

Update on Rental Companies

Saudi Arabia

11 August 2024

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Budget and Theeb Overweight, Lumi Neutral

We update our case for Rental Companies (Budget, Lumi & Theeb) post the recent result announcements. We remain optimistic on the overall expansion in industry fleet size in the KSA due to the combined impact of 1) conversion of ~100k government vehicles from own model to leasing model in the next ~5 years, 2) securing contracts from major players such as STC, SABIC and others in the near term, 3) increase in leisure tourism within the Kingdom, 4) demand from mega and giga projects, 5) country's regional headquarters program, and 6) overall increase in economic activities. We assign a rating of Overweight to Budget (Fair Value SAR96/sh, offering an upside of 15.0%) and Theeb (Fair Value SAR80/sh, offering an upside of 18.9%) and Neutral rating to Lumi (Fair Value SAR87/sh, offering an upside of 8.7%). Within the rental companies, we highlight Theeb as our favorite pick, primarily on account of undemanding valuations and the company offering a 3-year earnings CAGR of ~17%.

Growth Drivers: We remain optimistic on the overall expansion in industry fleet size in the KSA due to the combined impact of 1) conversion of ~100k government vehicles from own model to leasing model in the next ~5 years, 2) securing contracts from major players such as STC, SABIC and others in the near term, 3) increase in leisure tourism within the Kingdom, 4) demand from mega and giga projects such as Neom, The Red Sea Project, Qiddiya, and Al Ula Project, 5) country's Regional Headquarters Program, and 6) overall increase in economic activities.

Recent Results: A common denominator in the recently announced results of the rental companies was the double-digit growth in topline (relative to the same period last year) led by growth in core operations. Beyond the topline growth, a number of company-specific factors impact the recent results.

Budget: The overall gross margins of the company declined to 28.2% in 2Q24 (vs. 33.2% in 2Q23) with 8.4% gross margin on used car sales. The low margin on used car sales was on account of 1) changes in depreciation accounting resulting in a higher net book value of vehicles sold (and hence resulting in lower gross margin), and 2) the company selling off vehicles that were not able to fetch a good resale value. Furthermore, the company's earning was also impacted by 1) an increase in minimum salary requirements, and 2) loss on its subsidiary, Overseas Development Company.

Lumi: Similar to Budget, the gross margins on used car sales at Lumi also declined on account of changes in depreciation accounting. This resulted in overall gross margin declining to 26.4% in 2Q24 (vs. 33.4% in 2Q23). Apart from lower gross margins, a nearly 2x increase in admin expense and finance cost resulted in an overall weak set of results relative to the same period last year. Management attributed the increase in admin expense to the separation of departments from Seera. Finally, the increase in finance cost was driven by both higher interest rates and an increase in total debt (up ~1.9x since 2Q23).

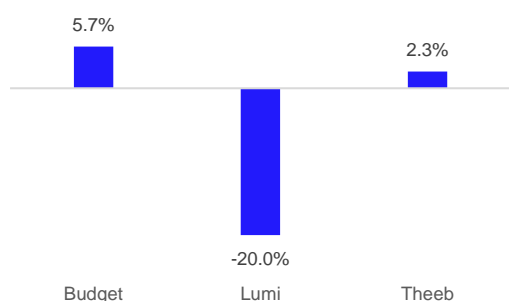
Theeb: Among the rental companies, Theeb's result was a positive surprise. The company has not changed its depreciation accounting, as a result, the overall gross margins of the company were relatively stable. Furthermore, on account of tight cost controls the overall operating expense of the company was relatively stable.

Rating Summary

Stock	Current Rating	Current TP	CMP	Upside/downside
Budget	OW	96	83.5	15.0%
Lumi	Neutral	87	80.0	8.7%
Theeb	OW	80	67.3	18.9%

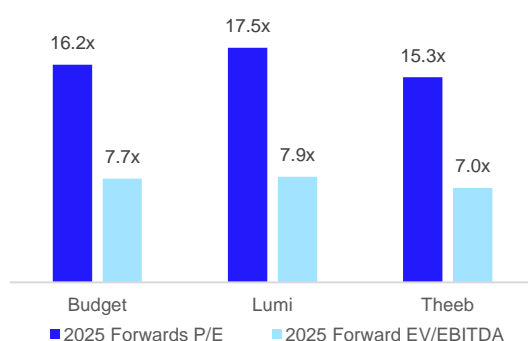
Source: Al Rajhi Capital. OW: Overweight CMP: Close of 11 August 2024

Stock performance YTD



Source: Bloomberg, Al Rajhi Capital.

2025 Forward P/E & EV/EBITDA



Source: Company Data, Al Rajhi Capital.

Valuation & Recommendation: We value all three companies using EV/EBITDA and P/E multiple, giving equal weight to both.

Figure 1 **Financial Summary of Budget, Lumi, and Theeb**

	Unit	Budget	Lumi	Theeb
Period	Year	2025	2025	2025
Period end Fleet Size	No	57,817	40,518	37,351
Lease Fleet	%	73%	69%	58%
Rental Fleet	"	27%	31%	42%
Net Sales	SAR Mn	2,423	1,749	1,427
Gross Profit	"	738	521	460
EBITDA	"	1,010	801	623
Adjusted EBITDA*	"	1,627	1,335	935
Net Earnings	"	403	252	189
EPS	SAR/sh	5.2	4.6	4.4
DPS	"	1.5	-	2.2
Gross Margin	%	30%	30%	32%
EBITDA Margin	"	42%	46%	44%
3 Years Earnings CAGR (2023 to 2026)	%	19%	26%	17%
Average RoE (2025 to 2030)	"	14%	17%	21%
Average Return on Vehicles (2025 to 2030)	"	12%	10%	10%
Debt/Asset 2025	%	24%	47%	52%
Debt/Equity 2025	"	40%	128%	156%
Debt/Adjusted EBITDA 2025	Multiple	0.7	1.4	1.5
2025 Forwards P/E	Multiple	16.2	17.5	15.3
2025 Forward D/Y	%	1.8%	-	3.3%
Target P/E	Multiple	19.0	20.0	18.0
Target EV/EBITDA	"	8.0	8.0	7.5
Fair Value	SAR/sh	96.0	87.0	80.0
Market Price	"	83.5	80.0	67.3
Upside/Downside	%	15.0%	8.7%	18.9%

Source: Company data, Al Rajhi Capital. CMP: Close of 11 August 2024, *Adjusted EBITDA: EBITDA + Cost of used car sales

Budget is the least levered among the rental companies (even post-acquisition of AutoWorld), offering the management the opportunity to aggressively increase its fleet size. The company currently trades at an attractive forward P/E of just 16.2x (post-acquisition of AutoWorld) and offers a dividend yield of 1.8%. We value the company using a target P/E of 19x and EV/EBITDA of 8x largely in-line with the historical multiples. We opine that double-digit earnings growth (driven by fleet size expansion) and relatively low leverage warrant these multiples for the company. We have an Overweight stance on the stock and expect the earnings growth resulting from the acquisition of AutoWorld to be a near-term trigger.

Figure 2 Valuation table

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
EV/EBITDA	94	50.0%	47	13%
P/E	98	50.0%	49	17%
Target price			96	
CMP			83.5	
Upside/(Downside)			15.0%	
Dividend yield			1.6%	
Total returns			16.5%	

Source: Al Rajhi Capital estimates.

Lumi offers the highest earnings growth within the segment and has a relatively high adjusted EBITDA. However, the company is more levered as compared to Budget and we don't expect the company to announce a cash dividend in the near-term given its growth focus. Given its higher earnings growth and a good track record of securing leasing contracts, we value the stock using a P/E multiple of 20x and an EV/EBITDA multiple of 8x. We have a Neutral rating on the stock and opine that near-term earnings should keep the stock range-bound.

Figure 3 Valuation table

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
EV/EBITDA	82	50.0%	41	2%
P/E	92	50.0%	46	14%
Target price			87	
CMP			80.0	
Upside/(Downside)			8.7%	

Source: Al Rajhi Capital estimates.

Theeb is our favored pick within the rental companies primarily on account of the stock's undemanding valuation (the company currently trades at a forward P/E of 15.3x). We believe the negatives of higher leverage and relatively lower earnings growth have already been priced in the current market price. We value the company using a P/E multiple of 18x and EV/EBITDA of 7.5x. We have an Overweight stance on the stock and expect the recent growth in earnings to be a catalyst for stock performance.

Figure 4 **Valuation table**

Valuation Method	Fair Value per share	Weightage	Weighted value per share (SAR)	Upside/downside
EV/EBITDA	80	50.0%	40	19%
P/E	79	50.0%	40	18%
Target price			80	
CMP			67.3	
Upside/(Downside)			18.9%	
Dividend yield			2.9%	
Total returns			21.8%	

Source: Al Rajhi Capital estimates.

Budget's Financials

Figure 5 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	1,378	1,911	2,423
<i>y-o-y growth</i>	34.4%	38.7%	26.8%
Cost of Sales	932	1,345	1,685
Gross Profit	447	567	738
<i>y-o-y growth</i>	24.6%	26.9%	30.2%
<i>margins</i>	32.4%	29.6%	30.4%
Operating Profit	322	366	488
<i>y-o-y growth</i>	20.0%	13.7%	33.3%
<i>margins</i>	23.4%	19.1%	20.1%
Net Income	277	294	403
<i>y-o-y growth</i>	10.0%	6.2%	36.9%
<i>margins</i>	20.1%	15.4%	16.6%
EPS*	3.9	3.9	5.2

Source: Company data, Al Rajhi Capital. *The EPS for 2023 is based on 71.2mn shares, for 2024 on 74.7mn, and for 2025 on 78.2mn shares.

Figure 7 **Ratios and Multiples**

	2023	2024E	2025E
RoE	15.3%	12.8%	14.3%
Debt/EBITDA (x)	0.9	1.5	1.2
P/E (x)	21.4	21.2	16.2
D/Y	1.8%	1.6%	1.8%
EV/EBITDA (x)	10.2	9.8	7.7

Source: Company data, Al Rajhi Capital.

Figure 6 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and cash equivalents	34	36	49
Inventories	35	59	59
Trade receivables	288	597	664
Others	36	77	77
Current Assets	393	768	849
Property and equipment	2,482	3,709	3,954
Intangible assets and goodwill	26	129	128
Right-of-use assets	96	125	117
Others	15	15	15
Total Assets	3,013	4,747	5,063
Trade and other payables	151	336	369
Bank borrowings	257	600	600
Current Portion of Lease liabilities	35	40	39
Others	240	307	307
Current Liabilities	683	1,283	1,315
Bank borrowings	295	600	600
Non-Current Portion of Lease liabilities	54	82	80
Others	78	100	100
Total liabilities	1,110	2,064	2,095
Share capital	712	782	782
Retained earnings	924	1,081	1,367
Others	267	820	820
Total equity	1,903	2,683	2,968
Total Liabilities & Equity	3,013	4,747	5,063

Source: Company data, Al Rajhi Capital.

Lumi's Financials

Figure 8 **Income Statement**

SAR mn	2023	2024E	2025E
Revenue	1,106	1,520	1,749
<i>y-o-y growth</i>	41.3%	37.5%	15.1%
Cost of Sales	725	1,079	1,229
Gross Profit	381	441	521
<i>y-o-y growth</i>	46.3%	15.8%	18.2%
<i>margins</i>	34.4%	29.0%	29.8%
Operating Profit	233	315	376
<i>y-o-y growth</i>	35.1%	35.1%	19.5%
<i>margins</i>	21.1%	20.7%	21.5%
Net Income	161	175	252
<i>y-o-y growth</i>	11.8%	9.1%	43.7%
<i>margins</i>	14.5%	11.5%	14.4%
EPS	2.9	3.2	4.6

Source: Company data, Al Rajhi Capital.

Figure 10 **Ratios and Multiples**

	2023	2024E	2025E
RoE	17.2%	15.7%	18.9%
Debt/EBITDA (x)	2.7	2.6	2.3
P/E (x)	27.4	25.1	17.5
EV/EBITDA (x)	11.5	9.0	7.9

Source: Company data, Al Rajhi Capital.

Figure 9 **Balance Sheet**

SAR mn	2023	2024E	2025E
Cash and cash equivalents	41	72	60
Inventories	2	1	1
Trade receivables & Other receivables	345	430	479
Current Assets	389	504	540
Vehicles	2,712	3,008	3,336
Property and equipment	14	18	18
Intangible assets	2	2	2
Right-of-use assets	89	90	90
Others	40	11	11
Total Assets	3,246	3,632	3,996
Trade and other payables	726	452	505
Bank borrowings	413	550	550
Lease liabilities	34	37	41
Others	42	39	39
Current Liabilities	1,215	1,079	1,135
Bank borrowings	933	1,271	1,321
Lease liabilities	56	56	62
Others	18	21	21
Total liabilities	2,221	2,427	2,540
Share capital	550	550	550
Retained earnings	426	601	853
Others	50	54	54
Total equity	1,025	1,205	1,456
Total Liabilities & Equity	3,246	3,632	3,996

Source: Company data, Al Rajhi Capital.

Theeb's Financials

Figure 11 Income Statement

SAR mn	2023	2024E	2025E
Revenue	1,135	1,303	1,427
<i>y-o-y growth</i>	17.3%	14.8%	9.5%
Cost of Sales	777	877	967
Gross Profit	359	426	460
<i>y-o-y growth</i>	2.0%	18.6%	8.1%
<i>margins</i>	31.6%	32.7%	32.2%
Operating Profit	206	259	267
<i>y-o-y growth</i>	-9.6%	26.0%	2.9%
<i>margins</i>	18.1%	19.9%	18.7%
Net Income	142	171	189
<i>y-o-y growth</i>	-26.4%	20.5%	10.7%
<i>margins</i>	12.5%	13.1%	13.3%
EPS	3.3	4.0	4.4

Source: Company data, Al Rajhi Capital.

Figure 13 Ratios and Multiples

	2023	2024E	2025E
RoE	20.4%	22.1%	21.9%
Debt/EBITDA (x)	2.1	2.3	2.3
P/E (x)	20.4	16.9	15.3
D/Y	2.4%	2.9%	3.3%
EV/EBITDA (x)	7.6	7.3	7.0

Source: Company data, Al Rajhi Capital.

Figure 12 Balance Sheet

SAR mn	2023	2024E	2025E
Cash and cash equivalents	52	43	42
Inventories	7	9	9
Trade receivables	229	280	293
Others	182	130	130
Current Assets	470	462	474
Property, equipment & Intangibles	1,673	1,992	2,172
Right-of-use assets	96	90	90
Total Assets	2,239	2,543	2,736
Trade and other payables	45	50	53
Bank borrowings	557	600	600
Lease liabilities	64	60	58
Others	194	209	209
Current Liabilities	860	919	919
Bank borrowings	569	725	825
Lease liabilities	42	40	38
Others	39	40	40
Total liabilities	1,509	1,725	1,823
Share capital	430	430	430
Retained earnings	247	332	426
Others	52	56	56
Total equity	730	818	913
Total Liabilities & Equity	2,239	2,543	2,736

Source: Company data, Al Rajhi Capital.

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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.

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