Aramex

Priced-In Growth

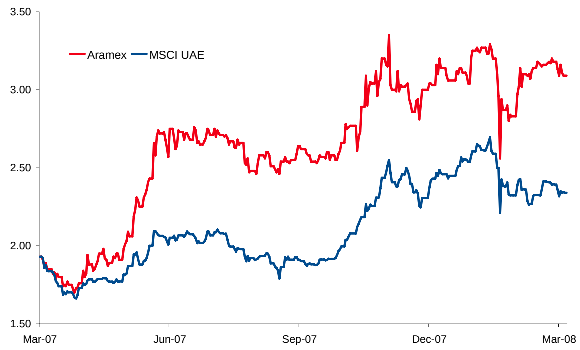
March 11, 2008

Key Data

Current Price*	Avg. Value Traded per Day
AED 3.06	AED 29.7 mln
52-Week High	**Market Cap**
AED 3.35	AED 3.4 bln
52-Week Low	**Current Number of Shares**
AED 1.70	1,100 mln
Reuters	**Bloomberg**
ARMX.DU	ARMX UH
Ownership Structure	
Privately Held: 45%	Public: 55%

Sources: Reuters, Zawya, and NBK Capital
**Price as of close on March 10, 2008*

Rebased Performance



Sources: MSCI, Reuters, and NBK Capital

Key Ratios

	2007 a	2008 f	2009 f	2010 f	2011f
P/E	27.7	22.0	18.8	16.0	13.5
EPS Growth	28%	26%	17%	18%	19%
EV/ EBITDA	18.0	14.7	12.8	11.1	9.8
EBITDA Margin	10%	11%	11%	11%	12%
EBITDA Growth	33%	22%	15%	15%	13%
Dividend Yield	0.0%	2.3%	2.7%	3.1%	3.7%
ROAE	10%	11%	12%	13%	14%

FY2007 EBITDA a	1Q2008 EBITDA f
AED 178.6 mln	AED 48.4 mln
FY2007 EBITDA f	**2Q2008 EBITDA f**
AED 185.0 mln	AED 53.4 mln

Sources: Reuters and NBK Capital
a = actual, f = forecast

Analysts

Samir Murad, CFA
Direct: +965 - 2595145
samir.murad@nbkcapital.com

Badder Al Ghanim
Direct: +965 - 2595330
badder.alghanim@nbkcapital.com

Highlights

12-Month Fair Value: AED 3.00

Recommendation: Hold – Risk Level: 3**

Reason for Report: FY 2007 Update

- Aramex saw its total revenues grow by 30.8% in 2007 to reach AED 1,784 million; a performance that was in line with our forecast of AED 1,783 million. All the major segments were able to record double-digit growth rates in 2007, mostly driven by strong performance in the MENA region, specifically in the UAE, Saudi Arabia and Egypt.

- On an operating level, EBITDA increased by 33.1% in 2007. Also, the EBITDA margin improved slightly from 9.8% in 2006 to 10% in 2007. Net income, on the other hand, rose by 27.6%, to reach AED 121.6 million—a result that is 4% lower than our forecast of AED 126.6 million. The reason behind this differential was that operating expenses were marginally above our expectations.

- We have made some minor revisions to our forecasts for Aramex, mainly increasing the growth rates for the logistics segment in 2010 and 2011 and applying a slight squeeze to the operating margins.

- Our 12-month fair value estimate for the share price of Aramex is AED 3.00. To arrive at this fair value estimate, we have used a combination of discounted cash flow (DCF) and peer comparisons based on forward price/earnings-to-growth (PEG) multiples.

- Moving forward, we expect all major segments of Aramex to post double-digit growth rates—in the range of 10% to 25%—over the next three years.

- Since our fair value estimate is 2% lower than the market price, our recommendation for Aramex is "Hold."

- In terms of acquisitions, management stated that they were still pursuing their acquisition strategy and that they might be close to finalizing a deal in Asia. Aramex examined several acquisition targets in 2007, but did not conclude any deal because the companies in consideration were either too expensive or did not seem suitable for Aramex.

***Please refer to page 4 for recommendations and risk ratings*

VALUATION

The top line results posted by Aramex in 2007 were in line with our forecast; however, net income was 4% lower than our forecast, since the actual margins achieved were slightly lower than our estimate.

We have made some minor revisions to our forecasts for Aramex. On the top line, we have raised our forecast growth rates to 25% and 20% for the logistics segment in 2010 and 2011, respectively, to reflect the expansions that are planned for the segment. Also, we have made some changes at the operating expenses level, as we squeezed margins a little. Thus, our new forecasts show a net income margin of 7.2% for 2008 (our previous forecast was 7.8%), which is also in line with the guidance provided by management.

Our 12-month fair value estimate for the share price of Aramex is 5% higher than our previous estimate. As seen in Figure 1, the value achieved from the DCF model increased by 10%. This is mostly due to the reduction in the cost of equity from 11.4% to 10.8% to reflect changes in the risk-free rate and increasing our forecast for the logistics segment. The fair value estimate, based on peer comparisons of forward price/earnings-to-growth (PEG) multiples, did not see a significant change. The new fair value target is 2% below the current market price; hence our "Hold" recommendation.

Our 12-month fair value for Aramex is AED 3.00

Figure 1 Fair Value per Share

Valuation Method	Old		New		Change
	Weight	Value	Weight	Value	
Discounted cash flow	70%	AED 2.69	70%	AED 2.96	10.0%
Peer comparison	30%	AED 3.25	30%	AED 3.22	-0.8%
Weighted average fair value	**100%**	**AED 2.86**	**100%**	**AED 3.00**	**5.0%**

Source: NBK Capital

FULL YEAR PERFORMANCE

- Aramex witnessed a 30.8% increase in total revenues in 2007 to reach AED 1,784 million; a performance that is in line with our forecast of AED 1,783 million.

- All the major segments were able to record double-digit growth rates in 2007. The acquisition of TwoWay Vanguard on April 13, 2006 did indeed buoy growth in the freight forwarding and logistics segments in the first quarter. However, Aramex had a very strong year in terms of organic growth. Management attributes the solid organic growth to the MENA region, specifically the UAE, Saudi Arabia and Egypt.

- Revenues from the international express segment increased by 18% in 2007; however, this increase was lower than the 25% growth rate seen in 2006.

- The domestic express segment had another strong year in 2007 with a revenue growth of 27.1%. In addition, the domestic express segment achieved an impressive increase in gross profit margin from 71.6% in 2006 to 77.2% in 2007.

- The logistics segment had a robust year as well in 2007 with a 103.5% increase in revenues. According to management, Aramex is witnessing high demand for its logistics services, especially in the UAE, and that its Jebel Ali facility (which saw an expansion in 2007) is currently operating at full capacity. This has prompted management to pursue an even bigger expansion project that would triple its warehousing capacity at Jebel Ali to reach 95,000 m^2. This expansion cost is estimated at AED 140 million and is expected to be completed towards the end of 2009.

- EBITDA grew by 33.1% in 2007, with the EBITDA margin slightly improving from 9.8% in 2006 to 10% in 2007. However, the AED 178.6 million EBITDA posted by Aramex in 2007 was 3.5% lower than our 2007 forecast of AED 185 million.

- Net income rose by 27.6% to reach AED 121.6 million—a result that is 4% lower than our forecast of AED 126.6 million. The reason behind this differential is that margins were tighter than we were anticipating, as revenues were in line with our forecasts.

- Historically, Aramex tends to experience its strongest performance in the fourth quarter, but this was not the case this year as the best performance came in the second quarter. This is mostly due to the effect of the shift in Islamic holidays, as two major holidays coincided in the fourth quarter.

Net income increased by 27.6% in 2007

Figure 2 Third-Quarter Performance

Income Statement (AED Thousands)	Full Year Results			Common Size	
	2006	2007	Change	2006	2007
International Express	439,769	519,085	18.0%	32.2%	29.1%
Freight Forwarding	611,188	823,993	34.8%	44.8%	46.2%
Domestic Express	176,962	224,988	27.1%	13.0%	12.6%
Logistics	52,471	106,766	103.5%	3.8%	6.0%
Publications and Distributions	34,565	35,952	4.0%	2.5%	2.0%
Others	48,848	73,004	49.5%	3.6%	4.1%
Total Revenue	**1,363,803**	**1,783,788**	**30.8%**	**100.0%**	**100.0%**
Cost of Revenue	743,966	948,132	27.4%	54.6%	53.2%
Gross Profit	**619,837**	**835,656**	**34.8%**	**45.4%**	**46.8%**
Selling/General/Admin. Expenses, Total	293,759	388,491	32.2%	21.5%	21.8%
Other Operating Expenses, Total	191,911	268,548	39.9%	14.1%	15.1%
EBITDA	**134,167**	**178,617**	**33.1%**	**9.8%**	**10.0%**
Depreciation/Amortization	24,846	35,604	43.3%	1.8%	2.0%
Operating Income	**109,321**	**143,013**	**30.8%**	**8.0%**	**8.0%**
Interest Income(Exp), Net Non-Operating	5,255	3,938	-25.1%	0.4%	0.2%
Other, Net	(1,135)	3,566	nmf	-0.1%	0.2%
Net Income Before Taxes	**113,441**	**150,517**	**32.7%**	**8.3%**	**8.4%**
Provision for Income Taxes	4,437	9,450	113.0%	0.3%	0.5%
Minority Interest	13,780	19,515	41.6%	1.0%	1.1%
Net Income	**95,224**	**121,552**	**27.6%**	**7.0%**	**6.8%**

Sources: Aramex financial statements and NBK Capital

OUTLOOK

Looking forward, we expect to see double-digit growth—in the range of 25% to 10%—in all major segments over the next three years. We continue to believe that the economic growth in the MENA region will be the driver for future growth, especially in the express and logistics segments. With time, we expect to see improvements in overall margins, driven by growth in the high-margin domestic express and logistics segments; and when the profitability of TwoWay gets closer to the profitability levels of the rest of the group. As for acquisitions, management confirmed their continued interest in the acquisition strategy and hinted that they might be close to finalizing a deal in Asia. Aramex did examine several acquisition targets in 2007, but did not conclude any deal because the companies under consideration were either too expensive or not suitable for Aramex. Hence, management is likely to continue to look for the right company at the right price. With the U.S. on the verge of a recession, management expects valuations to fall, thus enabling it to step up its acquisition strategy. For the time being, management appears to be focused on Asia, and has assigned a high-ranking official at its office in Singapore to search for potential acquisitions.

Risk and Recommendation Guide

Recommendation	Upside (Downside) Potential
Buy	more than 20%
Accumulate	between 10% and 20%
Hold	between -5% and 10%
Reduce	between -10% and -5%
Sell	less than -10%

Risk Level				
1	2	3	4	5
Low Risk				High Risk

FINANCIAL STATEMENTS

Balance Sheet (AED Thousands)	Historical		Forecast					
Fiscal Year Ends December	2006	2007	2008	2009	2010	2011	2012	2013
ASSETS								
Cash and Short-Term Investments	222,562	238,856	300,849	321,095	375,493	490,565	611,724	744,764
Total Receivables, Net	261,655	319,152	374,105	423,286	470,846	510,653	547,689	586,395
Prepaid Expenses	21,769	26,414	31,175	35,274	39,237	42,554	45,641	48,866
Other Current Assets, Total	56,561	69,571	78,978	89,360	99,401	107,805	115,623	123,794
Total Current Assets	**562,547**	**653,993**	**785,108**	**869,015**	**984,978**	**1,151,577**	**1,320,677**	**1,503,820**
Property/Plant/Equipment, Total - Net	128,143	192,986	244,788	300,818	353,061	376,694	404,174	435,365
Goodwill, Net	803,731	803,399	803,399	803,399	803,399	803,399	803,399	803,399
Intangibles, Net	3,613	3,493	3,493	3,493	3,493	3,493	3,493	3,493
Other Long-Term Assets, Total	14,382	20,964	23,060	25,366	27,903	30,693	33,763	37,139
TOTAL ASSETS	**1,512,416**	**1,674,835**	**1,859,848**	**2,002,091**	**2,172,834**	**2,365,856**	**2,565,506**	**2,783,216**
LIABILITIES & EQUITY								
Accounts Payable	131,366	132,093	155,877	176,369	196,186	212,772	228,204	244,331
Short-Term Debt (Balancing Debt)	27,435	20,191	-	-	-	-	-	-
Current Port. of LT Debt/Capital Leases	8,306	13,056	16,320	20,400	25,500	31,875	39,844	49,805
Other Current Liabilities, Total	123,340	144,200	166,269	176,369	196,186	212,772	228,204	244,331
Total Current Liabilities	**290,447**	**309,540**	**338,466**	**373,138**	**417,872**	**457,419**	**496,251**	**538,467**
Long-Term Debt	13,379	14,707	17,648	19,413	20,384	21,403	22,473	23,597
Deferred Income Tax	34	539	593	652	717	789	868	955
Minority Interest	19,287	25,444	26,716	28,052	29,455	30,927	32,474	34,097
Other Liabilities, Total	41,073	39,428	41,794	44,301	46,959	49,777	52,764	55,929
Total Liabilities	**364,220**	**389,658**	**425,217**	**465,557**	**515,387**	**560,316**	**604,830**	**653,046**
Total Equity	**1,148,196**	**1,285,177**	**1,434,631**	**1,536,534**	**1,657,447**	**1,805,541**	**1,960,676**	**2,130,170**
TOTAL LIABILITIES AND EQUITY	**1,512,416**	**1,674,835**	**1,859,848**	**2,002,091**	**2,172,834**	**2,365,856**	**2,565,506**	**2,783,216**

Income Statement (AED Thousands)	Historical		Forecast					
Fiscal Year Ends December	2006	2007	2008	2009	2010	2011	2012	2013
Total Revenue	1,363,803	1,783,788	2,078,363	2,351,587	2,615,812	2,836,961	3,042,717	3,257,749
Cost of Revenue	743,966	948,132	1,111,747	1,256,030	1,388,004	1,500,558	1,604,461	1,717,540
Gross Profit	**619,837**	**835,656**	**966,616**	**1,095,557**	**1,227,809**	**1,336,403**	**1,438,256**	**1,540,210**
Selling/General/Admin. Expenses	293,759	388,491	443,730	499,712	555,860	595,762	638,971	684,127
Depreciation/Amortization	24,846	35,604	44,073	49,770	53,556	51,967	52,788	53,959
Other Operating Expenses, Total	191,911	268,548	307,598	345,683	381,909	407,104	436,630	467,487
Operating Income	**109,321**	**143,013**	**171,215**	**200,391**	**236,483**	**281,570**	**309,868**	**334,636**
Interest Income (Exp), Net Non-Operating	5,255	3,938	8,701	10,391	11,098	14,514	19,520	28,323
Other, Net	(1,135)	3,566	-	-	-	-	-	-
Net Income before Taxes	**113,441**	**150,517**	**179,916**	**210,782**	**247,582**	**296,084**	**329,388**	**362,959**
Provision for Income Taxes	4,437	9,450	8,996	10,539	12,379	14,804	16,469	18,148
Net Income after Taxes	**109,004**	**141,067**	**170,920**	**200,243**	**235,203**	**281,279**	**312,919**	**344,811**
Minority Interest	(13,780)	(19,515)	(21,467)	(23,613)	(25,974)	(28,572)	(31,429)	(34,572)
Net Income	**95,224**	**121,552**	**149,454**	**176,630**	**209,228**	**252,708**	**281,489**	**310,239**

Cash Flow (AED Thousands)	Historical		Forecast					
Fiscal Year Ends December	2006	2007	2008	2009	2010	2011	2012	2013
Cash from Operating Activities	**78,664**	**141,960**	**183,602**	**207,232**	**256,452**	**301,300**	**330,329**	**354,343**
Cash from Investing Activities	**(212,871)**	**(91,726)**	**(85,194)**	**(93,581)**	**(92,215)**	**(58,398)**	**(57,866)**	**(57,139)**
Cash from Financing Activities	**15,774**	**(33,513)**	**(36,415)**	**(93,406)**	**(109,838)**	**(127,830)**	**(151,305)**	**(164,164)**
Foreign Exchange Effects	**635**	**(427)**	**-**	**-**	**-**	**-**	**-**	**-**
Net Change in Cash	**(117,798)**	**16,294**	**61,993**	**20,245**	**54,399**	**115,071**	**121,159**	**133,040**

NBK CAPITAL

NBK Capital

Kuwait
Head Office
17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O. Box 4950, Safat 13050
Kuwait
Tel: +965 224 6900
Fax: +965 224 6904

International Network

United Arab Emirates
NBK Capital Limited
Precinct Building 3, Office 404
Dubai International Financial Center
P.O. Box 506506, Dubai
United Arab Emirates
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Turkey
NBK Capital
Arastima ve Musavirlik AS
SUN Plaza, 30th Floor
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
Tel: +90 212 276 5400
Fax: +90 212 276 5401

NBK

Kuwait
National Bank of Kuwait SAK
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City, Kuwait
Tel: +965 242 2011
Fax: +965 243 1888
Telex: 22043-22451 NATBANK

International Network

Bahrain
National Bank of Kuwait SAK
Bahrain Branch
Seef Tower, Al-Seef District 428
P.O. Box 5290, Manama
Bahrain
Tel: +973 17 583 333
Fax: +973 17 587 111

Jordan
National Bank of Kuwait SAK
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297
Shmeisani, Amman 11194
Jordan
Tel: +962 6 560 8800
Fax: +962 6 560 8811

Saudi Arabia
National Bank of Kuwait SAK
Jeddah Branch
Al-Andalus Street, Red Sea Plaza
P.O. Box 15385
Jeddah 21444, Saudi Arabia
Tel: +966 2 653 8600
Fax: +966 2 653 8653

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building
Justinian Street, Sanayeh
P.O. Box 11-5727, Riyad El Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 741111/742222
Fax: +961 1 747846/747866

Iraq
Credit Bank of Iraq
Street 9, Building 178
Sadoon Street, District 102
P.O. Box 3420
Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
Al Watany Bank of Egypt
13 Al Themar Street
Gameat Al Dowal AlArabia
Fouad Mohie El Din Square
Mohandessin, Giza, Egypt
Tel: +20 2 33388816/33388817
Fax: +20 2 33379302

United States of America
National Bank of Kuwait SAK
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ, UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

NBK Investment
Management Limited
13 George Street
London W1U 3QJ, UK
Tel: +44 20 7224 2288
Fax: +44 20 7224 2102

France
National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris, France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAK
Singapore Branch
9 Raffles Place #51-01/02
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

Vietnam
National Bank of Kuwait SAK
Vietnam Representative Office
Room 2006, Sun Wah Tower
115 Nguyen Hue Blvd, District 1
Ho Chi Minh City
Vietnam
Tel: +84 8 827 8008
Fax: +84 8 827 8009

China
National Bank of Kuwait SAK
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
1233 Lujiazui Ring Road
Shanghai 200120
China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

Associates

Qatar
International Bank of Qatar (QSC)
Suhaim bin Hamad Street
P.O. Box 2001
Doha, Qatar
Tel: +974 447 3700
Fax: +974 447 3710

NBK Capital MENA Research
Tel: +965 224 6663
Fax: +965 224 6984
E-mail: menaresearch@nbkcapital.com

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