QoQ. Aramex's recently acquired South African operator, Berco Express, is forecast to add around USD40m in additional revenue.

Logistics – better prospects ahead. In 4Q11, the Logistics segment's revenue grew 11% YoY and 7% QoQ. The company shifted operations last year to its new facility in Dubai Logistics City (a large and efficient unit, with an adjacent, similar-sized plot for expansion). Utilisation at the new facility is said to be c. 60%. The larger capacity has enabled Aramex to chase larger accounts; last year, the company was able to sign an oil services major, and according to management, Aramex is targeting two new major accounts in the Oil Pipeline and FMCG sectors. We anticipate 7% revenue growth from the segment in 2012.

Figure 1: Revenue and margin trend by segment, 4Q11

Segment	Revenue (AEDm)	Growth (%)		Gross profit margin (%)					
		YoY	QoQ	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11
International Express	225	21.7	8.7	67.2	66.4	65.4	64.9	65.0	65.3
Freight Forwarding	276	14.2	-1.9	28.6	28.6	28.0	28.0	27.1	26.8
Domestic Express	103	22.4	14.1	76.7	77.1	78.7	77.8	74.1	72.3
Logistics	30	10.5	7.2	78.4	79.0	80.7	81.5	81.5	81.4
Others	48	16.0	8.2	79.6	76.5	77.3	77.7	78.6	80.0
Overall	**682**	**17.7**	**4.8**	**53.5**	**53.5**	**53.4**	**53.0**	**51.5**	**52.6**

Source: Company data, NAEEM Research

Latest acquisitions to boost revenue and margins. Over the past two years, Aramex has succeeded in expanding its presence in multiple regions through JVs, partnerships, or acquisitions (Figure 1). Apart from Berco Express in South Africa, its acquisitions and JV operations are relatively small, yet the older of the acquisitions should now begin to make positive contributions.

Figure 2: 2011 acquisitions and JVs

Company Name	Location	Business	Type of Agreement
CJ GLS	South Korea	Logistics	A service partnership
Berco Express Ltd.	South Africa	Logistics	Acquisition
Sinotrans Air Transportation Development	China	FF, IE and DE, cargo transportation and logistics services	Joint venture
Aquaship Agencies	Ireland	FF	Acquisition
OneWorld Courier	Kenya	FF	Acquisition
In-Time Couriers	Kenya	DE	Acquisition

Source: Company data, NAEEM Research

Further acquisitions to follow. Management has reconfirmed its commitment to making further strategic acquisitions in key emerging markets, especially in Africa, which it characterises as being lucrative, owing to the potentially high yields and the lower competition. The company's focus is to add small- to medium-sized businesses within the region that can be integrated with its existing operations and, in time, to build a strong pan-African franchise. Currently, Aramex is seeking further acquisitions in countries including Turkey, Nigeria, the Ivory Coast, and Thailand, while also seeking to strengthen its FF business in Kenya.

Adding leverage. Aramex has indicated that it may tap the debt market for the first time since its IPO. Management says it will seek loans of c. USD50m-USD100m for acquisitions; its cash balance currently stands at AED314m after its 2011 acquisitions.

Trading at a 31% discount to peers. We have compared Aramex with selected global peers (a combination of freight forwarders and express carriers). Aramex currently trades at a P/E (2012E) of 10.6x – a 31% discount to the peer average of 15.3x (although Aramex's lower tax environment partially accounts for this). Aramex also trades at a 15% discount to peers on an EV/EBITDA basis.

Figure 3: Comparable valuation

Company Name	Country	Market Cap.	P/E		EV/EBITDA	
		(USDm)	12F	13F	12F	13F
United Parcel Services Inc.	United States	77,388	16.5	14.5	8.9	8.1
FedEx Corporation	United States	29,001	14.2	12.3	5.4	4.7
Deutsche Post AG	Germany	23,296	11.7	10.6	4.9	4.6
CH Robinson Worldwide Inc.	United States	10,676	22.3	19.6	12.7	11.3
Panalpina Welttransport (Holding)	Switzerland	2,672	17.6	14.6	8.4	7.2
Kintetsu World Express Inc.	China	1,253	na	na	5.2	5.0
Sinotrans Air Transport-A	Japan	1,007	12.3	11.1	8.5	7.5
Mainfreight Limited	New Zealand	778	14.8	12.7	8.8	7.8
Freightways Ltd	New Zealand	497	16.7	14.6	10.6	9.5
UK Mail Group Plc	United Kingdom	215	12.0	11.4	5.3	5.1
Average			**15.3**	**13.5**	**7.9**	**7.1**
Aramex	**UAE**	**705**	**10.6**	**9.0**	**6.7**	**5.7**

Source: Bloomberg, NAEEM estimates

Raising TP by 14% to AED2.38/share; upgrading to BUY. We have raised our DCF-based fair value after revising up our 2012E and 2013E revenue estimates by 3% and 7% and earnings estimates by 13% and 15%. Our new TP is AED2.38/share, indicating 34% upside from current levels. As a result, we upgrade our call to BUY from ACCUMULATE.

Disclosure Appendix

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BUY	>20%	59%
ACCUMULATE	>10% to 20%	15%
HOLD	+10% to -10%	22%
REDUCE	<-10% to -20%	0%
SELL	< -20%	4%

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