

SECTOR INITIATION

Q4 2023

Road to Growth

We initiate our coverage on the Saudi car rental sector. We expect the sector to benefit from the Vision 2030 tourism drive, Mega projects, growth in religious tourism and favourable demographics. The top players Budget, Theeb and Lumi control c30% of the market, with a combined fleet and revenues of c80k and SAR2.78bn (2022), respectively. Our top pick is Budget due to its strong leasing segment and relatively low debt levels, while we also prefer LUMI. We initiate the coverage with OW on Budget and Lumi, and we are Neutral on Theeb.

• Tourism activity to support demand

One of the targets of Vision 2030 is to enable the Tourism sector to become a key growth driver of the Saudi economy with an aim to increase the sector contribution to 10% of GDP. Several funds were established to support the sector including The Tourism Development Fund and Events Investment Fund (EIF). PIF is actively investing in infrastructure and projects to drive tourism through several Mega projects including NEOM, the Red Sea Project and Qiddiya. We expect these events to support Vision 2030 visitors target of 100mn-150mn, which in turn should improve the sector's demand.

• Favorable population dynamics

Saudi is the most populous country in the GCC with a total population of 32.2mn in 2022 (59% of the total GCC). The population grew by an average of 2.5% annually during 2010-2022. Young population (under the age of 30) accounts for 51% of the population while 52.7% of the total falls under the working age population (between 25-55 years). In addition, Saudi aims to make Riyadh among the top 10 city economies in the world and increase its population to 15mn by 2030 from 8.6mn in 2022. The favorable demographics and rise in Riyadh's population is expected to support the sector demand.

• Listed players control c30% of the market

The Saudi car rental and leasing market is fragmented and dominated by 1) local players such as Lumi and Theeb which typically have high brand awareness, strong market presence and local focus, and 2) international players such as Budget, AVIS and Hertz. In 2021, Budget was the largest player with a market share of c11% (26,029 vehicles). It was followed by Theeb at c10% (22,000) and Lumi at c7% (16,666). The top 3 players represent c28% of the market. Considering the fleet addition in 2022 (+5k cars), we believe by the market share of these players to exceed c30%.

• Positive outlook is priced-in

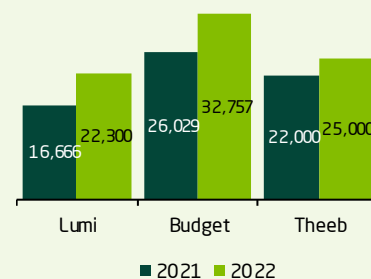
We initiate our coverage on the sector with a positive outlook, backed by Vision 2030 tourism drive, favorable population dynamics, and the Riyadh's population target. Budget is our top pick, due to its large fleet size, a diverse client base and strong contribution of the leasing business. We are also OW on LUMI, driven by company's growth plans and a strong leasing backlog of SAR1.3bn. Although Theeb is one of the largest players in the sector with an even mix of short-term and long-term rental, the recent cost pressure is expected to impact margins which is a key concern. The sector is trading at 2024f P/E of 15.0x vs peer group average of 12.3x with Budget, LUMI and Theeb trading at 14.8x, 15.5x and 14.4x, respectively.

Valuation summary

	Rating	PT (SAR)	CMP (SAR)	Upside/Downside (%)	P/E (x) 2024f	EV/EBITDA 2024f	EV/Vehicle 2024f	Div Yield 2024f
LUMI	Overweight	104.2	88.1	18.3%	15.5	7.0	171,071	3.9
Budget	Overweight	78.2	66.7	17.3%	14.8	7.7	147,637	3.4
Theeb	Neutral	69.9	63.7	8.5%	14.5	5.9	138,732	3.2

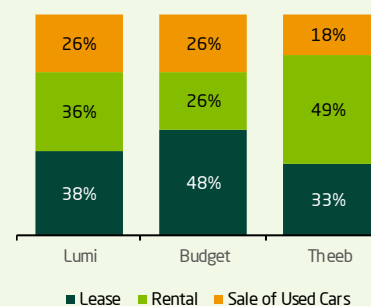
Source: SNB Capital Research estimates. All prices as of 28 September 2023

FLEET SIZE



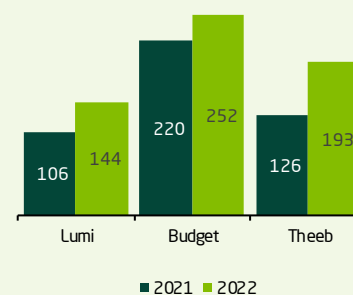
Source: SNB Capital Research

REVENUE CONT. (2022)



Source: SNB Capital Research

NET INCOME



Source: SNB Capital Research

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