GIB جي آي بي كابيتال CAPITAL

Target Price: SAR80/share
Current Price: SAR66.9/share
Upside: ~20% (+Div. Yield: 2.7%)
Rating: Overweight

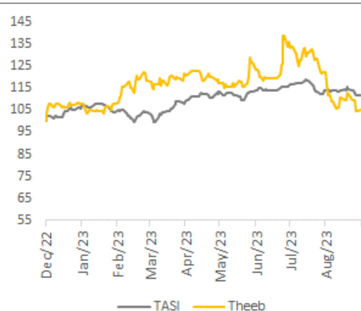
Theeb Rent a Car Company (Theeb)

Lower TP to SAR80/sh on weak margins

Stock data	
TASI ticker	4261
Mcap (SARmn)	2,877
Avg. Trd. Val (3m) (SARmn)	23.7
Free float	64.5%
QFI holding	3.4%
TASI FF weight	0.11%

Source: Bloomberg

TASI vs Theeb indexed to 100



Source: Bloomberg

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- Top-line growth to remain solid, backed by continuing fleet expansion (likely to reach ~29k in 2024 from 23k in 2022) amid improving market dynamics
- However, increased operational costs and weak leasing prices may keep the overall margins under check in the near term
- Post weak 2Q23 results, we revise our target price to SAR80/share from previously SAR90/share, implying an upside of ~20% and maintain our Overweight rating.

Continuous fleet expansion to ensure healthy top-line growth: Theeb has embarked on an aggressive fleet expansion strategy, with the average fleet count increasing at a CAGR of 15% from 2018 to 2022. Given the rising demand from domestic travelers, tourism activities, and corporate clients, we anticipate that the company will continue expanding its fleet size going forward. With a lower base, we expect the average fleet size to increase from 23.2k in 2022 to over 26.7k by 2023e and further reach approximately 28.6k by 2024e with a projected CAGR of ~7% over 2022-2027e while maintaining a similar fleet mix.

Weaker-than-expected margin: In 2Q23, the company witnessed a notable decline in margins with gross margin (GM) narrowing down by 8.7ppts to 29.0% (lower than our estimates). We can attribute the weaker margin to the following factors.

- **Short-term rental sector:** Witnessed a margin of 31.5% (vs. 40.9% in 2Q22), weighed down by lower utilization rates (69% vs. 73% in 2Q22; most likely due to weak demand during Ramadan) and higher operational cost (largely due to increased insurance and spare part costs), despite stable realized prices. Going forward, we expect the company to pass on some of the increased costs to the customers, which may help the company in recovering the segmental margins gradually, although it may remain below the historical levels.
- **Long-term leasing sector:** In 2Q23, the segment was affected by higher operational costs (similar to ST), and continued weak prices (avg. revenue per leased fleet declined 7.7% y/y, 3.8%, and 4.0% over the last three quarters), resulting in a lower gross margin of 30% compared to 35% in 2Q22. Given that most of the long-term lease contracts are in fixed, we believe that it may take some time to fully reprice the increased operational costs, which may keep the margins under check unless they receive any major contracts.

Figure 1: Key financial metrics

SARmn	2022	2023e	2024e	2025e
Revenue	968	1,115	1,236	1,341
Revenue growth	*29%*	*15%*	*11%*	*8%*
Gross Profit	355	353	403	450
Gross Profit margin	*37%*	*32%*	*33%*	*34%*
EBITDA	514	545	606	660
Op. income	228	216	254	291
Net profit	193	154	193	231
Net profit margin	*20%*	*14%*	*16%*	*17%*
EPS (SAR)	4.5	3.6	4.5	5.4
DPS (SAR)	2.2	1.8	2.2	2.7
P/E	14.9x	18.6x	14.9x	12.5x

Source: Company, GIB Capital

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- **Used car sale**, which is a low margin segment, witnessed a higher top-line contribution (26% vs. 15% in 2Q22) due to increased number of fleet sold (1,750 vs. 863 in 2Q22), further leading to a weaker overall gross margin. Going forward, we expect the USC top-line contribution to remain above 20%, with ~20-22% average gross margin, lower than the 2022 levels.
- Accordingly, we expect overall gross margin to stay in a range of ~32-34% over in the mid-term.

Valuation and risks While we remain positive on the company, due to fleet expansion amid healthy demand environment considering the upcoming events (Riyadh seasons and other social events), we revise our estimates earnings estimates downwards to reflect the lowerthan-expected gross margin, and higher finance costs. Our valuation method is unchanged – average of DCF based (SAR84 TP) and PE (16x 2024EPS of SAR4.5/share; SAR77 TP) based valuations to arrive at a rounded target price of ~SAR80/share, implying an 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, and cancellation of long-term leasing contracts.

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