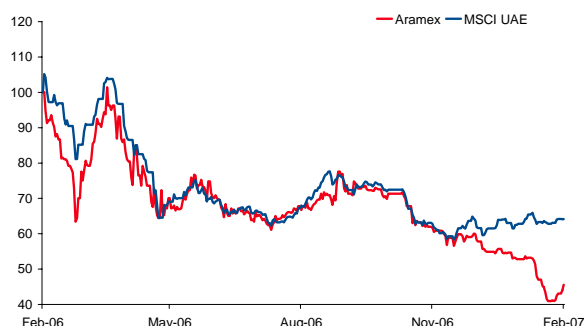


## Key Data

<b>Current Price*</b>	<b>Avg. Value Traded per Day</b>
AED 2.19	AED 32.7 mln
<b>52-Week High</b>	<b>Market Cap</b>
AED 4.88	AED 2.19 bln
<b>52-Week Low</b>	<b>Current Number of Shares</b>
AED 1.97	1,000 mln
<b>Reuters</b>	<b>Bloomberg</b>
ARMX.DU	ARMX.UH
<b>Ownership Structure</b>	
Privately Held: 45%	Public: 55%

Sources: Reuters, Zawya, and MENA Equity Research  
\*Price as of close on February 19, 2007

## Rebased Performance



Sources: MSCI, Reuters, and MENA Equity Research

## Key Ratios

	2006 e	2007 f	2008 f	2009 f	2010 f
P/E	23.0	18.6	14.4	11.2	9.8
EPS Growth	28%	24%	29%	29%	14%
EV/ EBITDA	15.8	13.0	10.2	8.1	7.2
EBITDA Margin	9%	9%	10%	10%	10%
EBITDA Growth	25%	9%	10%	10%	10%
Dividend Yield	4.6%	2.7%	3.5%	4.5%	5.1%
PBV	1.9	1.9	1.7	1.6	1.5
ROAE	9%	10%	13%	15%	16%
<b>2Q2006 EBITDA a</b>		<b>3Q2006 EBITDA a</b>			
AED 36.8 mln		AED 33.3 mln			
<b>4Q2006 EBITDA e</b>		<b>1Q2007 EBITDA f</b>			
AED 39.5 mln		AED 33.5 mln			

Sources: Reuters and MENA Equity Research  
a = actual, f = forecast, e = estimate

## Analyst

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## Highlights

**12-Month Fair Value: AED 2.75**

**Recommendation: Buy – Risk Level\*\*: 3**

**Reason for Report: Initiation of Coverage**

- Aramex is a multimodal logistics and transportation provider with service offerings that range from international and domestic express delivery to freight forwarding, logistics, warehousing, and other specialized services. Aramex is seeking an expansion strategy into Southeast Asia, China, and the United States in the hopes of establishing itself as a global logistics provider.
- Aramex is the leader of the Global Distribution Alliance (GDA), an alliance forged by more than 40 logistics and transportation providers from around the world. Each member of the GDA specializes in a specific region and acts as an arm for the rest of the GDA in that particular location.
- Aramex has been witnessing double-digit growth in revenues since 2002. Revenues have grown from AED 501 million in 2002 to AED 1.36 billion in 2006, a CAGR of 28.4%.
- According to a preliminary earnings release, Aramex's net income for 2006 is AED 95.2 million, a growth of 28% over 2005 net income.
- Although management mentioned that it is eyeing several acquisition options, we did not account for any specific acquisitions by Aramex over our forecast horizon until further details are released.
- We arrived at a 12-month fair value for Aramex of AED 2.75 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward PEG (price-to-earnings ratio to growth) multiples.
- From our subjective criteria for risk, we have assigned Aramex a risk rating of 3 on a scale of 1 to 5.

\*\*Please refer to second page for recommendations and risk ratings.

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#### Risk and Recommendation Guide

Recommendation	Upside (Downside) Potential	Risk Level*				
		1	2	3	4	5
Buy	more than 20%					
Accumulate	between 10% and 20%					
Hold	between -5% and 10%					
Reduce	between -10% and -5%					
Sell	less than -10%					

\*1 being least risky

## EXECUTIVE SUMMARY

Aramex was established in 1982 as an express operator providing services to international express couriers in the Middle East. Today the company is a multimodal logistics and transportation provider with service offerings that range from international and domestic express delivery to freight forwarding, logistics, warehousing, and other specialized services.

Aramex aims to expand its network in the hopes of becoming a global logistics integrator following a business model similar to that of UPS, FedEx, DHL, and TNT. To achieve this goal, Aramex has developed expansion plans for Asia, namely in Southeast Asia and China. Aramex is also looking to expand its presence in the United States by acquiring companies that operate at strategic gateways. Aramex does not aim to compete in the already saturated U.S. market, but wants to improve its coverage to better serve its existing clientele.

Revenues for Aramex have grown from AED 501 million in 2002 to AED 1.36 billion in 2006, a compounded annual growth rate (CAGR) of 28.4%. Until 2005, the increase in revenues was mainly driven by internal growth, but last year the story was different. For 2006, revenues increased by 60%, but a considerable portion of this increase is the result of acquisitions, in particular the acquisition of TwoWay Vanguard. In our opinion, if Aramex had not acquired TwoWay Vanguard, its revenues for 2006 would have increased by 26%. Thus, we can still say that Aramex continued its organic growth in 2006. Based on our assumptions, we are forecasting that the revenues of Aramex will grow at a CAGR of 16% from 2006 till 2012. On the earnings side, Aramex has been experiencing steady growth in net income, which has grown from AED 14.7 million in 2002 to AED 95.2 million in 2006.

From a valuation standpoint, using a combination of discounted cash flow (DCF) and peer comparison based on forward PEG multiples; we believe that the fair value of the share is AED 2.75; representing a 25.5% upside potential from yesterday's close, hence our "Buy" recommendation. Although management mentioned that it is eyeing several acquisition options, our models were not set up to account for any specific acquisitions by Aramex over our forecast horizon until further details are released.

From our subjective criteria for risk, we have assigned Aramex a risk rating of 3 on a scale of 1 to 5. The major risks we see that can affect the value of the company are as follows:

- Aramex's revenues are affected by the level of global trade, in particular the level of Middle Eastern trade.
- Aramex is pursuing a new strategy of expanding into new markets. Though this strategy has its merits, expanding into new markets always carries with it a certain degree of uncertainty.

## VALUATION

The purpose of this valuation exercise is to arrive, through the use of fundamental analysis, at a fair value estimate of the share price that should prevail for Aramex in the next 12 months. This does not represent a guarantee that this value is achievable within that time frame, as a wide range of variables and market dynamics affect the market price of an asset.

Each investor must use his or her favorite mix of fundamental research, technical analysis, and market intelligence to arrive at an investment decision that matches his or her objectives and tolerance for risk.

We arrived at a 12-month fair value for Aramex of AED 2.75 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward PE-to-growth (PEG) multiples. We specified a weight for each method, as shown in Figure 1. The greater weight is assigned to DCF, as this method examines the fundamentals of the company to determine its future cash-generating ability. The 12-month fair value of AED 2.75 represents a 25.5% upside potential from yesterday's close, hence our "Buy" recommendation.

Although the company is considering acquisition targets, we did not incorporate any such acquisitions into our forecast.

**Figure 1 Fair Value per Share**

*Our 12-month fair value for Aramex is AED 2.75*

Valuation Method	Value	Weight
Discounted cash flow	AED 2.43	70%
Peer comparison	AED 3.51	30%
<b>Weighted average fair value</b>	<b>AED 2.75</b>	<b>100%</b>

Source: MENA Equity Research

### DISCOUNTED CASH FLOW VALUATION

Our DCF valuation (Figure 2) is based on forecast financial results through 2012. The DCF valuation is a function of the following major variables, which have been estimated by our models:

- Future net operating profit less adjusted taxes (NOPLAT), which is driven primarily by expectations of sales and operating expenses
- Future changes in working capital
- Future net expenditures on fixed assets
- The weighted average cost of capital (WACC), which is a weighted average of our estimated cost of equity and the after-tax cost of debt
- The long-term expected growth rate in NOPLAT and the expected rate of return on net new invested capital (RONIC)

From the forecast financial results, we extracted the free cash flows that were used in our valuation. We discounted those cash flows to a point in time that is 12 months into the future to obtain an estimate of the value of the company's operations. After subtracting net debt and minority interest and adding the value of non-operating assets, we arrived at a total equity value of AED 2.43 billion.

In order to estimate the value of Aramex's operations, we incorporated a varying WACC into our model. Our selection of a cost of equity of 12% is based mainly on interest rate levels and the operating environment; the selection of 7% for the cost of debt is based on historical norms.

**Figure 2 DCF Valuation**

Figures in AED Thousands*	Forecast				
	Fiscal Year Ends December	2008	2009	2010	2011
<b>Net Operating Profit after Tax</b>	<b>166,104</b>	<b>210,357</b>	<b>237,734</b>	<b>261,078</b>	<b>278,828</b>
Add: Depreciation and Amortization	25,536	30,272	35,039	39,834	44,054
<b>Gross Cash Flow</b>	<b>191,640</b>	<b>240,629</b>	<b>272,773</b>	<b>300,913</b>	<b>322,882</b>
(Incr.)Decr. in Working Capital	(32,853)	(33,322)	(33,281)	(30,354)	(25,347)
(Incr.)Decr. in Operating Fixed Assets	(60,000)	(65,000)	(70,000)	(75,000)	(75,000)
<b>Free Cash Flow from Operations</b>	<b>98,787</b>	<b>142,308</b>	<b>169,493</b>	<b>195,559</b>	<b>222,536</b>
<b>Terminal Value</b>	-	-	-	-	<b>2,891,461</b>
<b>Value of Operations in 12 Months</b>	<b>2,269,931</b>				
Add: Excess Cash	201,285				
Add: Value of Long-Term Investments	-				
Add: Value of Other Long-Term Assets	4,845				
Less: Total Debt	(32,170)				
Less: Minority Interest	(16,141)				
<b>Value of Equity in 12 Months</b>	<b>2,427,750</b>				
<b>Per Share Value in AED</b>	<b>2.43</b>				

Source: MENA Equity Research  
\*Except per share value

*Using the DCF valuation method, we arrived at a fair value per share of AED 2.43*

### Sensitivity Analysis

We performed a sensitivity analysis (Figure 3) on two important inputs for our DCF valuation model: the cost of equity and the perpetual growth rate used in computing the terminal value.

**Figure 3 DCF Sensitivity**

Cost of Equity*	Growth				
	4.50%	4.75%	5.00%	5.25%	5.50%
11.0%	AED 2.72	AED 2.76	AED 2.80	AED 2.85	AED 2.89
11.5%	AED 2.54	AED 2.57	AED 2.60	AED 2.63	AED 2.67
12.0%	AED 2.38	AED 2.40	<b>AED 2.43</b>	AED 2.45	AED 2.48
12.5%	AED 2.24	AED 2.26	AED 2.28	AED 2.30	AED 2.32
13.0%	AED 2.12	AED 2.13	AED 2.15	AED 2.16	AED 2.18

Source: MENA Equity Research  
\*Variations in the cost of equity result in variations in WACC.

*We performed sensitivity analysis on two major inputs for the DCF model*

## PEER GROUP COMPARISON

With a market capitalization of AED 2.19 billion, Aramex is a logistics company whose presence is felt throughout the Middle East. Given the lack of close comparables in the region, besides Agility, we opted to compare the company to similar companies in more mature markets. Highlighted in Figure 4 are companies from the logistics industry that can offer a basis for comparison.

We obtained the consensus forward earnings per share (EPS) and the consensus earnings growth estimates for the next five years for each of the companies (for Agility we used our forecast published on December 14, 2006). The simple average PEG for the sample, excluding the highest and lowest values, was 1.45. Aramex, in contrast, currently trades at a PEG of 0.9, based on our 2007 forecast EPS and next-five-years earnings growth rate. This shows that Aramex is currently trading at a 38% discount compared with its peers.

Using the simple average PEG, excluding the outliers among the seven companies in the sample, we estimate the value of Aramex's share at AED 3.51, based on a forecast EPS of AED 0.12. This represents an upside potential of 60.3% compared with the current market price of AED 2.19.

**Figure 4 Forward PE Comparison**

Company	Market Data		2007 Forecast EPS	PEG
	Price* (USD)	Market Cap (USD Millions)		
CH Robinson Worldwide, Inc.	52.71	9,180	1.75	1.83
Expeditors International	45.10	9,614	1.30	1.76
United Parcel Service (UPS)	74.04	79,485	4.18	1.54
EGL, Inc.	33.58	1,366	1.66	1.52
TNT	45.42	20,873	3.04	1.25
FedEx	117.05	35,948	7.61	1.18
Agility	5.75	4,562	0.75	1.08
<b>Weighted average</b>				<b>1.44</b>
<b>Simple average</b>				<b>1.45</b>
<b>Simple average excluding outliers</b>				<b>1.45</b>
<b>Median</b>				<b>1.52</b>

Sources: Bloomberg and MENA Equity Research  
\*Prices as of February 19, 2007

*The average PEG for the sample, excluding the outliers, stands at 1.45*

## RISKS

- Because Aramex's major presence is in the Middle East, the company is exposed to both the political and economic uncertainties of the region. The political risk in the region is without a doubt higher than normal, but the risk also varies greatly among countries in the region. Also, most of the GCC countries are net exporters of oil, which makes their economic growth highly correlated with the price of oil.
- Aramex's revenues are affected by the level of global trade, and in particular the level of Middle Eastern trade. Any decline in the level of trade activity will have a direct impact on the company's revenues.

- Aramex is pursuing a new strategy of expanding into new markets. Though this strategy has its merits, expanding into new markets always carries with it a certain degree of uncertainty.
- Acquisitions do not always achieve their stated objectives and may result in unforeseen integration costs. Aramex has faced a few problems in integrating TwoWay Vanguard, its largest acquisition to date. Even though we believe Aramex has corrected many of the issues it encountered during the integration of TwoWay Vanguard, the possibility of such problems arising with new acquisitions still exists.
- Another risk that Aramex may be exposed to is the acquisition of Global Distribution Alliance (GDA) members by non-GDA organizations. A single acquisition would have very little impact, but recurrence could take its toll on the international express delivery segment.

## BULLS VS. BEARS

### BULL STORY

- Aramex has a well-established transportation network throughout the Middle East.
- The GDA provides Aramex with a strong global network for international express delivery. Thus, Aramex does not need to be physically present in every single country in the world or to rely on competitors to provide services in countries where it does not have a physical presence. The setup of the GDA grants its members access to 240 countries, where local experts provide services using the same standards of quality.
- Aramex is benefiting from the relatively high traffic at the Dubai International Airport by using it as a hub for its international express delivery and freight-forwarding services. For the freight-forwarding service, Aramex has the flexibility to forward shipments to Dubai via air carriers and then distribute them in the Gulf region through its ground network.
- Aramex has strong brand recognition in the Arab world, currently its major market. In a list of the top 40 Arab brands, which was published by *Forbes Arabia* in October 2006, Aramex held the 13th position.
- The management of the company is visionary, for it foresaw the acquisition of Airborne (the former leader of the GDA) by DHL as a possible threat and preempted it by developing internal skills, enabling Aramex to eventually take control of the GDA.
- Aramex has been experiencing high growth in income over the past four years, with a CAGR of 59.5%.
- The company has a good amount of cash and is essentially debt free, which means that it has enough room to borrow or issue debt securities to pursue its expansion strategy.
- Aramex's structure is essentially non-asset-based. This makes the company's business model more flexible in the face of changing economic conditions.

### BEAR STORY

- Expansion into the freight-forwarding segment means that the company's operating margins will fall.
- Aramex is facing obstacles in the integration of TwoWay Vanguard, and it will take some time to work through these issues. These same kinds of issues are likely to be seen in any acquisition the company makes.
- Aramex and the GDA have weak coverage of the United States.

## OVERVIEW OF MIDDLE EAST LOGISTICS INDUSTRY

The Middle East logistics industry is benefiting from several factors, including high economic growth (driven by the increase in oil prices), an increase in trade activity (on a global and a regional basis), investments in infrastructure, and a limited number of companies that are outsourcing non-core processes. Following is a brief summary of the competitive nature of the major segments of the Middle East logistics industry.

### EXPRESS DELIVERY

The express delivery segment includes the delivery of time-sensitive parcels that weigh less than 50 kilograms. The setup of this segment in the Middle East is quite interesting, as both international and local players compete to provide the service. Big international players, such as DHL, are physically present throughout the region, while others, such as UPS, have a limited presence, mainly through appointed agents in each country. Of the local players operating in the express segment, Aramex is the largest and has established itself as a major express provider in the Middle East. To better understand the competitive nature of the express segment, one should divide the segment into two categories, inbound and outbound.

#### *Inbound*

Inbound service includes the delivery of packages whose final destination is a location in the Middle East but the country of origin is outside the region. The delivery of express parcels to the Middle East is dominated by the international players (and their respective agents), as they are the main providers of this service at the global level.

#### *Outbound*

The state of outbound express service in the Middle East is quite different from that of inbound service. International players, in particular DHL, have a strong presence in the market, but they face stiff competition from local service providers, namely Aramex. Clients for outbound express service can be divided into two categories: multinationals operating in the Middle East and local entities. Most multinationals already have established relationships with global providers of the service, which means that they deal with the global express providers or their respective agents. Local entities, on the other hand, vary from individuals to large corporations. As a whole, local entities represent a much bigger pool of clients who do not have any restrictions on selecting their express service provider. Thus, express providers focus their sales and marketing efforts to target local entities, making it the client base that they compete for.

### FREIGHT FORWARDING

Freight forwarders purchase space in bulk from airlines and ocean carriers and resell the space in packages to shippers at prices better than those they could obtain on their own. Freight forwarders create value by grouping multiple shipments in order to get full-container rates. The Middle Eastern freight-forwarding industry is fragmented, with both large and small operators providing the service. International freight forwarders such as DHL Global Forwarding, Panalpina, Schenker, Kuehne + Nagel, and Expeditors operate in the region. Also, some local companies, such as Agility and Aramex, have considerably expanded their freight-forwarding capabilities within and outside the region.

The smaller local players survive by providing niche services, like specializing in a certain route or a specific type of shipment.

### SUPPLY CHAIN MANAGEMENT

The supply chain management segment includes organizations that offer third-party logistics (3PL) services, such as warehousing, inventory management, and distribution, to their clients. The development of free trade zones across the region has been an important factor in the growth of this segment. Although some international integrators are beginning to offer services in this market, Agility and Aramex remain the leading providers in the Middle East. According to experts in the industry, this segment is still in its infancy, as only a small portion of companies in the Middle East have taken steps to outsource their logistics needs.

## COMPANY OVERVIEW

### COMPANY BACKGROUND

Aramex was established in 1982 as an express operator providing services to international express couriers in the Middle East. Today the company is a multimodal logistics and transportation provider with service offerings that range from international and domestic express delivery to freight forwarding, logistics, warehousing, and other specialized services.

Since its inception the company has seen various kinds of ownership structures. In January of 1997 Aramex became the first Arabian company to be listed on NASDAQ. However, in February 2002 Aramex was delisted from NASDAQ after it was acquired by the private equity firm Abraj Capital. On June 23, 2005, Arab International Logistics Company (AIL) acquired Aramex for AED 681.5 million. AIL was incorporated in the United Arab Emirates (UAE) on February 16, 2005, as a holding company and raised AED 1 billion after its initial public offering on the Dubai Financial Market. Since then AIL has changed its name to Aramex.

### GLOBAL DISTRIBUTION ALLIANCE

The Global Distribution Alliance (GDA) is an alliance forged by more than 40 logistics and transportation providers from around the world. Members of the GDA are small and medium-sized enterprises that, on their own, cannot extend their express services to cover the world. Each member of the GDA specializes in a specific region and acts as an arm for the rest of the GDA in that particular location. In this way, the GDA network operates in more than 240 countries, offering transportation solutions that cover the globe and provide local knowledge.

Aramex is the leader of the GDA and performs two services that are critical to the success of the alliance. Aramex provides the GDA with the information technology (IT) infrastructure required for smooth operations by licensing its tracking system to the other members of the GDA. Also, Aramex handles all the back-office transactions, such as accounting, payment, and clearing, and appointing and replacing agents.

The GDA is based on a network that was set up and led by Airborne Express. The acquisition of Airborne by DHL would have been problematic if Aramex had not had the required competency to take over the leadership of the alliance. The alliance is maintained by the benefits the members receive, such as the following:

- Not having to rely on global integrators and other competitors to service their clients outside their regions of expertise
- Using the same standards of operations as all other GDA members, thereby unifying the quality of service
- Making use of the IT infrastructure provided to the GDA by Aramex
- Greater buying power due to the increased negotiating capability of the group

## MAJOR ACQUISITIONS

Some of the most important acquisitions made by Aramex in the past two years are summarized below.

### *TwoWay Vanguard*

On April 13, 2006, Aramex acquired TwoWay Vanguard, a Dublin-based logistics and freight-forwarding service provider, for AED 95 million. TwoWay Vanguard offers a variety of services, including ocean and air freight-forwarding services, express services between Ireland and the United Kingdom, and other comprehensive supply chain solutions. The acquisition of TwoWay Vanguard will increase the presence of Aramex in the European transportation and logistics market.

### *InfoFort*

Aramex acquired InfoFort, a Dubai-based document management company with five facilities in the MENA region, on July 1, 2005. Aramex plans to expand InfoFort's operations by introducing its services in new markets. InfoFort was acquired for AED 51 million.

### *Freight Professionals*

On February 11, 2006, Aramex announced the acquisition of Egypt-based Freight Professionals. Freight Professionals, which began its operations in 1995, offers freight-forwarding services by air and sea. Freight Professionals also provides customs brokerage services at Cairo International Airport, Alexandria International Airport, and Port Said port. This acquisition strengthens Aramex's position in the Egyptian market and adds new expertise—sea freight forwarding—to the company. Aramex paid AED 30 million for this acquisition.

### *Docman*

On November 14, 2006, Aramex acquired Docman, a Dubai-based company that offers document and record storage services, for AED 15 million. Aramex aims to merge the operations of Docman with InfoFort, which would make InfoFort the leader in document storage and management in the region. Docman's expertise in the energy and financial sectors will increase InfoFort's product range.

### *Priority Airfreight*

On September 20, 2005, Aramex acquired Priority Airfreight, a United Kingdom-based express service provider, for AED 6 million. Priority Airfreight specializes in courier traffic between the United Kingdom and the United States. Priority Airfreight is licensed to operate as a corporate broker at JFK Airport and as an import broker at Heathrow Airport. This acquisition will enhance Aramex's presence in the United Kingdom and the United States and improve its express business across the Atlantic.

## STRATEGY

- Aramex aims to expand its network in the hopes of becoming a global logistics integrator adopting the business model of UPS, FedEx, DHL, and TNT. To achieve

this goal Aramex has developed expansion plans for Asia, namely in Southeast Asia and China. By expanding its distribution network in these areas, management hopes to expand the company's customer base and reduce the geographic concentration of its revenue. The company is currently examining acquisition targets in China.

- Aramex is also looking to expand its presence in the United States by acquiring companies that operate at strategic gateways. Aramex does not aim to compete in the already saturated U.S. market, but wants to improve its coverage to better serve its existing clientele. The GDA currently does not include a U.S.-based company, which explains the need by Aramex to identify acquisition targets.
- The company will continue to expand its one-stop-shop strategy by offering its clients customized solutions in the following areas:
  1. Logistics management
  2. Multimodal regional transportation and distribution
  3. Inventory management
  4. Local warehousing
- Aramex believes that technology plays a crucial role in the success of its business. The company has invested and continues to invest in technology to enhance its quality of service and foster growth. Constant improvements to the communications network and information systems, such as linking offices online and providing customers with the ability to directly access the company's network, will improve both operations and the quality of service. All this should translate into better operating results.
- Aramex plans to leverage its strategic alliance with members of the GDA and to pursue the formation of new alliances.
- Aramex will continue to market its services through specialized teams. These teams have good marketing skills and possess the local market knowledge and industry experience to identify and effectively address individual clients' transportation needs. The aim of this strategy is to provide each station with enough flexibility to customize solutions to meet the needs of local customers.

## BUSINESS SEGMENTS

The major business segments in which Aramex operates are listed below:

### *International Express Delivery*

Aramex provides international express delivery, with committed transit times, of small packages that weigh less than 50 kilograms. This service is offered to retail and wholesale clients. Aramex also provides its clients with an online tracking feature on its Web site.

### *Freight Forwarding*

Aramex offers freight-forwarding services by air, sea, and land. Aramex also provides value-added services such as consolidated freight and customs clearance. A notable advantage for Aramex is its ability to offer multimodal freight services in the MENA region, which usually means that the goods will be shipped either by air or sea to a single point of entry into the MENA region and then distributed by land. A significant portion of the freight-forwarding service involves imports rather than exports.

Freight shipments usually weigh more than 50 kilograms and are less time sensitive than express delivery shipments.

### *Domestic Express Delivery*

Domestic express delivery is a solution for the express delivery of time-critical shipments within a country or a city. In 2002, Aramex boosted its domestic express service in the UAE by acquiring MEMO Express, the leader in domestic express services in the UAE at the time.

### *Logistics*

Aramex offers 3PL services in major locations in the MENA region. Among the services offered are warehousing, distribution, supply chain management, inventory management, and other value-added services. Aramex has logistics centers in the free zones of Jebel Ali in the UAE, Bahrain, and Queen Alia International Airport in Jordan. The company also has logistics centers in Saudi Arabia, Kuwait, Lebanon, Jordan, Egypt, and the United States.

### *Publications Distribution*

Aramex is the leading distributor of foreign and local publications in Jordan.

## RECENT DEVELOPMENTS

- **January 27, 2007:** Aramex implements an AED 5.5 million wireless system that enables ground couriers to transmit collection and delivery information in real time.
- **November 14, 2006:** Aramex announces its acquisition of Docman, a Dubai-based company specializing in document storage and management, for AED 15 million.
- **September 18, 2006:** Dubai Logistics City announces that it has signed deals with four industry heavyweights to operate warehousing and contract logistics facilities. Aramex is one of the companies mentioned in the announcement.
- **May 19, 2006:** Arab International Logistics changes its official name to Aramex.
- **February 11, 2006:** Aramex acquires Egypt-based Freight Professionals.

## FINANCIAL OVERVIEW

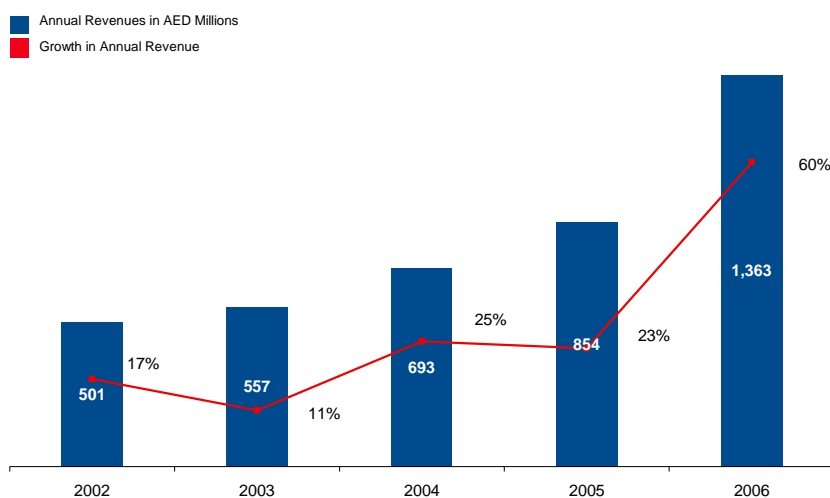
Arab International Logistics was established in 2005 and acquired Aramex later that same year; the company eventually took the Aramex name. Under the current legal structure, the reporting of financial statements starts at the date of inception of Arab International Logistics. However, Aramex is essentially the same company with a different ownership structure, which allows us to use financial statements from the old legal structure to perform our analysis.

### REVENUES

Aramex has been witnessing double-digit growth in revenues since 2002 (Figure 5). Revenues have grown from AED 501 million in 2002 to AED 1.36 billion in 2006, representing a CAGR of 28.4%. Until 2005, the increase in revenues was mainly driven by internal growth. The story for 2006 is not the same, as annual revenues increased 60%. A considerable portion of the increase in revenues for 2006 is the result of acquisitions, in particular the acquisition of TwoWay Vanguard. In our opinion, if Aramex had not acquired TwoWay Vanguard, its revenues for 2006 would have increased by 26%. Thus, we can still say that Aramex continued its strong growth in 2006.

**Figure 5 Revenue and Growth over the Years**

*Revenues for 2006 increased 60%; however, without the acquisition of TwoWay Vanguard the increase would have been 26%*



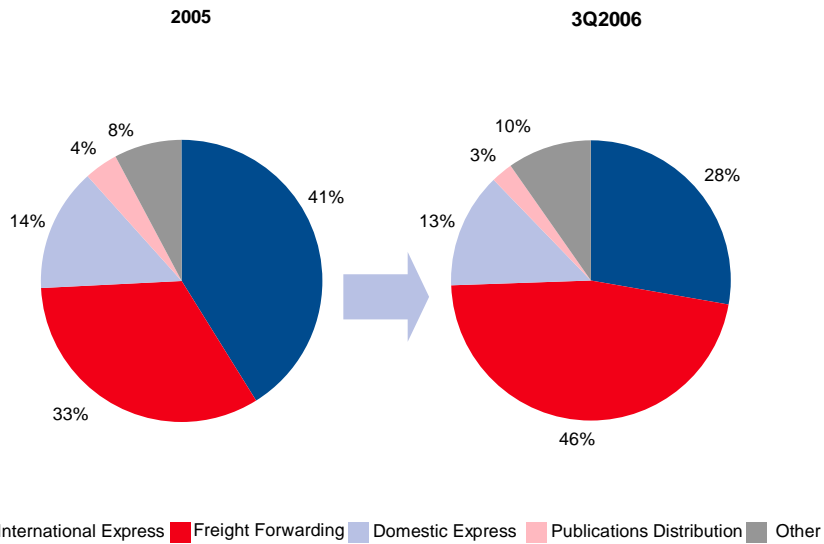
Sources: Annual reports and MENA Equity Research

Figure 6 shows the various segments' contributions to the company's total revenue for 2005 and the third quarter of 2006. In 2005, international express delivery generated 41% of revenue, but in the third quarter of 2006 this percentage dropped to 28%. At the same time, the contribution of freight-forwarding services increased from 33% in 2005 to 46% in the third quarter of 2006. The change in the distribution of revenue by segments is largely due to the acquisition of TwoWay Vanguard, which increased the volume of freight-forwarding services offered by Aramex. Another notable aspect of Figure 6 is that the percentage of revenue generated from domestic express services did not decline significantly after the increase in freight-forwarding services. In fact, domestic express services increased by 53% in the third quarter of 2006 compared to the same period in

2005. We are using third-quarter figures for the analysis because revenues by segment have not yet been reported for 2006. Also, revenues for the third quarter help create clearer expectations for the distribution of revenue by segment in 2007, since the consolidation of TwoWay Vanguard started in April 2006.

**Figure 6 Revenue by Business Segment**

*The revenue segmentation in the third quarter of 2006 provides a better picture of the current revenue-generating capability of each segment*

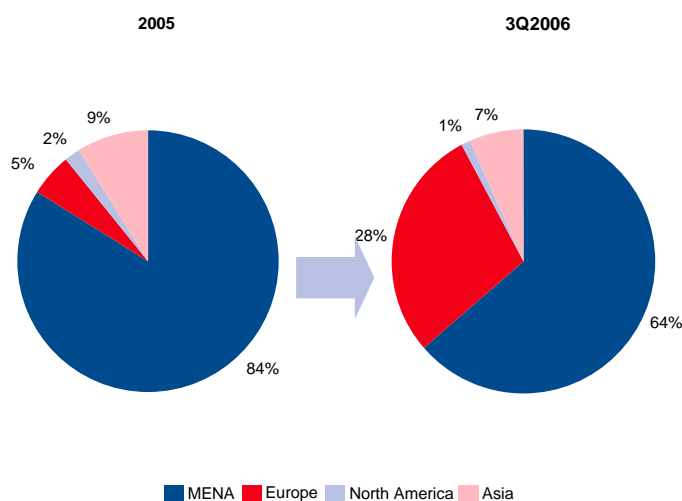


Sources: Annual reports

Figure 7 breaks down the revenue generated by Aramex by geographic region. For this chart, revenue is recognized at the source—the point where the customer was invoiced. As expected, the MENA region generates the bulk of revenues for Aramex. The MENA region contributed 84% of Aramex's revenues in 2005; however, this percentage declined to 64% in the third quarter of 2006. Since TwoWay Vanguard is a Europe-based freight forwarder, the majority of its revenue is generated in Europe. Thus, the acquisition of TwoWay Vanguard is the reason for the change in revenue distribution in the third quarter of 2006.

Figure 7 Revenue by Region

The acquisition of TwoWay Vanguard increased the percentage of revenue originating in Europe



Source: Annual reports

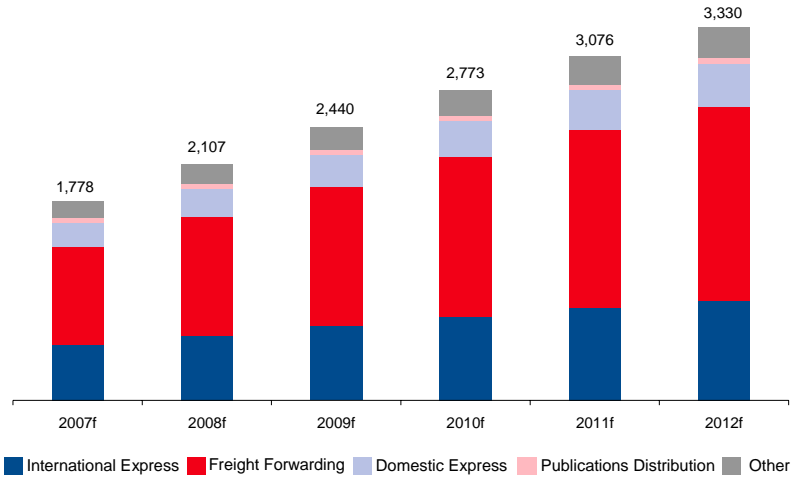
In order to forecast Aramex's revenue through 2012, we made a separate forecast for each of the revenue-producing business segments. Figure 8 presents a summary of our revenue forecasts for Aramex, which reflects a CAGR of 16% from 2006 through 2012. We based our forecast on the following assumptions and calculations:

- For the international express segment, we assumed a growth rate of 20% for 2007, followed by a gradual decline in growth for the next five years. We arrived at this estimate based on our meeting with the company's management and estimates of expected growth in international express delivery in the region as reported in *Middle East Logistics Report*, published by Transport Intelligence.
- For the freight-forwarding segment, we estimated the revenues from freight forwarding that Aramex could have obtained in 2006 had the consolidation of TwoWay Vanguard started at the beginning of 2006. Based on that figure, we applied a 25% increase in revenue for 2007, followed by a gradual decline in growth in the following years. To reach this growth estimate, we examined the relation between the increase in world trade activity and the increase in the sales of major freight forwarders. Then we factored in expected growth in Middle Eastern trade (which is higher than the global average growth), since a considerable portion of Aramex's freight-forwarding activity is Middle East-based.
- For domestic express delivery, we looked at a combination of factors, including the high growth experienced by the segment in recent years, management's opinion, and the expected increase in trade activity in the Middle East. Based on these factors, we feel that 20% growth can be achieved by this segment in 2007.
- For the publications distribution segment, we applied a growth rate of 5%.

- For the revenue classified as “other,” we applied a growth rate of 20% for 2007, followed by a gradual decline in the rate for the years after. Logistics services are currently classified under “other,” and we expect this service to grow in parallel with the freight-forwarding and domestic express segments.

**Figure 8 Revenue Forecast (in AED millions)**

*We expect revenues to grow by a CAGR of 16% from 2006 to 2012*



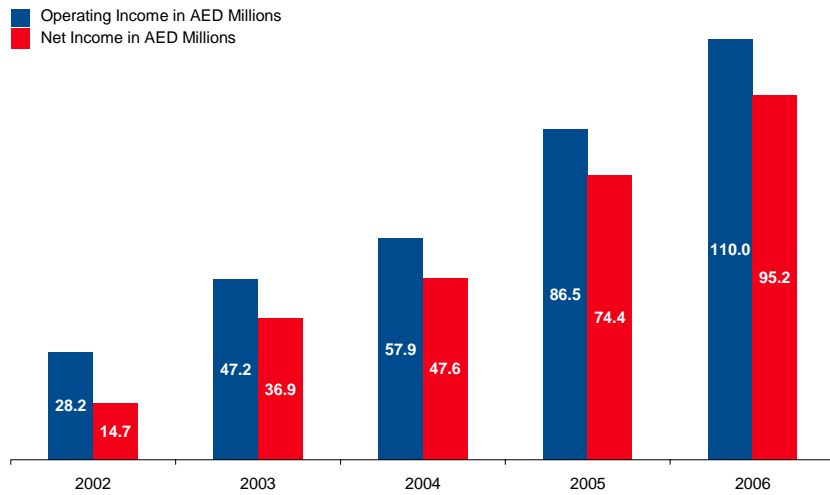
Source: MENA Equity Research

### PROFITABILITY

Over the past four years, Aramex has experienced steady growth in net income, at a CAGR of 59.5%. Figure 9 shows how Aramex’s net income grew from AED 14.7 million in 2002 to AED 95.2 million in 2006. Aramex’s growth in earnings is driven by earnings from core operations. Growth in operating income has been matching the growth in net income by growing at a CAGR of 40.5% over the last four years.

**Figure 9 Net Income and Operating Income**

*According to the preliminary earnings release, Aramex generated net income of AED 95.2 million in 2006*

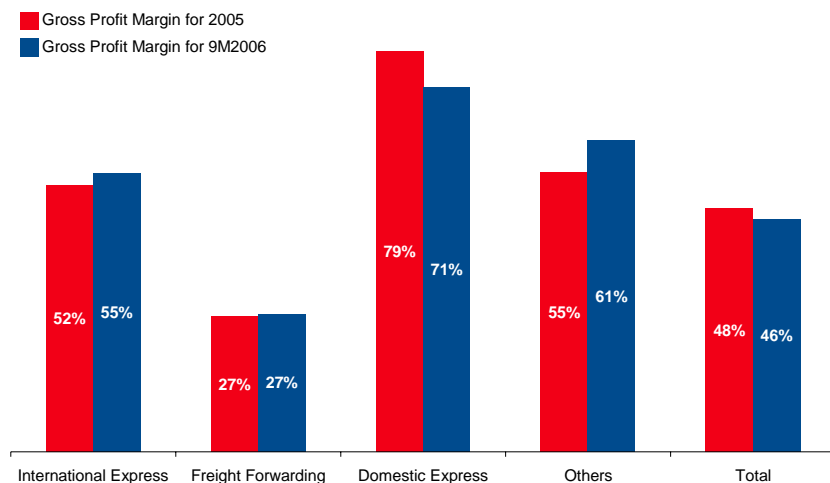


Source: Annual reports

Aramex reports gross profit data by business segment. Figure 10 shows the gross profit margin for the first nine months of 2006 and full year 2005, which are the most recent gross profit figures available. Overall, the company had a gross profit margin of 46% in the first nine months of 2006, representing a slight drop from 2005. This decrease is explained mainly by the increase in freight-forwarding revenue, as this segment typically has low margins. Domestic services had the highest gross profit margin, at 71% for the first nine months of 2006, a bit lower than the 79% level recorded in 2005. International express saw gross profit margins improve in the first nine months of 2006, to 55%.

**Figure 10 Gross Profit Margin by Segment**

*The increase in freight-forwarding revenues is the main reason for the drop in Aramex's gross profit margins*

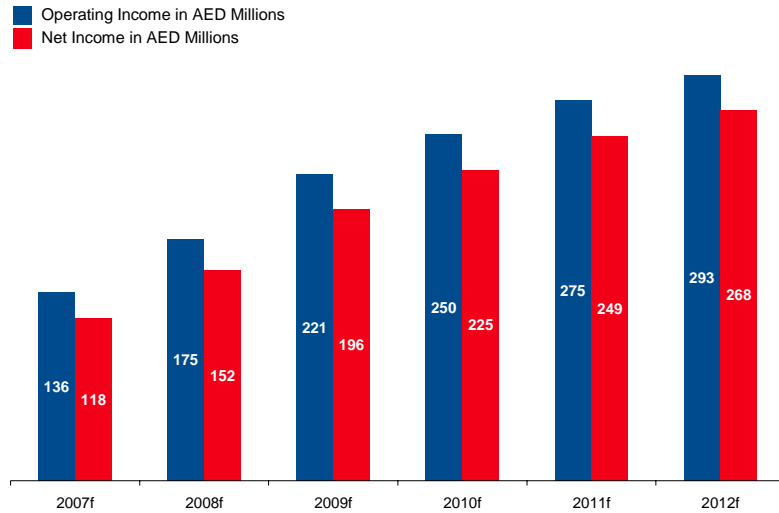


Source: Annual reports

Figure 11 shows our forecast for earnings until 2012. We estimate that Aramex will end its fiscal year 2007 with AED 136 million in operating income. As for the rest of our forecast period, we estimate that operating earnings will reach AED 293 million by 2012.

Figure 11 Earnings Forecast

*We expect operating income to grow by a CAGR of 17.7% over the next six years*

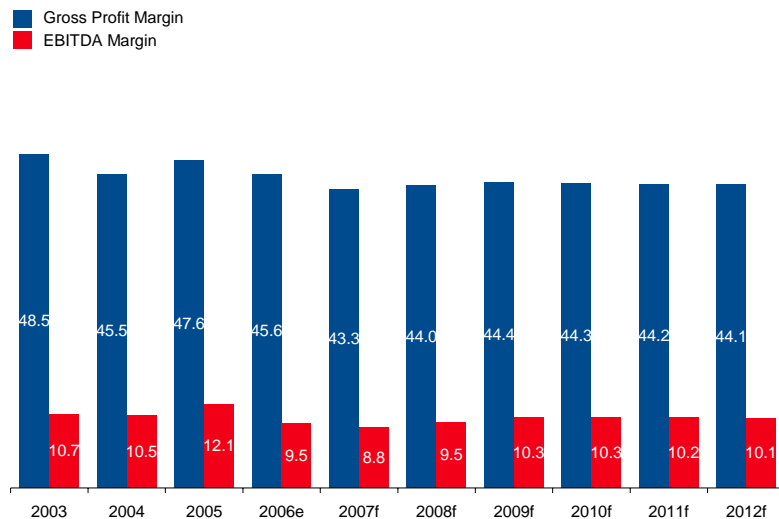


Source: MENA Equity Research

Figure 12 shows the gross profit margin and the EBITDA margin for Aramex over the last four years (2006 is estimated) and our forecast period. The drop in the EBITDA margin in 2006, to 9.5% from 12.1% in 2005, is noticeable. This drop is mainly due to the acquisition of TwoWay Vanguard, as the freight-forwarding business has lower margins.

Figure 12 Gross Profit and EBITDA Margins

*We forecast EBITDA margins to drop due to growth in the freight-forwarding segment, which has the lowest margins*



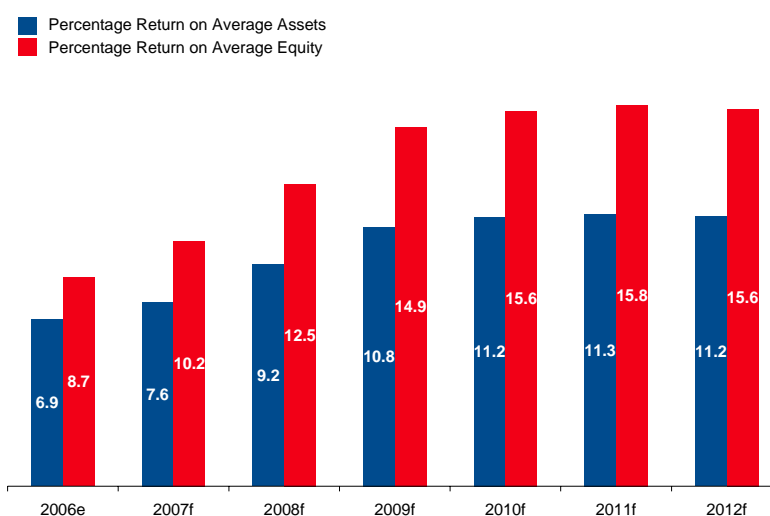
Sources: Annual reports and MENA Equity Research

Moving forward, we forecast that the EBITDA margin will decrease even further in 2007, to 8.8%, as it will be the first full year with TwoWay Vanguard as a subsidiary of Aramex. In the remaining years, we expect the EBITDA margin to improve and settle at a level slightly higher than 10%.

Due to changes in ownership, return ratios computed using historical balance sheets do not offer a reliable basis for comparison. For 2006, the return on assets is around 6.9%, while the return on equity is 8.7%. These ratios are close to each other due to the fact that the company is not leveraged. Figure 13 shows how these ratios should improve throughout our forecast period, based on our growth estimates.

**Figure 13 Return on Average Equity and Return on Average Assets**

*According to our estimates, return ratios will improve throughout the forecast period*



Sources: Annual reports and MENA Equity Research

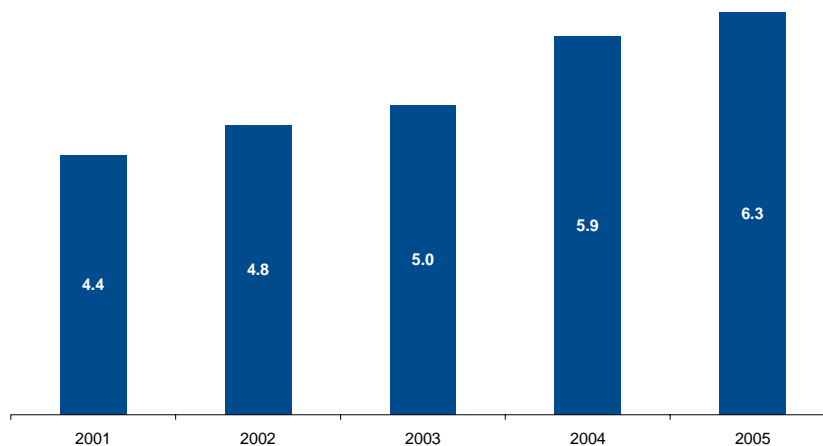
### FINANCIAL HEALTH

Aramex appears to be doing well in terms of liquidity. It currently has more than AED 200 million in cash, most of which is cash remaining from the capital that was raised at the beginning of 2005. Also, the company has very little debt on its balance sheet, which shows that it has the potential to take on debt. We expect that Aramex will use its excess cash and take on debt to finance its expansion strategy and pay out dividends.

Figure 14 shows how Aramex’s receivables turnover has been improving over the years, thus creating more confidence in the collection process of the company. In 2001 Aramex had a receivables turnover ratio of 4.4. This ratio has been constantly improving year by year, and reached 6.3 in 2005. We expect the performance for 2006 to be comparable to that of 2005.

**Figure 14 Average Receivables Turnover**

*The receivables turnover has been on the rise since 2001*



Sources: Annual reports and MENA Equity Research

## GOODWILL

As per the balance sheet on September 30, 2006, Aramex had goodwill of AED 790.4 million. This amount represents 54.6% of total assets. Most of the goodwill figure is explained by two acquisitions, the takeover of Aramex, which resulted in goodwill of AED 579 million, and the acquisition of TwoWay Vanguard, which resulted in goodwill of AED 127 million. Currently we are not worried about the high level of goodwill; Aramex and most of its subsidiaries are not asset based, which explains why a high goodwill figure arises with such acquisitions.

## FINANCIAL STATEMENTS

Balance Sheet (AED Thousands)		Historical					Forecast				
Fiscal Year Ends December	2003	2004	2005	2006e	2007	2008	2009	2010	2011	2012	
<b>ASSETS</b>											
Cash and Short-Term Investments	54,727	54,040	340,360	246,498	200,846	250,200	322,505	398,268	487,046	591,752	
Total Receivables, Net	115,528	127,828	158,784	251,572	307,603	364,438	422,084	479,659	532,172	576,022	
Total Inventory	1,388	2,284	-	-	-	-	-	-	-	-	
Prepaid Expenses	4,943	6,376	7,938	-	-	-	-	-	-	-	
Other Current Assets, Total	5,737	9,512	12,409	79,193	97,793	115,862	134,188	152,493	169,188	183,128	
<b>Total Current Assets</b>	<b>182,324</b>	<b>200,041</b>	<b>519,491</b>	<b>577,263</b>	<b>606,242</b>	<b>730,499</b>	<b>878,778</b>	<b>1,030,420</b>	<b>1,188,406</b>	<b>1,350,902</b>	
Property/Plant/Equipment, Total - Net	38,986	44,520	78,116	118,636	152,800	187,264	221,992	256,953	292,119	323,064	
Goodwill, Net	32,206	32,867	628,343	801,250	801,250	801,250	801,250	801,250	801,250	801,250	
Intangibles, Net	-	-	4,022	3,290	3,290	3,290	3,290	3,290	3,290	3,290	
Other Long-Term Assets, Total	56,288	4,404	8,287	7,561	8,317	9,149	10,064	11,070	12,177	13,395	
<b>TOTAL ASSETS</b>	<b>309,803</b>	<b>281,832</b>	<b>1,238,259</b>	<b>1,508,000</b>	<b>1,571,898</b>	<b>1,731,452</b>	<b>1,915,373</b>	<b>2,102,984</b>	<b>2,297,242</b>	<b>2,491,901</b>	
<b>LIABILITIES &amp; EQUITY</b>											
Accounts Payable	47,422	64,897	71,356	77,206	94,237	111,648	129,309	146,948	163,035	176,469	
Short-Term Debt (Balancing Debt)	1,429	1,271	3	17,953	-	-	-	-	-	-	
Current Port. of LT Debt/Capital Leases	3,496	3,456	5,505	3,637	4,546	5,683	7,104	8,879	11,099	13,874	
Other Current Liabilities, Total	35,566	44,583	66,655	146,392	177,805	210,658	243,979	277,260	307,614	332,961	
<b>Total Current Liabilities</b>	<b>87,913</b>	<b>114,206</b>	<b>143,519</b>	<b>245,188</b>	<b>276,588</b>	<b>327,989</b>	<b>380,392</b>	<b>433,087</b>	<b>481,749</b>	<b>523,304</b>	
Long-Term Debt	3,309	2,582	4,731	41,849	52,311	62,774	69,051	72,503	76,129	79,935	
Deferred Income Tax	11	22	36	411	452	497	547	602	662	728	
Minority Interest	9,913	11,999	15,353	16,141	16,948	17,795	18,685	19,619	20,600	21,630	
Other Liabilities, Total	16,233	19,230	24,051	58,050	61,533	65,225	69,138	73,287	77,684	82,345	
<b>Total Liabilities</b>	<b>117,379</b>	<b>148,039</b>	<b>187,690</b>	<b>361,639</b>	<b>407,832</b>	<b>474,280</b>	<b>537,813</b>	<b>599,098</b>	<b>656,824</b>	<b>707,942</b>	
<b>Total Equity</b>	<b>192,424</b>	<b>133,793</b>	<b>1,050,569</b>	<b>1,146,361</b>	<b>1,164,066</b>	<b>1,257,172</b>	<b>1,377,560</b>	<b>1,503,885</b>	<b>1,640,418</b>	<b>1,783,959</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>309,803</b>	<b>281,832</b>	<b>1,238,259</b>	<b>1,508,000</b>	<b>1,571,898</b>	<b>1,731,452</b>	<b>1,915,373</b>	<b>2,102,984</b>	<b>2,297,242</b>	<b>2,491,901</b>	
<b>Income Statement (AED Thousands)</b>											
Fiscal Year Ends December	2003	2004	2005	2006e	2007	2008	2009	2010	2011	2012	
Total Revenue	556,594	693,171	853,873	1,363,000	1,778,050	2,106,575	2,439,791	2,772,598	3,076,140	3,329,606	
Cost of Revenue	286,853	377,627	447,331	741,983	1,007,485	1,179,932	1,356,225	1,544,760	1,717,300	1,861,851	
<b>Gross Profit</b>	<b>269,741</b>	<b>315,544</b>	<b>406,542</b>	<b>621,017</b>	<b>770,565</b>	<b>926,644</b>	<b>1,083,566</b>	<b>1,227,838</b>	<b>1,358,840</b>	<b>1,467,754</b>	
Selling/General/Admin. Expenses	134,226	149,240	184,359	307,219	371,612	439,221	502,597	571,155	632,147	684,234	
Depreciation/Amortization	12,351	14,750	16,604	19,000	20,836	25,536	30,272	35,039	39,834	44,054	
Other Operating Expenses, Total	75,937	93,635	119,120	184,798	242,348	287,126	329,372	371,528	412,203	446,167	
<b>Operating Income</b>	<b>47,227</b>	<b>57,918</b>	<b>86,459</b>	<b>110,000</b>	<b>135,768</b>	<b>174,761</b>	<b>221,325</b>	<b>250,115</b>	<b>274,656</b>	<b>293,299</b>	
Interest Income (Exp), Net Non-Operating	(488)	33	(143)	6,145	5,240	4,056	6,145	9,065	12,371	16,400	
Other, Net	(2,329)	26	2,101	(1,318)	-	-	-	-	-	-	
<b>Net Income before Taxes</b>	<b>44,410</b>	<b>57,977</b>	<b>88,417</b>	<b>114,827</b>	<b>141,009</b>	<b>178,817</b>	<b>227,471</b>	<b>259,180</b>	<b>287,027</b>	<b>309,699</b>	
Provision for Income Taxes	1,675	3,239	3,926	4,792	7,050	8,941	11,374	12,959	14,351	15,485	
<b>Net Income after Taxes</b>	<b>42,736</b>	<b>54,738</b>	<b>84,490</b>	<b>110,035</b>	<b>133,958</b>	<b>169,876</b>	<b>216,097</b>	<b>246,221</b>	<b>272,676</b>	<b>294,214</b>	
Minority Interest	(5,836)	(7,151)	(10,085)	(14,835)	(16,319)	(17,951)	(19,746)	(21,721)	(23,893)	(26,282)	
<b>Net Income</b>	<b>36,900</b>	<b>47,587</b>	<b>74,405</b>	<b>95,200</b>	<b>117,639</b>	<b>151,925</b>	<b>196,351</b>	<b>224,501</b>	<b>248,783</b>	<b>267,932</b>	

e = estimate, based on preliminary un-audited earnings release



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