

Target Price: SAR88/share
Current Price: SAR77.4/share
Upside: ~14% (+Div. Yield: 3.1%)
Rating: Overweight

Theeb Rent a Car Company (Theeb)

On track of healthy growth, Revise TP to SAR88/share

- 3Q results came broadly in line with our estimates, with earnings growing 35.4% y/y, aided by top-line growth and better operating efficiencies.
- Margins stay resilient despite the unfavorable sales mix; we expect revenues/earnings to grow at a CAGR of 10/19% over 2023-26e.
- Post 3Q results and rolling forward our valuation, we revise our TP to SAR88/share (SAR75/hare earlier) and maintain our "Overweight" rating.

Largely in-line 3Q24 results: Theeb posted a healthy 3Q top-line growth of 17% y/y (+4.9% q/q), leading to SAR337.4mn revenues, in line with our estimates. This growth was driven mainly by the improvement in the leasing (+43% y/y) and the used vehicles sales (+21.4% y/y) segments, offsetting the weak performance of short-term rental business (-4% y/y decline). Gross profits grew 14.3% y/y to SAR231mn, with GP margin narrowing down by 75bps y/y (down 131bps q/q) to 31.6%, lower than our estimate of 33.1%, primarily due to lower-than expected contribution of short-term rental segment. Further, operating profits outpaced the top-line growth, rising 32.7% y/y to SAR71mn, with a corresponding margin of 21% (+248bps y/y), driven by better operating efficiencies and lower ECL. Overall, 3Q earnings grew by 35.4% y/y to SAR46.5mn, in line with estimates. On the 9M24 basis, earnings grew 23.7% y/y to SAR132mn, driven by a 15.7% y/y growth in the top-line amid resilient margins.

Healthy margins and lower finance costs to support earnings: The KSA transportation sector is likely undergoing a higher level of competition in the short-term rental market, as evidenced by a decline in Theeb's short-term rental revenues. However, the company has shown a resilient performance in terms of margins so far this year, despite the unfavorable revenue mix. We attribute this to sustainable factors like improved operating efficiency as well as better negotiated terms with suppliers and vendors (mostly insurance and spare-parts expenses). Both gross and operating margins showed an improvement of 0.4-1.5pps y/y, respectively during 9M24. With a healthy fleet expansion (~9% CAGR over 2023-26e), we expect top-line to grow at a CAGR of 10% during 2023-26e, with a revenue mix broadly in line with the 9M24.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Revenue	1,135	1,316	1,415	1,507
Revenue growth	17%	16%	8%	7%
Gross Profit	359	423	459	496
Gross Profit margin	32%	32%	32%	33%
EBITDA	538	607	668	715
Op. income	206	267	293	322
Net profit	142	177	205	240
Net profit margin	13%	13%	14%	16%
EPS (SAR)	3.3	4.1	4.8	5.6
DPS (SAR)	1.6	2.1	2.4	2.8
P/E	23.4x	18.8x	16.3x	13.9x

Source: Company data, GIB Capital

Stock data

TASI ticker	4261
Mcap (SARmn)	3,328
Avg. Trd. Val (3m) (SARmn)	13.6
Free float	67.5%
QFI holding	5.7%
TASI FF weight	0.11%

Source: Bloomberg

TASI vs Theeb indexed to 100



Source: Bloomberg

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Further, we note that the increased interest costs were the key reason for its weak earnings performance in 2023-24e, compared to 2022. Going forward, we expect the company to be one of the major beneficiaries of the interest rate cut cycle, supporting the bottom line (~SAR14mn positive impact for every 100bps cut in rates as per our calculations). Accordingly, we expect earnings to rise faster at 19% CAGR during the same period, supported by relatively better margins and lower finance expenses.

Valuation and risk: Post 3Q results and rolling forward our valuation to 2025e, we revise our 1Y forward **TP to SAR88/share** (SAR75 earlier), based on equally weighted valuation methods of DCF (SAR90 TP) and P/E (18x, 2025e EPS; SAR86 TP), and keep our **“Overweight”** rating. Key downside risks are global recession, lower than expected benefits from Riyadh/Jeddah seasons, cut in VAT, return of the pandemic, increased competition, cost inflation for new vehicles, supply chain issues for automobiles, less than expected cuts in interest rates and cancellation of long-term leasing contracts.

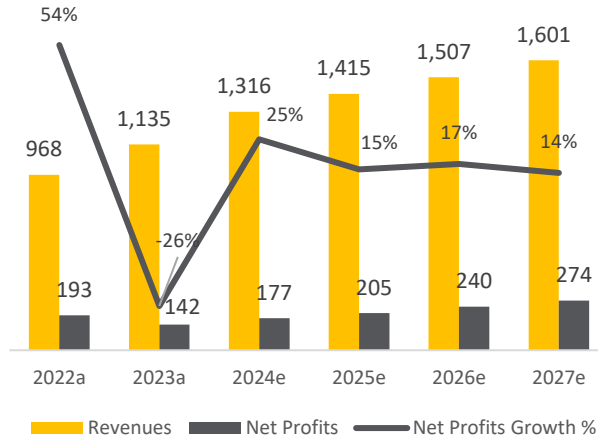
Figure 2: 3Q24 results summary

SARmn	3Q24	3Q23	y/y %	2Q24	q/q %	GIBC est.	Variance %
Revenues	337	288	17.0%	322	4.9%	344	-1.9%
Cost of sales	231	195	18.3%	216	6.9%	230	0.4%
Gross profit	107	93	14.3%	106	0.7%	114	-6.5%
Opex	36	40	-10.4%	37	-2.9%	41	-12.2%
Operating profit	71	53	32.7%	69	2.6%	73	-3.4%
Net income	46	34	35.4%	45	4.3%	48	-3.0%
Gross margin	31.6%	32.3%		32.9%		33.1%	
Operating margin	21.0%	18.5%		21.5%		21.3%	
Net margin	13.8%	11.9%		13.9%		13.9%	

Source: Company data, GIB Capital

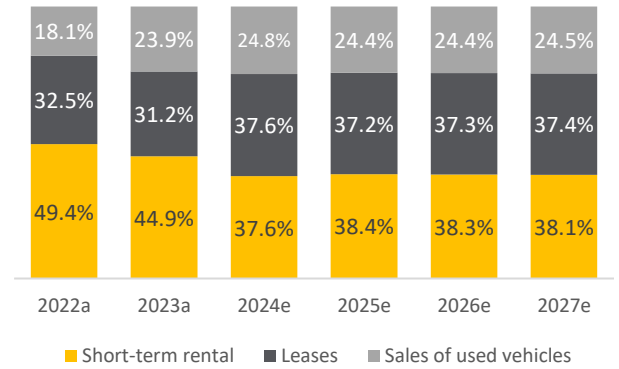
Financial analysis in charts

Figure 3: Financial Performance trend



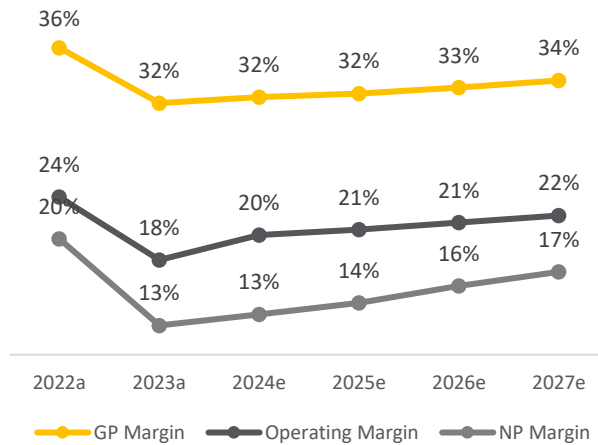
Source: Company data, GIB Capital

Figure 4: Revenues segmentation trend



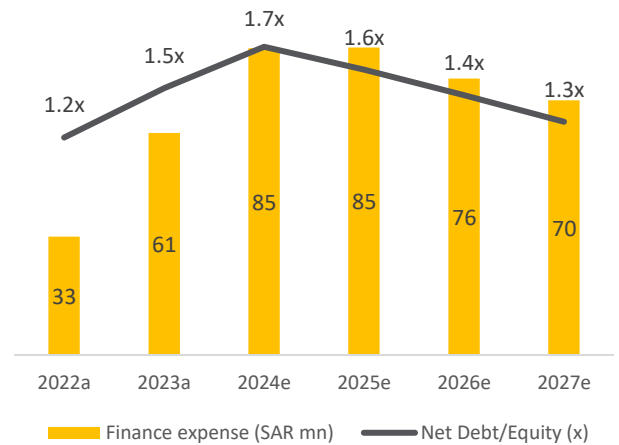
Source: Company data, GIB Capital

Figure 5: Margins trend



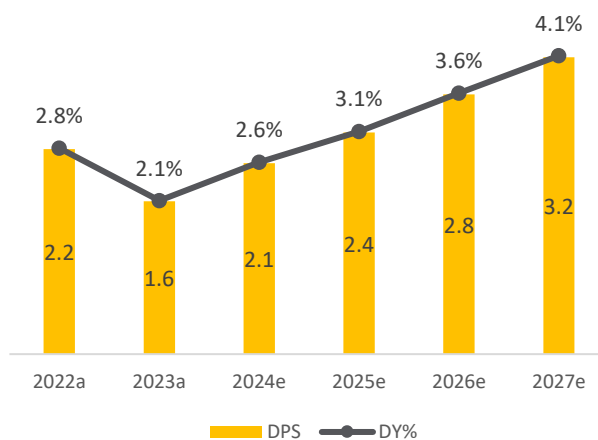
Source: Company data, GIB Capital

Figure 6: Leverage trend



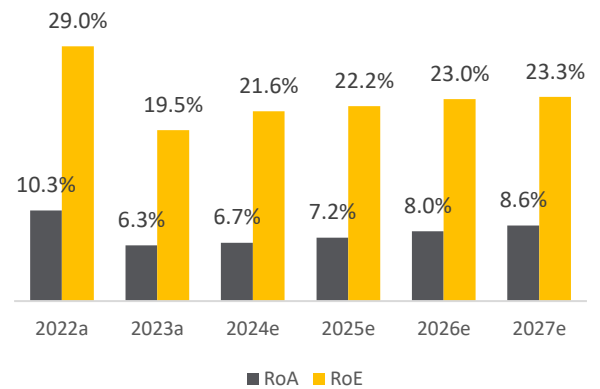
Source: Company data, GIB Capital

Figure 7: Dividend trend



Source: Company data, GIB Capital

Figure 8: RoE and RoA ratios trend



Source: Company data, GIB Capital

Financials

Figure 9: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e
Revenue	1,135	1,316	1,415	1,507
<i>revenue y/y</i>	17%	16%	8%	7%
COGS	777	893	956	1,011
Gross Profit	359	423	459	496
<i>Gross Profit margin</i>	31.6%	32.1%	32.4%	32.9%
Selling and Marketing Expense	58	67	72	77
General and Administrative Expenses	54	59	62	65
Provision For Expected Credit Losses	40	30	31	33
Operating profit	206	267	293	322
<i>Operating margin</i>	18.1%	20.3%	20.7%	21.3%
Finance costs	61	85	85	76
Other income	7	8	9	10
PBT	152	190	218	255
Zakat/tax	9	13	13	15
Net income	142	177	205	240
<i>Net margin</i>	13%	13%	14%	16%
<i>y/y</i>	-26%	25%	15%	17%
EPS	3.3	4.1	4.8	5.6
DPS	1.6	2.1	2.4	2.8
Payout	50%	50%	50%	50%
EBITDA	538	607	668	715
Net debt (w/o lease liabilities)	1,074	1,391	1,449	1,490
Net debt (w/ lease liabilities)	1,179	1,500	1,560	1,603
Balance Sheet	2023a	2024e	2025e	2026e
Inventories	7	11	12	13
Accounts Receivable, Net	229	265	282	296
Contract assets (Accrued income)	8	8	8	8
Prepayments	173	199	214	226
Bank balances and cash	52	42	39	43
Total Current Assets	470	526	554	585
Right-of-use assets	96	103	108	113
Property, plant and equipment, net	1,673	2,035	2,168	2,310
Total Non-Current Assets	1,769	2,138	2,276	2,424
Total Assets	2,239	2,664	2,830	3,009
Current Liabilities	860	1,193	1,255	1,311
Non-current Liabilities	649	652	655	657
Equity	730	819	921	1,041
Total Equity and Liabilities	2,239	2,664	2,830	3,009
BVPS	17.0	19.0	21.4	24.2
Cashflow	2023a	2024e	2025e	2026e
Cashflow from Operations	-89	-163	114	152
Cashflow from Investing	-11	-13	-13	-14
Cashflow from Financing	52	165	-103	-134
Total Cashflows	-48	-10	-3	4

Source: Company data, GIB Capital

Figure 10: Key ratios

Key ratios	2023a	2024e	2025e	2026e
Profitability ratios				
RoA	6%	7%	7%	8%
RoE	19%	22%	22%	23%
Sales/Assets	51%	49%	50%	50%
Net margin	12.5%	13.5%	14.5%	15.9%
Liquidity ratios				
Current Assets/ Current Liabilities	0.5	0.4	0.4	0.4
Debt to Total Equity	1.7	1.9	1.7	1.6
Receivable Days	74	74	73	72
Inventory Days	3	3	3	3
Payable days	38	38	38	38
Cash conversion cycle	39	39	38	37
Debt ratios				
Net Debt/EBITDA (w/o IFRS liab.)	2.0	2.3	2.2	2.1
Net Debt/EBITDA (w/ IFRS liab.)	2.2	2.5	2.3	2.2
Debt/Assets (w/o IFRS liab.)	0.5	0.5	0.5	0.5
Net Debt/Equity (w/o IFRS liab.)	1.5	1.7	1.6	1.4
Valuation ratios				
P/E	23.4	18.8	16.3	13.9
P/B	4.6	4.1	3.6	3.2
EV/EBITDA	8.6	7.7	7.0	6.5
FCF Yield	-4.6%	-4.4%	3.9%	4.7%
Dividend Yield	2.1%	2.6%	3.1%	3.6%

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