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Transcript

Aramex Q4 2022 results conference call — Thursday, 16 March 2023

Ahmed Moataz Hello, everyone. This is Ahmed Moataz from EFG Hermes and welcome to Aramex's fourth quarter of 2022 results conference call. I'm pleased to be joined by the entire management team, who as usual will start with a brief presentation and then will open the floor for Q&A. Anca, please go ahead.

Anca Cighi Thank you very much, Ahmed. Dear ladies and gentlemen, good day to everyone and thank you for joining our investor call. I'm joined today by our executive leadership team. Our CEO, Othman Aljeda, our CFO, Nicolas Sibuet, and our Chief Operating Officers, Alaa Saoudi from our Express and Domestic business and Mohammad Alkhas from our freight and logistics business.

Our fourth quarter materials are available on our IR website and they have also been circulated by email. Before we begin, I would just like to draw your attention to page number two of our presentation, which is our cautionary note regarding forward-looking statements. Now, without further ado, I will hand it over to Othman for the opening remarks.

Othman Aljeda Thank you, Anca. Good afternoon, ladies and gentlemen. Thank you for joining our call to discuss the Q4 and full-year financial results for Aramex. I believe most of you saw our preliminary results, for which we published a detailed press release, and are familiar with our performance. I will keep the opening remarks short, focusing on a few key messages.

To summarise our results, we stabilised the GP margin at the Group level, as well as for our Express and Domestic courier products, which as you know, is a priority for us. For Freight and Logistics we delivered the growth we expected, with growth of GP of 51% and 58% respectively, as well as significant growth in the margins. Our ability to offer an end-to-end service offering from the first mile to the last mile, however, also the flexibility to cater to customer's specific needs by breaking the supply chain when needed, has helped us to win new business across all product lines. While growth is a key focus area for us, we are growing mindfully and profitably, focusing on quality revenue.

For full-year 22 our top line was relatively unchanged from the previous year at US $1.6 billion. However, makeup of the revenues has changed. We're seeing retail contribution from our B2B offering. Collectively, the B2B segment, which includes freight forwarding and logistics and supply chain solutions, made up 36% of our revenues in 22, compared to 29% in 21. We also have less customer concentration risk, with no single customer making up more than 7% of our revenue.

Allow me to say that in 22, it was obviously still a challenging year for Aramex and our peers. Our industry did not see the recovery it expected. We have seen a concentration of post-pandemic related challenges, lingering lockdowns in certain markets, such as China, but also new challenges, inflation and currency devaluations. We had to readjust course a few times during the year, maintaining agility and efficiency, and I believe this will continue into 2023. Having a global operation in over 65 countries means that we are exposed to global operating environments.

However, Aramex benefited from good demand from our home markets in the GCC and MENAT, which today make up 53% of our total Group revenue. Our home markets also supported a good performance in what we call our outbound markets, and I refer to the US, EU, and a lesser extent now, China, Hong Kong, which are feeding our operation across the GCC, MENAT and Sub-Saharan countries. We expect this trend to continue in 2023 and beyond, as GDP projections for these markets are favourable.

Lastly, 2022 marked the 40th year of Aramex operations and this was a great opportunity for us to reflect on our success and to reinforce the entrepreneurial culture that defines Aramex and I believe will be crucial to our next chapter. 22 also marked the first full year of operations under the new operating model. Our business now is stronger than ever, we have four clearly-defined products and dedicated capabilities and systems, as well as dedicated KPIs. Both sales driven and profitability driven, we will continue to invest in our people, making new strategic hires in 23, while also rolling out our CAPEX plan with clear investment plans for each of the product lines.

In terms of the outlook for 23, we need to consider the industry dynamics and trends. For Freight the industry has seen a decline in rates faster and sharper than expected. What this means to our business is that we are likely to see an impact on the gross profit. Noting that we expect to maintain the gross profit margins.

For Logistics, we will continue to grow this product efficiently and profitably, with good contribution from high-growth verticals, such as e-commerce, oil and gas, retail and others. We have scale and deep expertise in key markets, such as the UAE and Saudi, and we continue to see good demand for our specialised warehousing services.

For our Express and Domestic product, our target is to maintain the GP margin digitalisation and cost management initiatives. In terms of volume evolution, we have seen pressure globally in the last few quarters and softness in volumes, coming from the cooldown of the economy, inflation and other challenges in certain markets. These challenges have persisted in January and February of this year.

It's important to remember that the fundamentals of e-commerce remains strong. We remain focused on our long-term strategy. We have a strong and resilient, well-diversified business. We have exposure to high-growth verticals, we have a big liquidity position and a strong balance sheet, which allows us to operate in a dynamic environment while also being able to make the right investments in our business, to unlock value and continue growing. As you know, M&A is an important part of our strategy, and we are working hard to deliver the second acquisition. For the time being, we have no concrete details that we can share with the market at this stage. Thank you for listening to me and I will now hand over to Nicolas for the financial update. Thank you.

Nicolas Sibuet Thank you, Othman. Good afternoon, ladies and gentlemen. Good morning, if you are not in this part of the world. Thank you again for joining our conference call today. We will start with the product performance, followed by the Group level overview.

You will notice, first of all, that for the purpose of this quarterly presentation, we have provided all financial numbers in US dollars. If you would like to read these financials in our local currency, in UAE dirhams, please refer to the IR data book, which provides you with the option to select the display in dirhams or in dollars alternatively, as per your preference. Of course, our financial statements are also prepared in local currency.

Let’s move to the next page, please, and have a look at the volume performance for the International Express product. Looking at the volumes in Q4 2022 compared to Q4 2021, we are seeing, as Othman was just alluding to, a softness of 0.2 million shipments, which is a drop of 4%. The volume drop associated with one client from North Asia has masked the growth and resilience that we have seen in other markets. We have seen good consumer demand, especially from the GCC, which is also driving demand from our outbound market, primarily US and Europe, and has helped us sustain volumes for the quarter and driving a better performance compared to our competition.

On the following page, let's see the financial impact. The softness in volume translated to a 10% decline in revenues. However, we have maintained a good cost management and increased efficiency across the business through actions discussed in previous quarters. This has delivered a 15% decline in total direct cost, leading to a 5% growth in gross profit. Therefore, we are quite pleased to report that our GP margin increased 32% in the fourth quarter of 2022, up from 27% in the previous year, which is an excellent improvement. For the full year, cost declined in line with revenues and deliver a stable GP margin of 32%, compared to 31% in the prior year. In 2022 we added two months on behalf of operational performance from our recent acquisition of MyUS, which brought approximately $20 million of additional revenue. Therefore, this year you will see a greater impact from MyUS on our books, as we will be adding a full year of operations.

Moving to the Domestic product. Domestic product volumes have been stable, apart from Oceania. The volume decline for the Q4 and full-year periods are attributed primarily to this one, single market. We have previously discussed a turnaround plan for Australia, which is on track, and as you know, we have a significant domestic operation in this market, which remains very important for our business. It is to be noted that we are seeing this month, as we speak, the very beginning of some incremental volumes from key customers in Australia, on the back of our focus on delivery performance. We view this as a positive and encouraging development, while we remain focused on the implementation of the turnaround plan in Australia. There's lots of work to be done and significant upside to be captured here. Australia represents approximately 40% of our total Domestic volume.

Moving to the revenue page. While revenue for the Domestic product was impacted by some declining volumes, which we just discussed, in Australia, costs were reduced at a higher rate, which helped deliver a 15% improvement in gross profit and GP margin of 26%, significantly higher than the 20% GP margin reported in Q4 2021. Similarly, for the full-year period improved GP margin to 25% in 2022, compared to 24% in 2021.

The following slides, to conclude on the Courier product. On a consolidated basis, adding Express, International and Domestic, we see both products delivered solid revenues of US $270 million in Q4 2022 and US $1 billion for the full year 2022. Our focus on operational efficiency and cost management has helped us deliver stable margins in the last quarter and for the full-year period. Of course the declining volumes and revenue have flowed through the bottom line, reflecting at an EBIT and EBITDA level, however, this remains at robust levels. We ended the year with an EBIT of US $39 million, compared to US $69 million in 2021 and an EBITDA of U $107 million, compared to US $137 million in 2021.

Let's move to the Freight product. The Freight business ended the year with a strong Q4. We have seen good growth from key regions, particularly in the GCC, where half of our freight revenue is coming from. We've grown revenue across air, sea and land freight for both the Q4 and the full-year periods, benefiting from the revival of the oil and gas business internationally, with good contribution from other, high-growth verticals, such as retail, pharma and SME businesses across the network. These verticals will continue to be our focus areas in 2023. The Freight team delivered good results, improving margins across the board with a 4 percentage points increase in GP margin and 3 percentage points increase in both EBIT and EBITDA for the Q4 2022 period.

Moving to the next page, please. For the full-year period, freight forwarding activities delivered revenues of almost US $500 million, improved GP margin to 14% and doubled EBITDA margin to 6%. Freight now contributes 28% to our total revenues, up from 22% last year, which is in line with our stated strategy to grow this product. Going forward, and as

Othman just mentioned, we expect the freight industry to continue to see a normalisation in volume and rates. Which has kicked in faster than expected on all trade lines and is a simple function of the forces of supply and demand in this industry, the easing of congestion, availability of containers in sea freight and the increase in capacity on air freight, particularly commercial aircrafts, coupled with a softening global consumer sentiment and inflation. These two elements have accelerated the normalisation that the industry was expecting.

It's also important to understand that Aramex is growing its Freight business from a relatively smaller base and, with industry being very fragmented, there's market share to be captured. We are leveraging our brand and scale, relationships with clients across the Express and Logistics product and we continue to see good demand for freight services. We have previously talked about the importance of people and relationship in this line of work. We have added good sales specialism, and we will continue doing so in 2023. Of course, we expect the rate decrease to impact our GP in absolute terms, however, we are comfortable with maintaining the GP margin stable for the Freight product. We will be focusing on volumes and maintaining profitability.

Moving to the Logistics product on the following slide. We have provided you with the normalised financial results to really isolate the impact from the strategic repositioning exercise we undertook in 2022, as we refocus this product on quality revenues in line with our strategy. We ended Q4 2022 with US $31 million in revenues [correction: US $30 million]. We have had certain extraordinary items, which we recognised in the fourth quarter and which impacted GP, EBIT and EBITDA for Logistics and for the Group. Q4 2022 normalised GP was US $5.6 million and the GP percentage terms was 19%, doubling compared to the same period in the previous year.

Normalised EBITDA was US $7.7 million and the EBITDA percentage was 26%, both significantly improving over the previous year. We also recovered our EBIT percentage, reaching a 6% normalised margin and bringing it back to profitability. Going forward, we will not be providing anymore normalised figures for the Logistics, as we are reaching the conclusion of the strategic repositioning of this product.

For the full-year period you will see a similar trend. Revenues were stable, however, the quality of revenue has changed, as we move to more profitable accounts. Which is evident in our gross profit growth, which is up 62% for the year, and in our profitability profile, with a significant improvement in EBIT and EBITDA margins as well.

Let’s move to the Group level. At Group level we reported revenues of US $418 million in Q4 2022, compared to US $439 million in Q4 last year. The drop in Domestic Courier and International Express was partially offset by growing contribution from Freight, while Logistics business remained stable. It is worth noting the impact of foreign exchange currencies on our business, particularly on the Domestic product. For the fourth quarter period US $13.6 million is attributed to foreign exchange losses for the Domestic product revenue when comparing to Q4 2021 exchange rates. The total for FX impact on revenues in Q4 22 was US $22 million at top line level.

Moving to the next slide. Thank you. For Q4 22 we have had a good contribution to revenues from GCC, MENAT and America, while Africa and Europe remained stable. We have previously discussed the performance in North Asia, China, for Express, and Oceania, as well, for the Domestic business. We are improving the summary performance per region. As Othman mentioned, we are now well-diversified across customers and geographies, with good exposure to the GCC and MENAT region, which has a favourable economic outlook which is driving a good performance in our outbound market, especially Europe and US.

Speaking of the US, or America, you will note a significant bump in our results for the Q4 period. Please bear in mind that US financials have been consolidated with our US regional financials. Of course we remain cautiously optimistic as we face a dynamic microeconomic environment across all these regions. We have challenges associated with FX and inflation, and we have seen the foreign currency significantly impacting our result negatively. However, we benefit again from good consumer demand originating in the GCC and broader region, while our operational enhancements will help us grow in an efficient and profitable manner going forward. Our business is well positioned to navigate the current market environment.

For a summary of our Group result for the reporting period of Q4 and full-year 22, we have discussed revenue drivers and performance, we close the year at US $1.6 billion of revenues, which is relatively stable compared to 2021, and US $418 million for Q4 22, which was impacted by the decline of the Courier product. For the gross profit and net profit, we provided you with both reported and normalised financials to facilitate a like-for-like comparison. For the year 2022 the normalisation was calculated excluding the financial result and performance from MyUS, the cost of its acquisition and certain other extraordinary items, mostly associated with the Logistics product, as we discussed previously. For 2021, financials were normalised to exclude the gain from the sale of InfoFort and certain other extraordinary items.

Normalised GP was up 6% for the fourth quarter and was stable for the full year, while the gross profit was maintained stable at 24%. Our focus on efficiencies and cost management has helped us improve our SG&A structure. Total overheads were US $322 million in 2022 versus US $320 million in 2021. As a percentage of revenue SG&A was 20% in 2022 and 19%, almost similar, in 2021. This stability is very important and we believe our organisation is geared to sustain future growth and at the same SG&A structure going forward.

We ended the year with a normalised net profit increase of 42% in Q4 2022 and an increase of 9% for the full year. Excluding the foreign currency devaluation impact, revenue and net profit for the quarter would have been higher by US $22 million and US $5 million, respectively, compared to Q4 2021. The impact for the full year of this FX devaluation was US $59 million on revenue and US $9 million on net profit. We expect to see currency volatility in the coming quarters as well, and are taking appropriate measures to manage currency risk.

The following page, you will see our balance sheet that remains strong and healthy. We have taken on debt to fund the MyUS acquisition and it's worth noting that we still have an advantageous gearing ratio. Our net debt to EBITDA ratio, excluding IFRS 16 impact, is 1.5x. We are ready to accommodate future growth as we pursue our M&A agenda.

On the following page we would like to draw your attention to our free cash flow evolution. We have had a good improvement in 2022 with normalised free cash flow of US $86 million. Reported free cash flow was negative due to the consideration paid for the acquisition of MyUS. With this, I will now hand back to Ahmed to open the Q&A session. Back to you.

Ahmed Moataz Thank you very much. To all participants on the call, if you wish to ask questions you can either send them through the Q&A option or you can use the raise hand function. We'll take our first questions from Thomas Mathew. Please go ahead.

Thomas Mathew Good afternoon. Thanks for the call. I have a couple of questions and I'll start off with the Express and Shop n Ship segment. Just want to know how we should look at the average revenue per shipment and the average GP per shipment going forward? I just saw that your average GP per shipment in Q4 2022 is the highest in two years. Just trying to understand what the drivers were for that high GP per shipment. Is it more at the MyUS integration into operations or is it the fact that you've not got volumes from North Asia, which is lower margins? That was one.

The second one was at the Group level, in terms of the split, in terms of guidance, I'm just wondering if you could give us a split of what you're looking at achieving in terms between the Courier and the other segments? If you could answer those two questions it would be really helpful. Thank you.

Nicolas Sibuet Let me take the two questions, if you don't mind. Yes, we have seen an improvement in revenue per shipment in Q4. This is mostly driven by the fact that we have, as we've mentioned, consolidated the MyUS in the Express business. But if you look at the profile of our revenue per shipment in the Express over the years, we have seen a decline in 2020 to 2021 into 22 and the beginning of the year, based on the fact that we lost one significant customer that was bringing an extremely high value per shipment business. This erosion of revenue per shipment on the Express business during the course of 2022 and now we are seeing slowly a ramping up of these revenues, but the Q4 impact is mostly driven by the inclusion of MyUS. I hope I addressed your first question on that aspect.

Regarding the guidance on the split of the different products, on the long-term basis we would like to achieve a well-balanced 50-50 balance between the Courier business, Express International and Domestic, and the Freight and Logistics business. There's always different flux and, as you can see, that we are projecting a reasonably stable Logistics business in 2023, but we will see a lesser revenue coming from the Freight business. Not a lesser volume, but less revenue, based on the fact that we are seeing a lower price point in the market, generally. We believe that between the two products we should be achieving a 60-40 split in the year. 60 in favour of the Courier, 40 in favour of the Freight and Logistics.

Thomas Mathew Just a follow-up on the Express Shop n Ship segment. Your average GP per shipment has gone up in Q4. I didn't quite catch that, that is largely because of the MyUS integration or is it because you lost volumes in North Asia and that's low margin, or is it another reason? I'm just trying to understand. Thank you.

Nicolas Sibuet There's no impact anymore from North Asia in Q4, so this is gone. The impact in Q4 is basically a couple of things. You have, first of all, the inclusion of MyUS and, secondly, we have increased significantly the prices in certain markets, and particularly in Shop n Ship. We had a 15% increase in pricing in Shop n Ship that took full effect in Q4.

Thomas Mathew Very clear, thank you so much.

Ahmed Moataz Thank you. We have two questions on chat. The first one, could you please provide MyUS contribution for the fourth quarter of 2022?

Nicolas Sibuet We do not disclose detailed financial for MyUS. MyUS is part of the Express International product. The contribution on top line level for Q4 for MyUS was $20 million, but we will not be disclosing any financial indicators below that. $20 million net contribution for slightly over two months.

Ahmed Moataz Thank you. Second question. Can you discuss what the Saudi investments to become a tourist and logistics hub by, among other things, increasing their investments in aircraft, airlines, thus to the regional logistics market competitive environment? Also, what are the opportunities and risks for Aramex?

Othman Aljeda Saudi's a very important market for us. We are a market leader in Saudi Arabia and we are in line with what the government is doing there in terms of building Saudi Arabia as a logistics hub for the region. We are participating in that. We already signed with the Ministry of Transport for a free zone space in Riyadh. Obviously it's still very early stages, but that's something we're obviously looking at very eagerly.

In terms of another airline in the region, that can only help us. We depend highly on commercial airlines. We already have Emirates, Qatar Airways, Etihad, Turkish Airlines. Adding another airline only means that we have more space capacity and more competition from the airlines, which drives cost down for us. I think that's a very positive thing for us, maybe not so much for the integrators who have aircrafts, freighters. They will have a bigger problem because they then will have to fill their aircraft. For us, this is a very positive position that we put ourselves in.

Ahmed Moataz Thank you. I will take questions from the line of Indarpreet. Your line is unmuted, go ahead.

Indarpreet Singh Hi. Thanks for the opportunity. My first question was on your line haul costs. We have seen a substantial decline in airfare rates over the last few months. I just wanted to understand the impact of it on your gross margins in your Courier segment, if you could please share that?

Othman Aljeda I'll leave that to Alaa.

Alaa Saoudi I'll take that on the Express side. Thank you for the question. As you said, the line haul cost as a percentage of total direct cost for the Express business has been stable over the past few months, this is what we noticed, at the range of 34, 35% of our total cost, which is very significant improvement compared to Q4 2021, where it was standing at almost 50%. This is where the margin, and this is where the effect, as Nicolas mentioned, of the Express has improved. Where, instead of standing at 50% today, it's at almost 34, 35% compared to the total cost. We're seeing that's stable. We have seen that's in the past two months stable as well, at that range. The way we're seeing it forward, we'll have more capacity, better pricing. We see the airlines competing for better rates and giving us better rates, so maybe that will even be better moving forward. Thank you.

Indarpreet Singh Thanks for that. As a follow-on, would you expect that translate into better gross margins going ahead?

Alaa Saoudi Actually, yes. As you saw on our numbers, it affected us positively and going forward, I think that it will definitely improve our margins, as well, on the GP for the products.

Indarpreet Singh Understood, thanks.

Othman Aljeda Let me just add to this. During COVID we were in a very, very tough situation because we rely heavily on commercial airlines and, in general, the freight airlines. With now airspace going back to normal, flights going back to normal, that's in our advantage, definitely. The more aircrafts go up, the more the frequency is, gives us better leverage with the airlines. That's the position we're in. During COVID we were in a disadvantage because most of these commercial airlines were grounded and the advantage went to the likes of DHL, FedEx, UPS, who have their own aircrafts, now it's turned around. It's literally having the advantage of these commercial airlines with a lot of capacity now available to us. Whereas I see the integrators with a problem because they have these heavy assets now where they have to fill up or ground. We're in a very good situation moving forward.

Indarpreet Singh Thanks for that. If I could just ask you one more question. You mentioned MyUS contribution was US $20 million for the two months, that will be revenue contribution?

Nicolas Sibuet Yes, US $20 million top line revenue contribution.

Indarpreet Singh Thanks, clear. Any integration-related costs that you would expect from MyUS going forward?

Nicolas Sibuet Yes. We have a very detailed plan of synergies to be unlocked. We are very well on track, we have already realised some of them, so this will be certainly an even more accretive transaction. The synergy plan is rolled out and we will soon see much more integration of, for example, our Shop n Ship back office and warehouses being merged with MyUS, injecting MyUS shipment into our network at a lower cost than their external costs that they have right now, so there will be lots of upside on this transaction. We're estimating about US $3 million on an annual basis of upside on these synergies.

Indarpreet Singh Thanks. That's all from my side.

Ahmed Moataz There are currently no further questions in the chat, nor queue. A final reminder to everyone, if you wish to ask questions, please either send them through the Q&A system, or you can use the raise hand function.

Anca Cighi Ahmed, I think if there are no further questions, we can hand back to Othman. Before we do that, just a reminder to everyone, they can always get in touch directly with myself, also, via email or the phone if any further questions come up.

Othman Aljeda Thank you, everyone. Look, for me, 23 is a year that I think is going to be a challenging year because of the microenvironments that is happening around the world. I think we are in markets that are favourable to us, especially in the UAE and Saudi Arabia and the GCC. We need to keep an eye on currency devaluation, especially in North Africa, where we have substantial presence. We are doubling down our efforts in Central Africa, Southern Africa. And then Australia obviously is the big one for us, where we are working very hard to turn it around. As Nicolas said, we're making good ground there and I think Australia will bounce back very soon. We're confident of this year, we are again saying that we are an asset-light company, and that's now in our advantage again. I think it'll be a positive year for us. Thank you, everyone, and if anyone has any more questions, please don't hesitate to send it to us.

Anca Cighi Othman, there's one question that actually came through the Q&A box just now. Perhaps we can answer it before we close the session. That's from Brian, regarding the volumes in China. How do we see the evolution going forward?

Othman Aljeda Alkhas, maybe you can take that?

Mohammad Alkhas Volumes are starting to return back. Still not a lot of demand due to the macroeconomics worldwide. The demand is still not there as previously, so we see a softness in volumes coming out of China. After the Chinese New Year, we noticed some volumes coming back. Mostly in Express, but not as big as in B2B. If we can look at the trade lanes that China has, the most important one is with the US and Europe, and that's been very soft due to the lack of demand there. Due to many circumstances, like inflation and disposable incomes that are being spent where the manufacturers want the consumer to spend it, so you'll see a lot of softness, but we don't see that much volume coming back from China at this point in time.

Anca Cighi Thank you, Mohammad, very much. I believe with this, we've come to the end of the session. Thank you, ladies and gentlemen, for joining us. We look forward to speaking with you soon during our next quarter's results, which will be in mid-May. Until then, please don't hesitate to get in touch with us. Have a good day to everyone, goodbye.

Othman Aljeda Thank you, everyone.