alrajhi capital

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Saudi Car Rentals

Driving Growth: Theeb and Budget Saudi Steer Ahead in the Vision 2030 Era

In the bustling terrain of Saudi Arabia's flourishing economy, we embark on an exploration of two key players in the car rental industry — Theeb and Budget Saudi, complementing the previously covered Lumi. Projections point to the expansion of the sector, driven by the Vision 2030 tourism initiative, extensive mega projects, thriving religious tourism, and favorable demographic trends. The primary players in the industry, Budget, Theeb, and Lumi, jointly hold a market share of about 28%, showcasing a combined fleet and revenues surpassing 80,000 vehicles and SAR 2.8 billion, respectively, as of FY 2022. Theeb's strategic vision and resilience, coupled with an 8.5% upside, make it an appealing investment. Meanwhile, Budget Saudi's adept adaptation, strategic positioning, and resilience position it for sustained success despite market challenges.

Theeb: Nestled strategically in the heart of Saudi Arabia's tourism sector, Theeb thrives on a diverse fleet, significant brand recognition, and a meticulously tailored mix of services. The backbone of Theeb lies in its rental segment, supported by an extensive branch network. As the tourism sector gains momentum, Theeb anticipates increased demand for leased and rented vehicles. With 58 branches strategically placed, including 14 at airports, Theeb eyes expansion near airports, aligning with the government's ambitious target of attracting 30 million foreign arrivals by 2030. A beacon of resilience, Theeb faces margin challenges, including a dip in gross margins to 31.7% in 9M23. However, the company remains unwavering, showcasing adaptability and foresight. The leasing segment boasts promising growth, evidenced by a robust order backlog of SAR 653mn in Q3 2023. Projected fleet expansion at a remarkable 10% CAGR from 2022 to 2030 positions it for sustained revenue streams. The Membership Program further adds to its success, contributing to recurring revenue that reached an impressive 53% in Q3 2023, reflecting the company's commitment to a customer-centric approach. We initiate coverage with a "Neutral" rating and set a target price of SAR 70/sh.

Budget Saudi: We initiate coverage with a "Neutral" rating and set a target price of SAR 77/sh. Positioned strategically in Saudi Arabia's robust economy, Budget Saudi anticipates a surge in demand for leased and rented vehicles. The company derives 39% of its revenue from the West, 33% from the Central, and 28% from the East, showcasing a well-distributed revenue stream. With a network of 91 branches, including 13 at airports, Budget Saudi is well-prepared to navigate the dynamic market. The company aims to align with the government's ambitious goal of attracting 30 million foreign arrivals by 2030. Leasing constitutes a substantial 43% of 9M23 revenue, emphasizing long-term corporate partnerships with 12–48-month leases. This strategic focus has led to significant fleet growth, reaching 22,287 vehicles at a commendable 6.3% CAGR from 2013 to 2022. Despite a 32% volume drop in used car sales in 2022, Budget Saudi's adaptive approach, selling 23% of the opening fleet balance, contributed to overall revenue. Budget Saudi's fleet management flexibility showcases resilience, adapting adeptly to market dynamics. Positioned for sustained success, the company navigates the dynamic car rental industry with strategic foresight.

Key themes

The Saudi car rental industry anticipates growth, driven by the Vision 2030 tourism initiative, mega projects, religious tourism, and favorable demographics..

The primary industry players, Budget, Theeb, and Lumi, collectively hold a significant market share of around 28%, boasting a combined fleet exceeding 80,000 vehicles and revenues of SAR 2.8 billion as of FY 2022.

Theeb, strategically poised in Saudi Arabia's tourism sector, stands out with a diverse fleet, brand recognition, and customer-centricity, anticipating expansion near airports for sustained success.

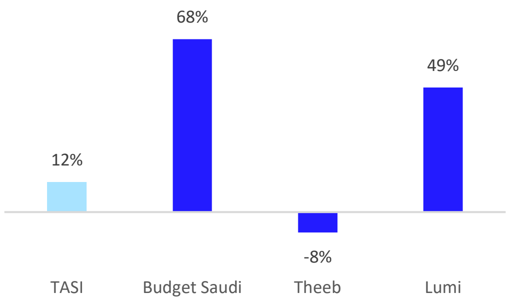
Budget Saudi anticipates increased demand in Saudi Arabia's economy, emphasizing long-term partnerships for fleet growth and showcasing resilience in the dynamic car rental industry.

Summary of our ratings

Stock	Rating	Current TP	CMP	Upside/ Downside
Theeb	Neutral	70.0	64.5	8.5%
Budget Saudi	Neutral	77.0	76.2	1.0%

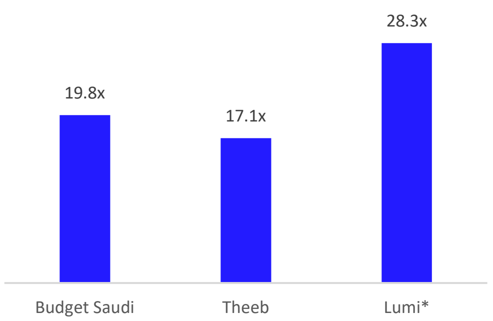
Source: Al Rajhi Capital.

Price performance YTD



Source: Bloomberg, Al Rajhi Capital.

Trailing P/E



Source: Bloomberg, Al Rajhi Capital. Lumi – Adjusted EPS used here

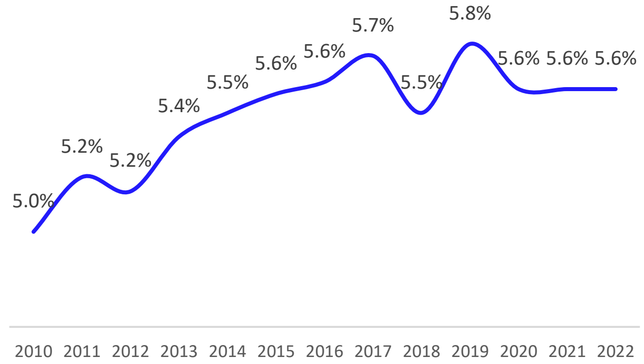
Industry Overview

Transport Sector in KSA:

Transportation holds a pivotal role in the Saudi Government's agenda, serving as a catalyst for economic, social, and environmental progress. In 2021, the transport, storage, and communications sector contributed SAR 152bn (5.8% of GDP), with 0.3mn employees (3.3% of total) registered under the General Organization for Social Insurance (GOSI). The government allocated SAR 46bn (4.6%) of the total budget to the transport sector.

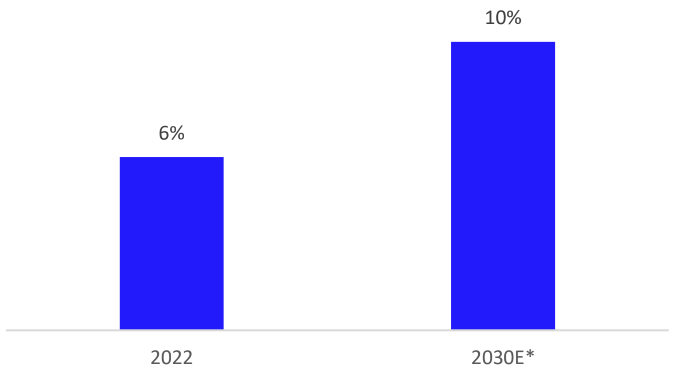
The strategic geographical location of the Kingdom, coupled with its central role in the Arab and Islamic worlds, supports the aspirations outlined in Saudi Vision 2030. The vision aims to transform the Kingdom into a logistics hub, accommodate 30mn Umrah visitors annually by 2030, and enhance overall livability. The National Transport and Logistics Strategy targets a 10.0% contribution of the transport and logistics sector to the national GDP by 2030, fostering industry growth, expanding investments, and increasing the sector's annual contributions to non-oil revenues to SAR 45bn by the same year.

Figure 1 **Transport, Storage, and Communication sector contribution to GDP at constant prices**



Source: GASTAT, Al Rajhi Capital

Figure 2 **Evolution of Contribution of Transport and Logistics sector to National GSP**



Source: GASTAT, Vision 2030, Presentation, Al Rajhi Capital, *Vision 2030 aspirations

Overview of Car Rental Market: Historically, the car rental industry has been marked by fragmentation, with numerous operators of varying fleet sizes, inconsistent service quality, and aging vehicle fleets. Ineffective regulations further compounded these issues. In 2021, regulatory reforms by the TGA in the Kingdom imposed minimum fleet size requirements for new licenses, prompting the replacement of aging fleets with newer ones. The car rental industry in KSA is poised for substantial growth at a projected CAGR of 9.3% over the period of 2023-2028 as per a report by Morder Intelligence.

As of 2022, there are 615 licensed rental agencies, categorized into four groups, and more than 200,000 operational rental vehicles. Dominated by 90 major companies with over 3,000 vehicles (Category A) and 300 vehicles (Category B), they own the majority of the Kingdom's car rental fleet. Revenue in 2019 exceeded SAR 11bn, with the passenger car rental segment reaching SAR 2.8bn. The COVID-19 pandemic significantly impacted the industry in 2020, causing a 30% decline. In 2021, with recovery efforts and the reopening for international tourists, the car rental market rebounded by 16%, reaching a value of SAR 2.3bn.

Overview of Leasing Market: The vehicle lease market in the Kingdom is predominantly influenced by private corporations and government agencies, driven by increased demand in specific industries such as general sales, logistics, municipal services, construction, and security forces. In 2019, before the onset of the COVID-19 pandemic, the vehicle lease market was valued at SAR 1.61bn. Unlike the car rental segment, the impact of the pandemic on vehicle leasing was milder due to long-term contracts and the essential role of logistics services in front-line and essential industries. The pandemic influenced consumer behavior, leading to delayed payments, reduced renewal budgets, and preferences for economically efficient vehicles. In 2020, during the pandemic, the vehicle lease segment was valued at SAR 1.63bn.

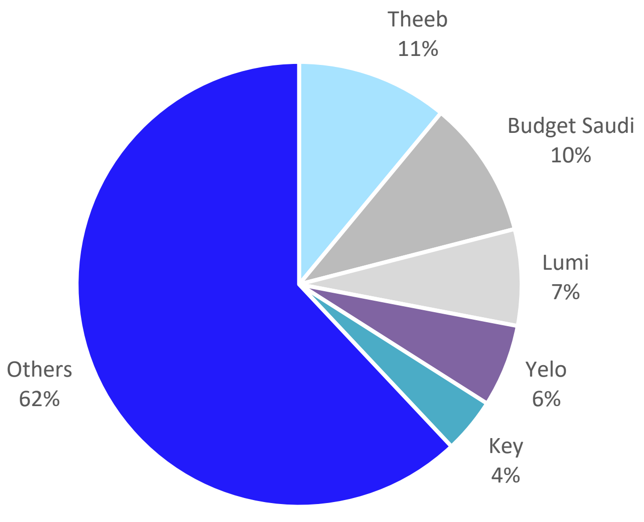
As the broader economy in the Kingdom rebounds, the vehicle lease segment is experiencing steady growth. In 2021, the segment reached a value of SAR 1.78bn, marking a 9% growth from the previous year and approaching pre-pandemic levels. The recovery and growth are attributed to major developments and the rapid expansion of the business sector in the Kingdom.

Overview of Used Car sales Market: The Kingdom stands as the largest automotive market in the Gulf region, playing a crucial role for car manufacturers and housing various automotive original equipment manufacturers. The highly competitive used vehicle market boasts over 2,000 dealerships, including multi-brand outlets and brand-authorized dealerships. These entities differentiate themselves based on geographical presence and value-added services.

The rise of online car sales platforms has further intensified competition, as they leverage accessibility and focus on enhancing consumer engagement, listings, and dealer onboarding. The COVID-19 pandemic triggered significant shifts in the automotive landscape, with job losses, travel restrictions, and an increased supply of used cars from rental companies. Manufacturing disruptions and supply chain challenges impacted both new and used vehicle sales.

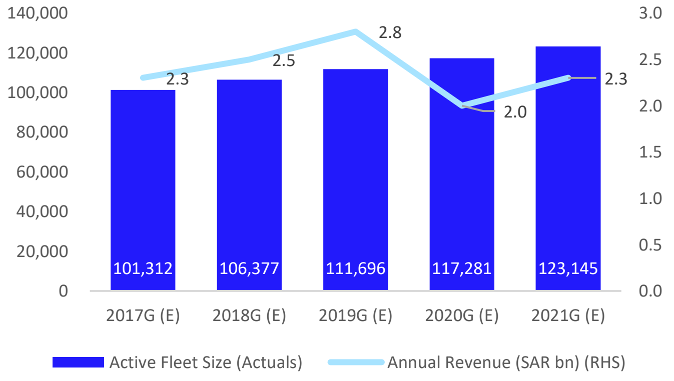
Despite the pandemic, safety concerns led to a surge in demand for personal mobility, benefiting both new and used vehicle markets. Before the pandemic, the used vehicle segment witnessed steady annual growth, reaching sales valued at SAR 33.6bn in 2019. As the Kingdom emerges from the pandemic, the used vehicle sales segment is steadily recovering. In 2021, it exceeded pre-pandemic levels, reaching SAR 39.0bn. Changing consumer behavior, a shift from public transport to private vehicle ownership, higher prices of new vehicles post-pandemic disruptions, and increased VAT on new vehicles contributed to the growth. Resale values of used vehicles saw an impressive surge of over 20%, according to several studies.

Figure 3 **Market share of car rentals in KSA as of 2021**



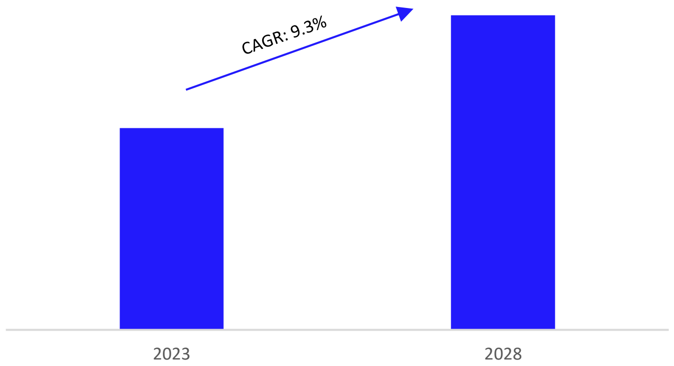
Source: Lumi Prospectus, Al Rajhi Capital

Figure 4 **Car Rental market in KSA**



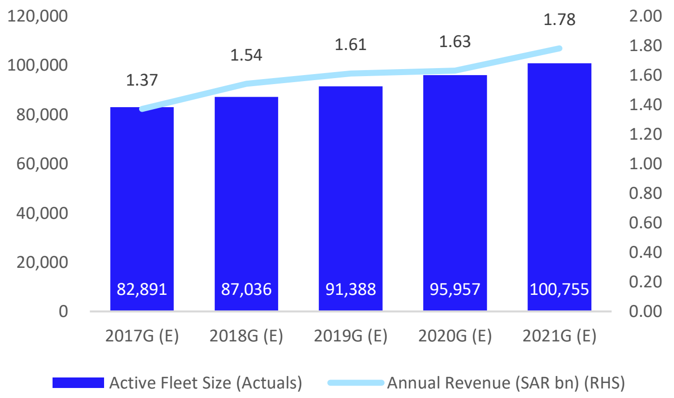
Source: Company data, Al Rajhi Capital

Figure 5 **KSA Car rental market to grow further**



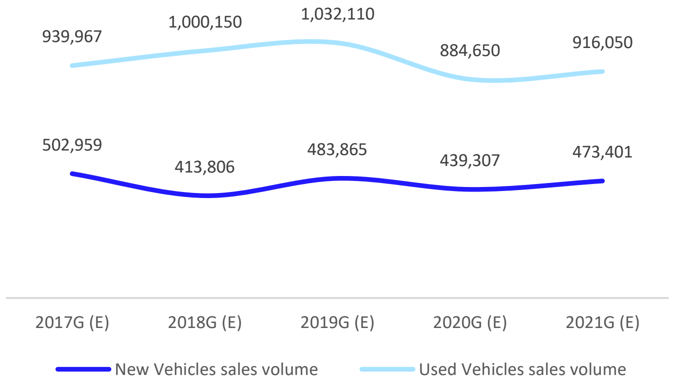
Source: Mordor Intelligence Report, Al Rajhi Capital

Figure 6 **Vehicle Leasing market in KSA**



Source: Company data, Al Rajhi Capital

Figure 7 **Comparison of Used car sales against New Car**



Source: Mordor Intelligence Report, Al Rajhi Capital

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US$0.722bn	64.5%	US$7.79mn
Market Cap.	Free Float	Avg. Daily Value traded

Theeb Rent a Car Company

Initiating Coverage with a TP of SAR 70/sh

Neutral

Price Target (SAR): 70.0

Current: 64.5
Upside/Downside: 8.5% above current

Valuation Multiples	22	23E	24E
P/E (x)	14.4	18.4	15.4
P/B (x)	4.2	3.7	3.3
ROE (%)	29.0	20.4	21.7

Major Shareholders	% Ownership
Al Atheeb Mohammed Ahmed Abdullah	25.0
Al Atheeb Mohammed Hamoud Abdullah	10.0

Price Performance	1M	3M	YTD
Absolute	9.5%	0.0%	-6.5%
Relative to TASI	4.3%	-5.8%	-18.3%

Earnings

(SAR mn)	2022	2023E	2024E
Revenue	968	1,145	1,273
YoY %	*28.7%*	*18.3%*	*11.2%*
Gross Profit	355	364	404
GM Margin %	*36.7%*	*31.8%*	*31.7%*
YoY %	*42.9%*	*2.5%*	*10.9%*
EBITDA	514	552	619
EBITDA Margin	*53.1%*	*48.2%*	*48.6%*
Net Income	193	151	180
Net Income Margin %	*19.9%*	*13.2%*	*14.1%*
YoY %	*53.6%*	*-21.9%*	*19.3%*
EPS	4.5	3.5	4.2
DPS	2.2	1.8	2.1
ROE	29%	20%	22%

Source: Company data, Al Rajhi Capital

We initiate coverage on Theeb with an "Neutral" rating and a target price of SAR 70/sh. The backbone of Theeb's operations lies in the rental segment, supported by an extensive branch network and a meticulously tailored fleet mix and services. Thriving strategically in Saudi Arabia's tourism sector, Theeb manages a diverse fleet and boasts significant brand recognition. The leasing segment is poised for growth, as evidenced by a robust order backlog of SAR 653mn in Q3 2023, solidifying Theeb's position as a key player in the used vehicle market. Projected fleet expansion at a 10% CAGR from 2022 to 2030 positions Theeb for sustained revenue streams. The Membership Program further enhances success, contributing to recurring revenue, which reached 53% in Q3 2023, showcasing the company's customer-centric approach. Despite facing margin challenges, including a drop in gross margins to 31.7% in 9M23, Theeb remains resilient. Valued at a trailing P/E of 16.6x and a 12-month forward P/E of 16.0x, our DCF and relative valuation target a SAR 70/sh price, reflecting an 8.5% upside. Theeb's strategic vision, operational resilience, and customer-centric focus position it as an attractive investment opportunity in the dynamic car rental industry.

Key beneficiary of Tourism in KSA: Theeb strategically benefits from tourism in Saudi Arabia, maintaining a fleet of 10,500 to 22,700 vehicles between 2019 and 2022. This diverse fleet supports leasing and car rental services for individual and corporate clients. After 2.5 years, Theeb sells its used fleet, ensuring continual renewal. Revenue is primarily generated from local airports and city branches, with a focus on serving the Saudi clientele. Theeb's strong brand recognition among Saudi nationals positions it as a key player in local travel and tourism, making it a significant beneficiary.

Robust Backlog in the Leasing Vertical: Theeb's leasing segment anticipates significant growth with an influx of vehicles targeting corporate clients. A robust order backlog of SAR 653mn in Q3 2023, compared to SAR 505mn in FY 2022, enhances revenue visibility and market competitiveness. The expanded fleet is expected to boost used vehicle sales as leases conclude, positioning Theeb as a key player in the used vehicle segment. Overall, Theeb's strategic approach and operational excellence make it a dynamic player ready to navigate evolving market dynamics effectively.

Fleet Expansion to aid future growth: Theeb's strategic plan forecasts a 10% CAGR in fleet expansion from 2022 to 2030, driven by GIGA projects and other events. This growth ensures solid revenue streams from lease, rental operations, and vehicle resale. Proactive fleet age management and a modern fleet strengthen Theeb's competitive edge, making it an appealing opportunity for investors seeking sustainable and lucrative growth in the car rental industry.

Theeb Membership Program drives recurring revenue: Theeb's Membership Program drives sustained success, with Q3 2023 membership revenue reaching 53%, up from 51% in Q3 2022. Simultaneously expanding its customer base, 29.4% of Q3-23 revenue is from new customers, demonstrating a commitment to inclusivity. Offering exclusive benefits, the program ensures a reliable stream of recurring revenue, underscoring Theeb's dedication to customer satisfaction and financial stability in the competitive car rental industry.

Margins have been and to be under pressure: Theeb, a key player in car rentals, faces margin challenges seen in a drop to 31.7% in gross margins in 9M23 from 36.7% in FY22. Operating margins have also declined due to factors like rising insurance costs and lower utilization rates from event restrictions. Despite challenges, Theeb remains resilient. While some competitors grow in rentals, it's crucial to consider their lower base. Theeb can adjust rental prices with costs, but leasing prices can only be renegotiated post-contract expiry. Forecasts indicate margins normalizing around 32%, influenced by lower utilization and growing used car sales, diluting the impact on overall profitability.

Valuation: Theeb trades at a trailing P/E of 17.1x and a 12-month forward P/E of 16.0x. Our DCF and relative valuation combine for a SAR 70/sh target price, offering an 11.1% upside. Using a DCF approach with 11.6% cost of equity, 8.5% WACC, and 2.0% terminal growth, we value it at SAR 69/sh. Relative valuation, based on a 17x P/E using FY24 EPS of peers, suggests SAR 71/sh. Despite margin concerns from rising costs, Theeb, a key industry player, is poised for growth with an "Neutral" rating and an 8.5% upside.

Company Overview

Theeb Rent a Car, a prominent vehicle leasing and rental company with over 30 years of experience, boasts a fleet exceeding 26,000 vehicles. Operating across the Kingdom with 58 rental branches, including over 14 at airports, the company serves more than 480,000 members. Additionally, it manages 9 vehicle maintenance centers and 2 used vehicle sales branches in Riyad and Jeddah. With a diversified clientele exceeding 350 customers, Theeb Rent a Car has a significant presence in various major industries. The company went public on the Saudi Stock Exchange in 2021, featuring a paid-up capital of SAR 430mn. In 2022, its revenue sources were distributed with 49% from short-term rental operations, 33% from long-term leasing, and the remaining 18% from the resale of used vehicles. The company delivered a healthy 3-year revenue CAGR of 15% between 2019-2022. We note that the revenues in the sale of used vehicles segment reported the highest CAGR of ~25% over the same period owing to the rising interest in this space post pandemic.

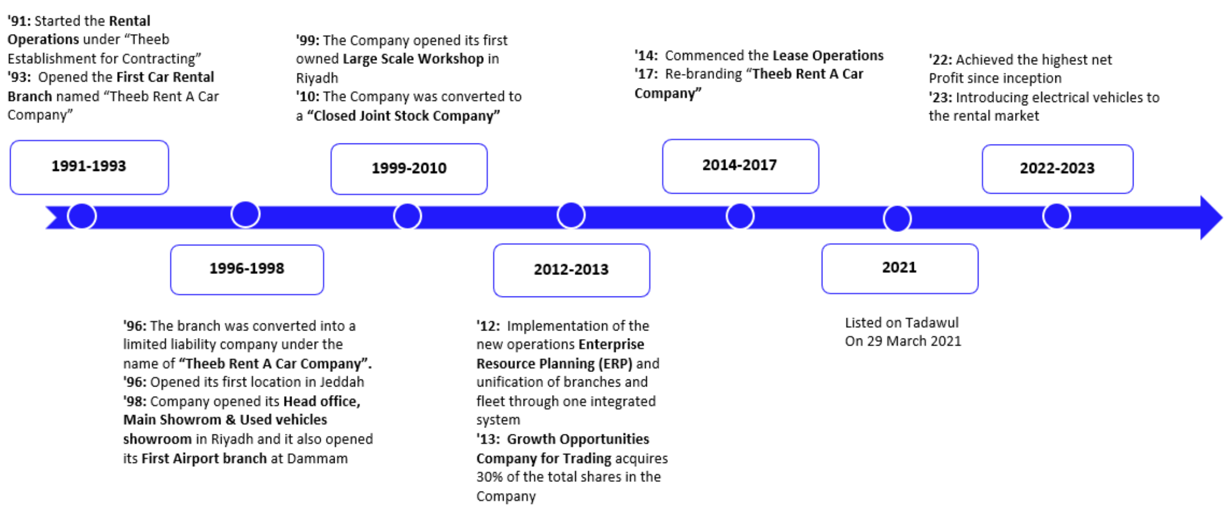
Theeb's core line of business can be categorised into 3 broad segments:

Short-term Rental: Under this vertical, the company is responsible for providing car rental services for daily, weekly, and monthly rental to retail and corporate clients by way of its omni channel setup. The company leverages its network of branches across airports and cities to acquire customers besides its digital application and website presence. The company has a total fleet of over 13,000 cars as of Q3 2023.

Long-term Lease: The company engages in leasing of commercial and non-commercial vehicles for a fixed tenure ranging from 1-5 years in lieu of agreed lease payments, fulfilling the fleet requirements of Corporate and Government clients. The company also actively provides several value-added services from fleet customization, maintenance, replacement, and accident management over the lease period to optimize operations for its customer base. Theeb has a diversified presence in this segment serving a client base of more than 500 corporate customers. The company has an average fleet of over 13,500 cars as of Q3 2023.

Car Sales: The rental segment acts as an anchor vertical for the fleet sold in the used vehicles space. The company engages in disposing of vehicles from its own fleet post the expiry of the lease contract which ranges between 3-4 years on an average and sells the vehicles released from the rental fleet at the end of their two-year life cycle.

Figure 8 **Theeb Timeline**

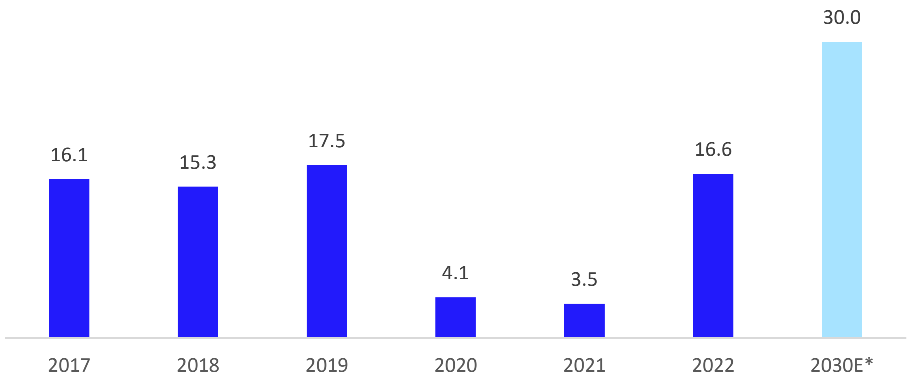


Source: Company Data, Al Rajhi Capital,

Investment Case

Key beneficiary of Tourism in KSA: Theeb strategically acquires vehicles, maintaining an average fleet size ranging from approximately 10,500 to 22,700 vehicles between 2019 and 2022. This fleet serves as the foundation for the company's comprehensive leasing (long-term) and car rental (short-term) services offered within the Kingdom of Saudi Arabia. The diversified vehicle fleet is a key asset, allowing Theeb to effectively cater to the needs of both individual customers and corporate clients. Typically, after an average period of 2.5 years, Theeb systematically sells its used fleet, ensuring ongoing fleet renewal and optimization. The primary revenue sources for the company are derived from operations at local airports and city branches, with a primary focus on serving the Saudi clientele. Theeb has successfully established strong brand recognition among Saudi nationals, solidifying its position as a significant beneficiary in the realm of local travel and tourism within the Kingdom.

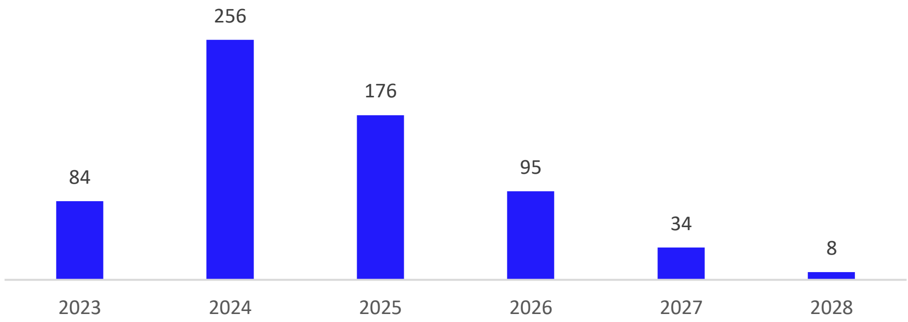
Figure 9 **Inbound Tourist (mn) to grow at CAGR 8%**



Source: Ministry of Tourism, Al Rajhi Capital, * Vision 2030 Aspiration

Robust Backlog in the Leasing Vertical: Theeb's leasing segment is set for significant growth with a strategic influx of vehicles aimed at corporate clients. The current order backlog is impressive at SAR 653 million in Q3 2023, compared to SAR 505 million in FY 2022, enhancing revenue visibility. This surge not only showcases Theeb's thriving leasing business but also fortifies its market competitiveness. The expanded fleet is expected to drive used vehicle sales as vehicles reach the end of their lease duration. This interconnected strategy positions Theeb as a key player in the used vehicle segment, offering well-maintained options for customers seeking reliable pre-owned vehicles. Overall, Theeb's foresight and operational excellence position it as a dynamic player ready to navigate and capitalize on evolving market dynamics effectively.

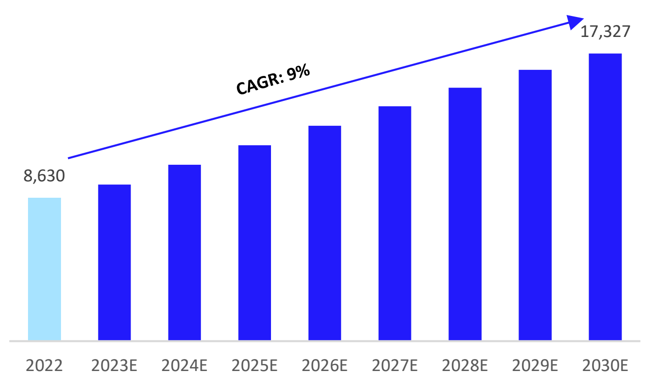
Figure 10 **Leasing Backlog**



Source: Company Data. Al Rajhi Capital

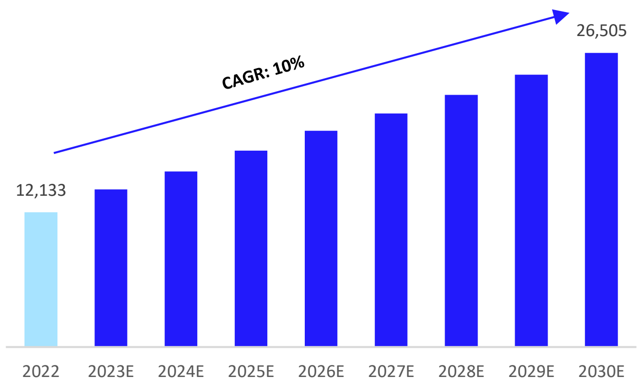
Fleet Expansion to aid future growth: Theeb presents a compelling investment opportunity, guided by a forward-thinking strategy projecting a 10% CAGR in fleet expansion from 2022 to 2030. This deliberate growth, expected to come from GIGA projects and various other events, not only addresses the escalating demand within the car rental sector but also positions Theeb to maintain robust revenue streams derived from lease and rental operations. The company's proactive fleet age management adds another layer of financial stability by ensuring a consistent rise in revenue through vehicle resale, effectively diversifying its income streams. The commitment to maintaining a modern and diverse fleet not only strengthens Theeb's competitive edge in meeting evolving consumer preferences but also creates potential avenues for geographic expansion. With a judicious approach to market dynamics and a resilient business model, Theeb stands at the forefront of continued success in the ever-evolving car rental industry, presenting an enticing prospect for investors seeking sustainable and lucrative growth opportunities.

Figure 11 **Average Rental Fleet to grow at 9% CAGR**



Source: Company Data, Al Rajhi Capital estimates

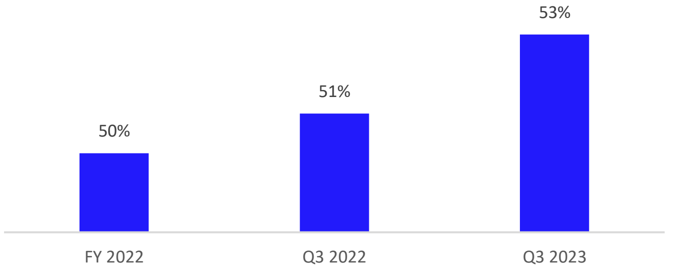
Figure 12 **Lease fleet to grow at impressive 10% CAGR**



Source: Company Data, Al Rajhi Capital estimates

Theeb Membership Program drives recurring revenue: Theeb's Membership Program propels sustained success by strategically boosting recurring revenue, with Q3 2023 seeing membership revenue rise to 53% of rental revenues, up from 51% in Q3 2022 and 50% in FY 2022. Simultaneously, the company is actively expanding its customer base, as 29.4% of Q3-23 revenue is attributed to new customers. Efforts are also directed towards meeting the needs of female customers, highlighting Theeb's commitment to inclusivity. Through exclusive benefits, personalized services, and attractive discounts, Theeb not only enhances the overall customer experience but also fosters a robust bond with members, ensuring a reliable stream of recurring revenue. This program underscores Theeb's dedication to customer satisfaction and acts as a cornerstone for financial stability, showcasing its ability to thrive in the competitive car rental industry. This would also help company to lower provisions going ahead.

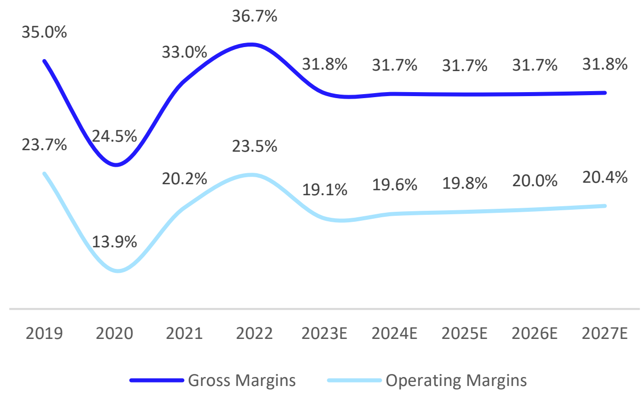
Figure 13 **Theeb Membership program drives recurring revenue**



Source: Company Data, Al Rajhi Capital estimates

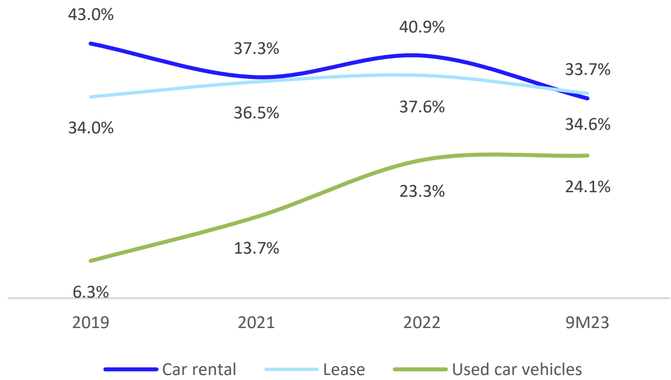
Margins have been and to be under pressure: In navigating the evolving landscape of the car rental industry, Theeb, a prominent market player, has recently grappled with challenges that have had a discernible impact on its margins. Gross margins have seen a drop to 31.7% in 9M23 from 36.7% in FY22. A similar drop can be seen in operating margins as well. The surge in insurance costs, beyond the company's control, has exerted significant pressure on overall profitability. Moreover, lower utilization rates have been observed, stemming from the limitations and restrictions on events when compared to the previous year. It is noteworthy that amidst these challenges, Theeb remains resilient and strategically adaptable. While some competitors have experienced growth in the rental segment, it is crucial to contextualize this against a lower base. This perspective underscores that Theeb's challenges are not isolated incidents but align with broader industry dynamics. It is essential to acknowledge that in the rental segment, prices can be adjusted in tandem with rising costs. However, in the leasing segment, a distinct characteristic of Theeb's business model, prices can only be renegotiated post the expiry of the contract. We believe the margins to be normalize around 32% going ahead on back of lower utilization levels coupled with the sales of used car vehicles continue to grow and that being a lower margin segment would dilute the impact of other two segments.

Figure 14 **Margins to be under pressure**



Source: Company Data, Al Rajhi Capital estimates

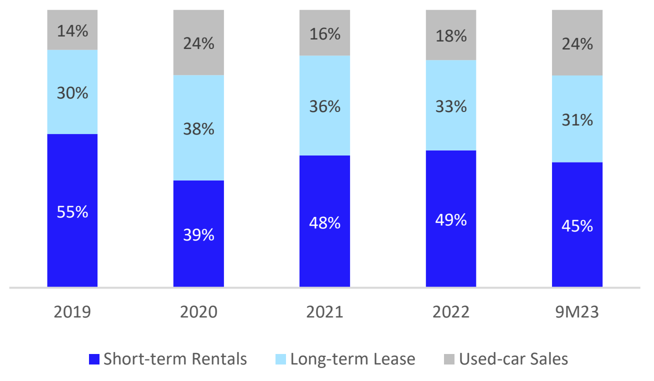
Figure 15 **Rental and Lease segment facing pressure**



Source: Company Data, Al Rajhi Capital estimates

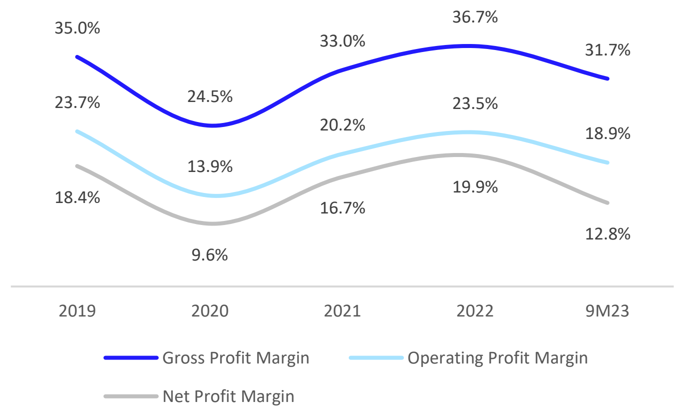
Financial Analysis in Charts

Figure 16 **Revenue mix over the years**



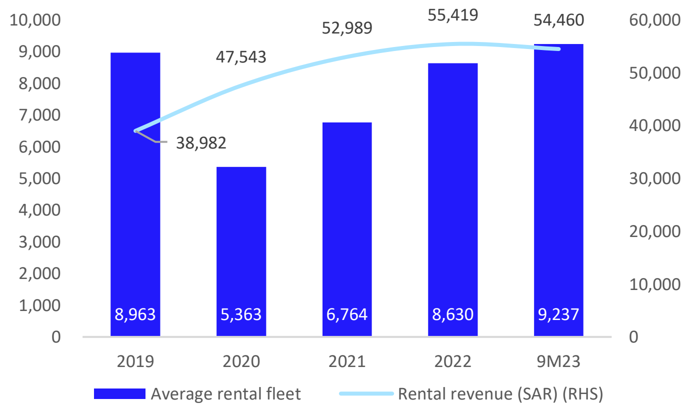
Source: Company Data, Al Rajhi Capital

Figure 17 **Margin trend over the years**



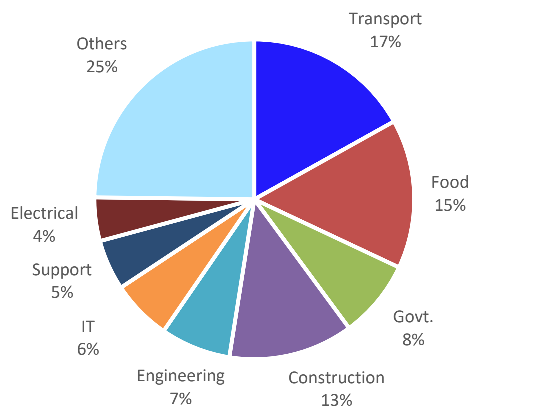
Source: Company Data, Al Rajhi Capital

Figure 18 **Rental Fleet and revenue**



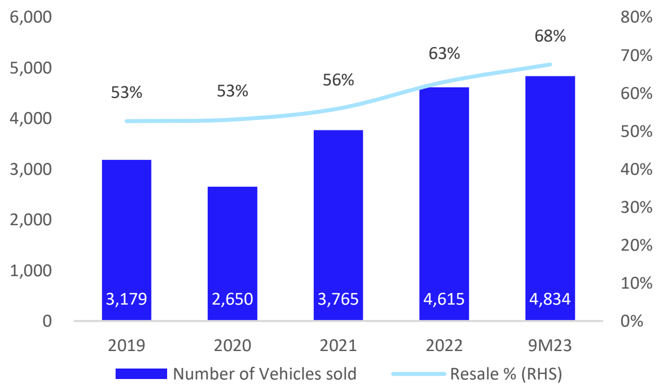
Source: Company Data, Al Rajhi Capital

Figure 19 **Lease revenue by segment (Q3 2023)**



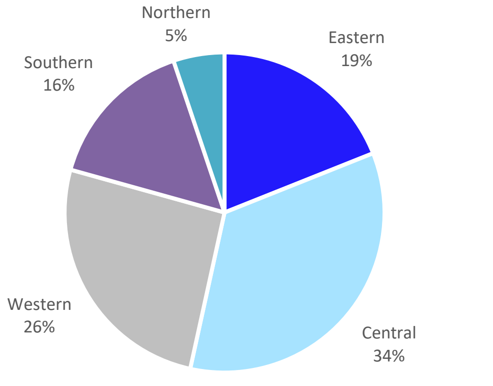
Source: Company Data, Al Rajhi Capital

Figure 20 **Used car sales trend over the years**



Source: Company Data, Al Rajhi Capital

Figure 21 **Branches across the Kingdom**



Source: Company Data, Al Rajhi Capital

Valuation: Theeb is currently trading at a trailing P/E of 16.6x and is trading at 16.0x on 12 month blended forward fundamentals. Our preferred valuation approach to value the company is a mix of DCF and relative valuation, where we assign an equal weight to both. Using the above-mentioned approach, we arrive at a weighted average target price of SAR 70/sh. The stock provides an upside of 8.5% from its last closing. We use the Discounted Cash Flow (DCF) methodology to arrive at a value of SAR 69/sh. Our value is based on the cost of equity assumption of 11.6% resulting in a WACC of 8.5% while we have taken a terminal growth rate of 2.0%. For relative valuation, we have used price to earnings (FY24 EPS) mainly of the listed peer companies in the main market. The P/E multiple of 17x was used to arrive at a value of SAR 71/sh. While Theeb stands as one of the prominent players in the industry, boasting a balanced portfolio of both short-term and long-term rentals, there is a notable concern regarding the anticipated impact on margins due to recent cost pressures owing to higher insurance costs and higher costs for spare parts, however growing fleet size coupled with loyal customer base it looks forward to garner growth. Hence, we initiate coverage with a "Neutral" rating providing an upside of 8.5% to the last closing price.

Figure 22 **Valuation**

Price to earnings method	
Justified P/E	17.0x
2024E EPS	4.18
Value per share	**71.0**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)
DCF Valuation	69	50.0%	35
Relative Valuation - P/E	71	50.0%	36
Target price			**70**
CMP			64.5
Upside/(Downside)			**8.5%**

Source: Al Rajhi Capital estimates

Key Risks:

- Increased competition and pricing pressure from online bookings may lead to lower per-vehicle revenue or market share loss.
- Lower oil prices negatively impacting the Saudi economy may hamper the company's operations.
- Economic downturns, pandemics, or other crises can lead to reduced travel, impacting the demand for car rentals.
- Loss of major lease contracts, such as the major Airport tender, poses a risk to revenue visibility.
- Public transportation projects and ride-hailing apps may reduce rental vehicle demand.
- Evolving regulations, especially related to emissions and safety standards, can necessitate costly fleet upgrades and impact operational procedures.

Financials

Figure 23 **Income Statement**

(SAR mn)	2023E	2024E	2025E
Sales	**1,145**	**1,273**	**1,404**
Y-o-Y	*18.3%*	*11.2%*	*10.3%*
Cost of Sales	(781)	(869)	(959)
Gross Income	**364**	**404**	**445**
Y-o-Y	*2.5%*	*10.9%*	*10.1%*
GPM	*31.8%*	*31.7%*	*31.7%*
G&A	(52)	(56)	(60)
ECL Provision	(37)	(37)	(40)
Operating Income	**219**	**250**	**278**
Y-o-Y	*-3.8%*	*13.9%*	*11.4%*
OPM	*19.1%*	*19.6%*	*19.8%*
Financial costs	(60)	(60)	(57)
Other income	9	9	9
Profit before tax	**168**	**198**	**229**
Zakat & Tax	(17)	(18)	(18)
Net Income	**151**	**180**	**211**
Y-o-Y	*-21.9%*	*19.3%*	*17.3%*
NPM	*13.2%*	*14.1%*	*15.0%*
EPS (SAR/sh)	**3.51**	**4.18**	**4.91**

Source: Al Rajhi Capital estimates

Figure 24 **Balance sheet**

(SAR mn)	2023E	2024E	2025E
Inventories	9	10	11
Trade Receivables	231	247	266
Prepayment and other receivables	160	178	197
Contract Assets	10	10	10
Cash and cash equivalents	138	125	80
Total Current Assets	**548**	**570**	**564**
Property and Equipment	1,537	1,764	1,981
Right of Use assets	114	129	145
Total Non-current Assets	**1,652**	**1,892**	**2,126**
Total Assets	**2,199**	**2,463**	**2,690**
Loans and Borrowings	537	607	648
Current portion of lease liabilities	52	54	59
Car dealership payable	81	90	100
Accounts payable	53	60	66
Accrued expenses and other current liabilities	59	66	73
Zakat payable	25	25	25
Total Current Liabilities	**808**	**902**	**970**
Employee benefit obligations	39	45	50
Loans and Borrowings	559	632	675
Non current portion of lease liabilities	52	54	59
Total Non-Current Liabilities	**651**	**731**	**784**
Shareholders' Equity	**740**	**830**	**936**
Total Liabilities	**2,199**	**2,463**	**2,690**

Source: Al Rajhi Capital estimates

Figure 25 **Cash Flow Statement**

(SAR mn)	2023E	2024E	2025E
Cash from operations	34.6	55.8	95.4
Cash from investing	(57.5)	(64.2)	(71.4)
Cash from financing	60.4	(3.9)	(69.5)
Net change in cash and cash equivalents	37.6	(12.3)	(45.5)

Source: Al Rajhi Capital estimates

Figure 26 **Key Ratios**

Key metrics	2023E	2024E	2025E
Current ratio	0.7x	0.6x	0.6x
Receivables turnover ratio	5.5x	5.3x	5.5x
Payables turnover ratio	14.7x	16.3x	17.0x
Asset Turnover Ratio	0.7x	0.7x	0.7x
ROA	6.9%	7.3%	7.8%
ROE	20.4%	21.7%	22.6%

Source: Al Rajhi Capital estimates

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US$1.38bn	99.8%	US$3.86mn
Market Cap.	Free Float	Avg. Daily Value traded

Neutral

Price Target (SAR): 77.0

Current: 76.2
Upside/Downside: 1.0% above current

Valuation Multiples	22	23E	24E
P/E (x)	13.0	19.3	18.5
P/B (x)	1.9	2.9	2.7
ROE (%)	15.2	15.6	15.2

Major Shareholders	% Ownership
Vanguard Group Inc/The	1.94
Fiera Capital Europe Ltd	1.67

Price Performance	1M	3M	YTD
Absolute	10.8%	9.6%	66.9%
Relative to TASI	5.6%	3.8%	55.1%

Earnings

(SAR mn)	2022	2023E	2024E
Revenue	1,025	1,299	1,433
YoY %	*3.7%*	*26.8%*	*10.2%*
Gross Profit	358	432	460
GM Margin %	*35.0%*	*33.2%*	*32.1%*
YoY %	*7.4%*	*20.4%*	*6.7%*
EBITDA	532	626	668
EBITDA Margin	*51.9%*	*48.2%*	*46.6%*
Net Income	252	280	293
Net Income Margin %	*24.6%*	*21.6%*	*20.5%*
YoY %	*14.6%*	*11.2%*	*4.6%*
EPS	3.5	3.9	4.1
DPS	2.0	2.2	2.3
ROE	15%	16%	15%

Source: Company data, Al Rajhi Capital

United International Transportation Co.

Initiating coverage with a TP of SAR 77/sh

We initiate coverage on Budget Saudi with a "Neutral" rating and a target price of SAR 77/sh. Positioned in Saudi Arabia's robust economy, the company foresees a surge in demand for leased and rented vehicles, deriving 39% of its revenue from the West, 33% from the Central, and 28% from the East. With a strategically placed network of 91 branches, including 13 at airports, Budget Saudi aims to expand its presence near airports, aligning with the government's ambitious goal of attracting 30 million foreign arrivals by 2030. Leasing constitutes a substantial 43% of FY2023 revenue, emphasizing long-term corporate partnerships with 12–48-month leases. This strategic focus has led to significant fleet growth, reaching 22,287 vehicles at a commendable 6.3% CAGR from 2013 to 2022. Despite facing a 32% volume drop in used car sales in 2022, Budget Saudi employed a strategic approach, selling 23% of the opening fleet balance to contribute to overall revenue. The company's fleet management flexibility showcases resilience, adapting adeptly to market dynamics, and positions Budget Saudi for sustained success in the dynamic car rental industry.

Accelerating demand for leased and rented vehicles: Saudi Arabia's economic and tourism surge has sparked a heightened demand for leased and rented vehicles. With a strong presence in key regions, the company generates 39% from the West, 33% from the Central, and 28% from the East. These regions stand to benefit from growing vehicle demand due to various projects and events, including the Red Sea Project, AlUla, Winter at Tantora, FII, GITEX Saudi Arabia, Saudi Media Expo, Beats of Saudi, Janadriyah Festival, Souq Okaz, Riyadh International Book Fair, Jeddah Summer Festival, Hayya Jeddah Festival, and ICSET.

Expansive rental network: With 91 branches and a 65% utilization rate in 2022, the company strategically places 73 branches in the Western and Central regions, offering diverse vehicle options. Serving airports through 13 branches, the company anticipates expanding its rental network, especially near airports, aligning with the government's goal to increase foreign arrivals to 30 million by 2030.

Pivotal Role of Leasing in revenue structure: Leasing, constituting 43% of total revenue in 9M23, focuses on long-term corporate partnerships with a commitment to 12–48-month leases. The combined fleet under Budget Lease and Rahaal Lease has grown at a 6.3% CAGR from 2013 to 2022, reaching 22,287 vehicles. The surge in 2022 additions, particularly the company's contribution of 3,606 vehicles, reflects a high-growth phase and strategic adaptability, solidifying its position as a key player in long-term leasing.

Strategic Impact of Used Car Sales on Revenue and Fleet Management: Used car sales, 26% of revenue, saw a 32% volume drop in 2022 due to delayed deliveries. Selling 23% of the opening fleet balance strategically contributed to revenue, aligning with the commitment to a young, high-quality fleet. Fleet management flexibility showcases Budget Saudi's resilience in adapting to market dynamics.

Valuation: Budget Saudi trades at a trailing P/E of 19.6x and 17.4x on 12-month forward fundamentals. Using a mix of DCF and relative valuation with equal weight, the weighted target price is SAR 77/sh, offering a 1.0% upside. DCF, based on an 8.5% cost of equity, WACC of 7.3%, and a 2.0% terminal growth rate, values the stock at SAR 77/sh. In relative valuation, a P/E multiple of 19x yields a value of SAR 78/sh. Despite being a leading industry player with a balanced lease and rental portfolio, Budget Saudi faces concerns about potential margin impact due to ongoing cost pressures. As a result, we initiate coverage with a "Neutral" rating, anticipating a 1.0% upside from the last closing price.

Company Overview

United International Transportation Company, also known as Budget, commenced its operations in 1978 under the name Universal Car Rental Co. and achieved listing status in 2007. As a trailblazer in the car leasing (long-term lease) and car rental (short-term lease) sectors in Saudi Arabia, the company serves both individual and corporate clients. Operating under the Budget brand, the company extends its services through two subsidiaries: 1) Rahal (fully owned), specializing in long-term truck rentals, and 2) PAYLESS (Franchise contract), offering budget-friendly car rentals. Additionally, the company holds a prominent position in the franchisee business, spanning the Middle East, Southeast Asia, and Africa.

Experiencing substantial growth, the company has increased its fleet size from 12,566 vehicles in 2007 to 32,757 vehicles in 2022, reflecting a commendable CAGR of 6.6% from 2007 to 2022. This expansion has been made possible through the dedicated efforts of a multicultural and diverse team comprising more than 1,350 professionals. Correspondingly, the revenue has seen a notable increase from SAR 497 million in 2007 to SAR 1,057 million in 2022, demonstrating a CAGR of 5.2% over the same period. To support its business growth, the company has strategically expanded its maintenance network across Saudi Arabia, encompassing a total area exceeding 1 million square feet.

Figure 27 **Budget Saudi business model**

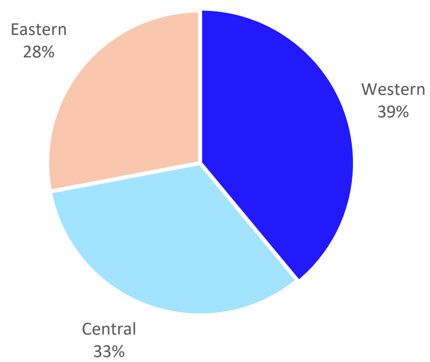
Renting 25% of 2022 Revenue	Leasing 49% of 2022 Revenue	Proceeds of car sales 26% of 2022 Revenue
Utilizing the franchise rights of Budget and Payless, the rental services are offered on a daily, weekly, or monthly basis.	Offers car lease options from 12 to 48 months. Targets long-term leasing needs for buses, commercial vehicles, and trucks through Rahaal.	To uphold a respectable average age for its fleet, Budget sells its used cars through either public auctions or showrooms within the Kingdom.
Key growth drivers – • Increased tourism sector vitality in numerous cities owing to rapid development in urban and semi-urban zones. • Ongoing initiatives within the Kingdom led by the Crown Prince and corporate entities. • Surge in local traffic patterns attributed to a heightened emphasis on tourism and business activities.	Key growth drivers – • Saudi Arabia is poised to establish itself as a key logistical hub, leading to an increased demand for commercial vehicles. • A pipeline of multi-billion projects and business entities is driving demand. • A significant customer base and successful partnerships play a pivotal role in providing seamless services.	Key growth drivers – • Uniqueness defines used car segment in the market, featuring cars with minimal mileage and youthful age. • Affordable pricing for fully maintained, high-quality used cars. • A top choice in the used car market due to its combination of quality and affordability.

Source: Company Data, Al Rajhi Capital,

Investment Case

Accelerating demand for leased and rented vehicles: Saudi Arabia is swiftly transforming its economic and tourism terrain, drawing both visitors and business travelers. This evolution has triggered an increased demand for leased and rented vehicles, as individuals, whether tourists or business professionals, seek transportation to explore the country and participate in various events. With a broad presence in Saudi Arabia, the company generates 39% of its revenue from the Western region, 33% from the Central region, and 28% from the Eastern region. These targeted regions are poised to benefit from the rising demand for vehicles due to multiple projects and events, including the Red Sea Project, AlUla, Winter at Tantora, Future Investment Initiative (FII), GITEX Saudi Arabia, Saudi Media Expo, Beats of Saudi, Janadriyah Festival, Souq Okaz, Riyadh International Book Fair, Jeddah Summer Festival, Hayya Jeddah Festival, and the International Conference on Science, Engineering & Technology (ICSET).

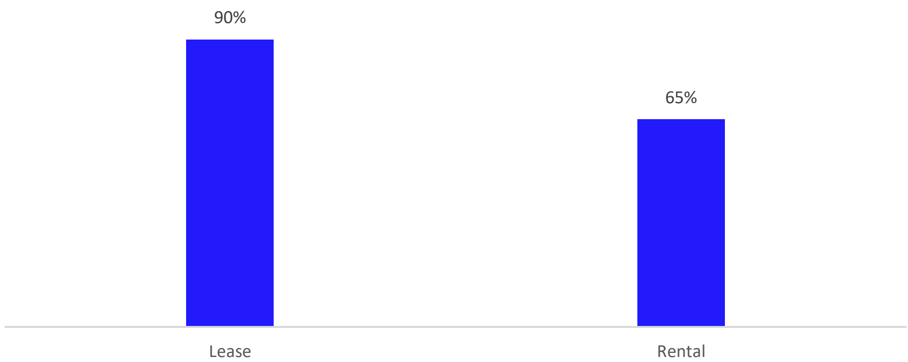
Figure 28 **Revenue bifurcation by region**



Source: Company Data. Al Rajhi Capital

Expansive rental network with 91 branches operating at 65% utilization in 2022: The company boasts a comprehensive rental network comprising 91 branches, achieving a 65% utilization rate in 2022. This network includes 73 branches strategically located in the Western and Central regions, offering a diverse range of vehicles from Economy to Super Luxury. Additionally, the company serves international and domestic airports through its 13 branches. Anticipating the government's ambitious goal of increasing foreign arrivals to 30 million by 2030, we foresee an expansion of the rental network, particularly in proximity to airports.

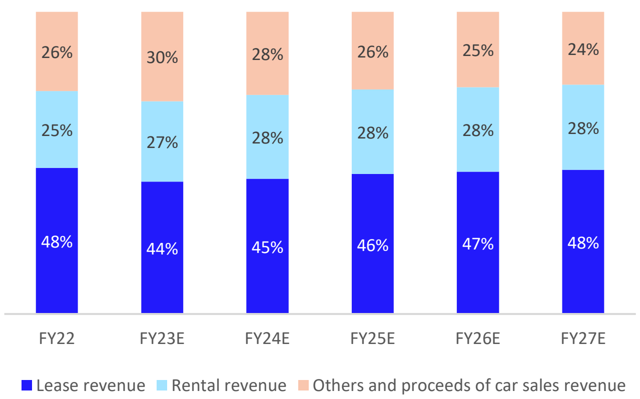
Figure 29 **Utilization of lease and rental vehicles**



Source: Company Data. Al Rajhi Capital

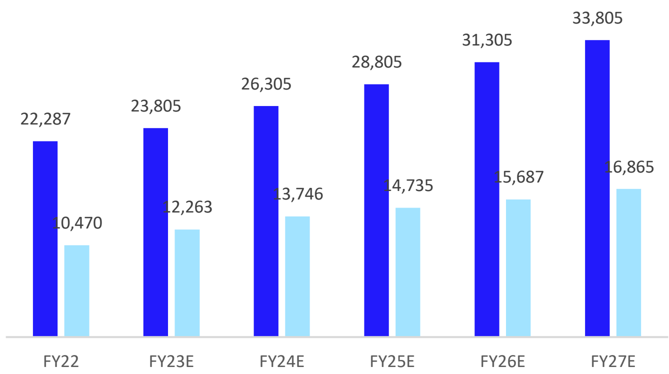
Pivotal Role of Leasing in Revenue Structure: Leasing plays a pivotal role in revenue structure, accounting for approximately 43% of total revenue in the first nine months of the fiscal year 2023. The specialization in long-term vehicle leasing for corporations, spanning diverse industry verticals, has been a significant contributor to this revenue stream. This focused approach allows the company to establish enduring partnerships with corporate clients, fostering stability in business operations. The commitment to long-term leasing, ranging from 12 to 48 months, is a strategic choice that provides stability and predictability to business. This approach aligns with the needs of corporations, ensuring a consistent and reliable vehicle leasing solution over an extended period. The growth trajectory of the leasing business is noteworthy. The combined fleet under Budget Lease and Rahaal Lease has witnessed substantial growth, increasing from 12,846 vehicles in 2013 to 22,287 vehicles in 2022. This growth, reflected in a CAGR of 6.3% from 2013 to 2022, underscores the robust demand for leasing services. In particular, the notable increase in vehicles added in 2022, with the company alone contributing 3,606 vehicles, marks a significant uptick from the 374 vehicles added in 2021. This surge in vehicle additions in 2022 is indicative of a high-growth phase in the leasing business. The heightened momentum aligns with strategic response to anticipated macroeconomic events in the country, positioning the company to capitalize on emerging opportunities in the market. Moreover, the leasing business not only forms a substantial portion of the revenue but also showcases consistent growth, strategic adaptability, and a proactive approach to market dynamics, positioning the company as a key player in the long-term leasing segment.

Figure 30 **Revenue mix going ahead**



Source: Company Data. Al Rajhi Capital

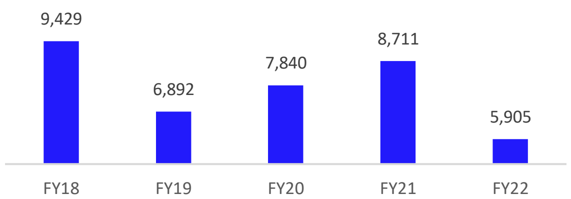
Figure 31 **Fleet trend**



Source: Company Data. Al Rajhi Capital

Strategic Impact of Used Car Sales on Revenue and Fleet Management: Used car sales, constituted 26% of total revenue, are integral to financial structure. Despite a 32% volume decline in 2022 due to delayed vehicle deliveries from OEMs, the strategic approach of selling 23% of the fleet's opening balance contributed significantly to revenue. This tactic aligns with commitment to maintaining a young, high-quality fleet. Resale operations not only generate revenue but also uphold fleet age standards. Acting as a counterbalance to revenue cyclicality, flexibility in fleet management enables the company to reduce size during weak demand, showcasing Budget Saudi's resilience and adaptability in a dynamic market.

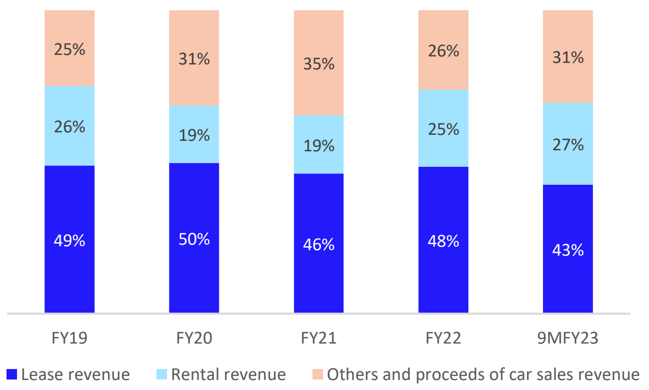
Figure 32 **Number of Used cars sold**



Source: Company Data. Al Rajhi Capital

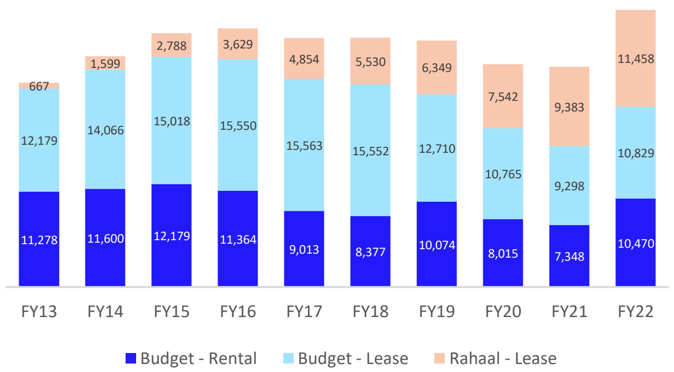
Financial Analysis in Charts

Figure 33 **Budget revenue breakdown by segment (%)**



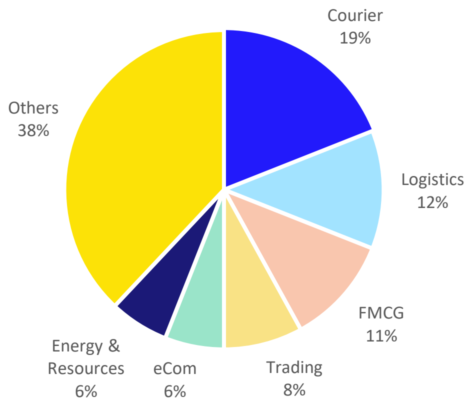
Source: Company Data, Al Rajhi Capital

Figure 34 **Fleet trend**



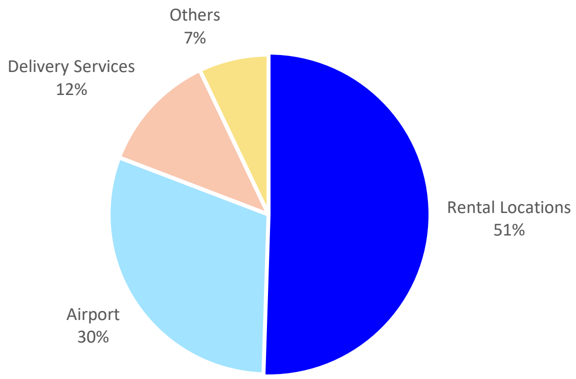
Source: Company Data, Al Rajhi Capital

Figure 35 **Lease Customer Fleet break up by Industry**



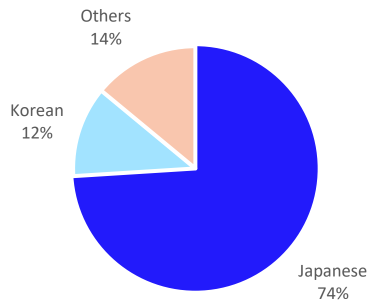
Source: Company Data, Al Rajhi Capital

Figure 36 **Rental Revenue Split**



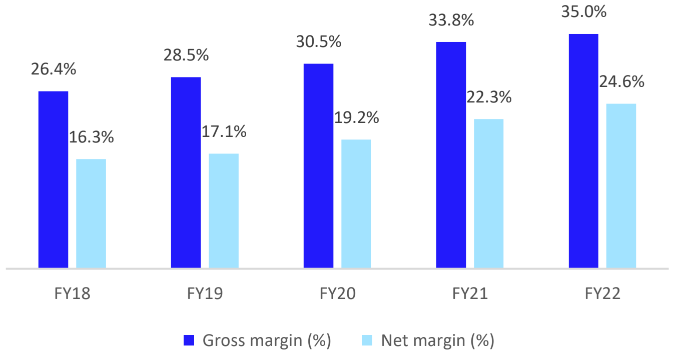
Source: Company Data, Al Rajhi Capital

Figure 37 **Vehicle Make & Contribution in Fleet**



Source: Company Data, Al Rajhi Capital

Figure 38 **Margin Trend**



Source: Company Data, Al Rajhi Capital

Valuation: Budget Saudi is currently trading at a trailing P/E of 17.8x and is trading at 17.4x on 12 month blended forward fundamentals. Our preferred valuation approach to value the company is a mix of DCF and relative valuation, where we assign an equal weight to both. Using the above-mentioned approach, we arrive at a weighted average target price of SAR 77/sh. The stock provides an upside of 1.0% from its last closing. We use the Discounted Cash Flow (DCF) methodology to arrive at a value of SAR 77/sh. Our value is based on the cost of equity assumption of 8.5% resulting in a WACC of 7.3% while we have taken a terminal growth rate of 2.0%. For relative valuation, we have used price to earnings (FY24 EPS) mainly of the listed peer companies in the main market. The P/E multiple of 19x was used to arrive at a value of SAR 78/sh. While Budget Saudi stands as one of the leading players in the industry, boasting a balanced portfolio of lease and rental revenue, there is a notable concern regarding the anticipated impact on margins due to continued cost pressures owing to higher insurance costs and higher costs for spare parts. Hence, we initiate coverage with a “Neutral” rating providing an upside of 1.0% to the last closing price.

Figure 39 **Valuations**

Price to earnings method	
Justified P/E	19.0x
2024E EPS	4.12
Value per share	**78.3**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)
DCF Valuation	77	50.0%	38
Relative Valuation - P/E	78	50.0%	39
Target price			**77**
CMP			76.2
Upside/(Downside)			**1.0%**

Source: Al Rajhi Capital estimates

Key Risks:

- Intensified competition and pricing pressures from online bookings have the potential to adversely affect financials.
- The economy's heavy reliance on crude oil revenue makes it susceptible to reduced spending during oil price downturns.
- A decline in tourism would correspondingly result in a reduction in travel demand.
- The expansion of the corporate sector is closely tied to the demand for leasing business, and any adverse impact would lead to negative outcomes.
- Significant regulatory changes could have a detrimental effect on the tourism sector.

Financials

Figure 40 **Income Statement**

SAR mn	2023E	2024E	2025E
Revenue	**1,299**	**1,433**	**1,549**
y-o-y growth	*26.8%*	*10.2%*	*8.2%*
Cost of Sales	(868)	(972)	(1,036)
Gross profit	**432**	**460**	**514**
y-o-y growth	*20.4%*	*6.7%*	*11.5%*
margins	*33.2%*	*32.1%*	*33.1%*
Selling and marketing expense	(52)	(54)	(58)
General & administrative expense	(77)	(82)	(87)
Impairment loss on trade receivables	(9)	(11)	(12)
Other operating income, net	32	36	39
Operating Profit	**325**	**349**	**395**
y-o-y growth	*21.2%*	*7.2%*	*13.2%*
margins	*25.0%*	*24.3%*	*25.5%*
Finance Cost, net	(38)	(48)	(39)
Income before zakat and income tax	**287**	**301**	**356**
Zakat	(7)	(8)	(9)
Net income for the period	**280**	**293**	**347**
y-o-y growth	*4.6%*	*18.4%*	*18.0%*
margins	*21.6%*	*20.5%*	*22.4%*
EPS	3.9	4.1	4.9

Source: Al Rajhi Capital estimates

Figure 42 **Cash Flow Statement**

SAR mn	2023E	2024E	2025E
Cash flow from Operations	6	7	118
Cash flow from Investing	(18)	(47)	(26)
Cash flow from Financing	52	9	(113)
Change in cash	41	(31)	(22)

Source: Al Rajhi Capital estimates

Figure 41 **Balance sheet**

SAR mn	2023E	2024E	2025E
Inventories	12	13	14
Prepayment and other assets	70	72	70
Trade Receivables	198	216	233
Cash and cash equivalents	64	33	41
TOTAL CURRENT ASSETS	**344**	**334**	**358**
Property, plant and equipment	2,392	2,802	3,062
Right-of-Use Assets	98	105	114
Intangible assets	6	6	6
Financial assets at fair value through other co	15	15	15
TOTAL NON-CURRENT ASSETS	**2,511**	**2,928**	**3,197**
TOTAL ASSETS	**2,855**	**3,262**	**3,556**
Borrowings	270	367	419
Lease Liabilities	24	26	28
Accounts Payable	103	133	142
Accrued expenses and other liabilities	124	146	155
Zakat payable	5	6	6
TOTAL CURRENT LIABILITIES	**526**	**679**	**750**
Borrowings	270	367	419
Lease Liabilities	24	26	28
Employees' end of service benefits (EOSB)	75	78	81
TOTAL NON-CURRENT LIABILITIES	**467**	**593**	**664**
SHAREHOLDERS EQUITY	**1,862**	**1,990**	**2,141**
TOTAL LIABILITIES AND EQUITY	**2,855**	**3,262**	**3,556**

Source: Al Rajhi Capital estimates

Figure 43 **Key Ratios**

	2023E	2024E	2025E
ROA	10.4%	9.6%	10.2%
ROE	15.6%	15.2%	16.8%
Current Ratio (x)	0.7x	0.5x	0.5x
Asset turnover ratio (x)	0.5x	0.5x	0.5x
Inventory turnover ratio (x)	70.5x	75.9x	75.3x
Receivables turnover ratio (x)	6.6x	6.9x	6.9x
Dividend Payout Ratio	56.5%	56.5%	56.5%
Dividend Yield (%)	2.9%	3.1%	3.6%
P/E (x)	19.3x	18.5x	15.6x
P/BV (x)	2.9x	2.7x	2.5x
EV/EBITDA (x)	9.8x	9.6x	8.5x

Source: Al Rajhi Capital estimates

IMPORTANT DISCLOSURES FOR U.S. PERSONS

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

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