Analyst Comment

NBK CAPITAL

May 04, 2009

ARAMEX (ARMX.DU)

- Total revenues for Aramex declined by 6% to AED 463.4M in 1Q2009, a result that is lower than our forecast of AED 482.4 million by 3.9%.
- Net income, on the other hand, saw a 19% increase in 1Q2009 to AED 43.1M, up from AED 36.2M in 1Q2008. What is more impressive is the improvement in the net profit margin from 7.3% in 1Q2008 to 9.3% in 1Q2009. Accordingly, this performance is following the general path we have set in our forecasts for 2009, which reflects a decline in revenues that would be more than compensated for by an improvement in margins.
- The freight forwarding segment had the weakest performance by posting a 20% decline in revenue in 1Q2009. This performance was weaker than our forecast of a 10% decline in freight forwarding revenue in 1Q2009.
- The weakness portrayed by the freight forwarding segment was mitigated by a strong showing from international express and domestic express segments, which recorded growth rates of 4% and 10%, respectively. This performance was better than our forecast, as we were expecting a flat growth for international express and a 7.5% increase in domestic express for the period. In the press release management has noted that revenue from the GCC increased by 5% in 1Q2009.
- In our last update (dated March 10, 2009) we mentioned that the international express and the domestic express will be the segments to focus on in 2009, which has so far proved to be correct. Also, we mentioned that we expect that Aramex could see some positive contributions from changes in outsourcing trends in the MENA region. This appears to be the case, as management has highlighted in the press release that they are witnessing an accelerated trend in outsourcing as clients attempt to cut down costs.
- The performance of Aramex in 1Q2009 is a testament of the effectiveness of its asset-light model during turbulent times. Furthermore, the cost cutting program that is being implemented by management seems to be paying off, as we have seen a big improvement in net income margins in 1Q2009.
- Full financials are not yet available for us to formulate a final opinion on the performance of Aramex in 1Q2009. Also, no reference was made to any one time gains or losses.
- At a first glance, the performance of Aramex appears to be better than what we were expecting. Accordingly, we maintain our "Buy" recommendation on the stock with a long term fair value of AED 1.82 per share, representing 94% upside potential compared with the share's closing price on May 3, 2009.

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Related Research

- Aramex Update - 10 Mar. 2009
- Aramex Update - 20 Nov. 2008

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