

**Target Price: SAR90/share**  
Current Price: SAR75.3/share  
Upside: ~20% (+Div. Yield: 3.5%)  
**Rating: Overweight**

## Theeb Rent a Car Company (Theeb)

### Raise TP to SAR90/sh on strong demand environment

- Theeb has rallied c10% since the start of the month to record highs since listing, with above average traded volumes ahead of 2022 results, in a strong demand environment
- Q3 results were exceptionally strong, much above our expectations with 78% y/y growth in 9M net income and 25% y/y growth in avg. fleet size
- We raise our target price to SAR90/share from previously SAR80/share, implying an upside of ~20% and maintain our Overweight rating.

**Gaining momentum:** Despite strong 3Q22 results (announced on 1 Nov 2022) coming above our expectations and a strong outlook, the stock had not moved materially. This could be attributed to lower market coverage on the stock. For example, vis-à-vis its key competitor Budget, Theeb has lower free float (64.5% vs 99.8%) and traded value (SAR6.8mn vs SAR12.5mn) despite having only slightly lower market cap. However we believe the stock may be gaining traction ahead of 4Q22 results with a sharp rise in stock price (10% up in last 2 weeks) and trading volumes (0.38mn vs 3m average of 0.10mn). We see strong demand for car rentals/leases from Riyadh seasons and other social events (including World cup) which have been picking up in the Kingdom in a significant manner. Rising car prices (for example, record levels in the US) also helps in higher margins for used car sales. We expect the avg. fleet size and topline to increase by 15% and 18% respectively in 2023e.

**Recap of a strong 3Q:** Previously Theeb had reported strong Q3 results with both top-line (+37% y/y, +10% q/q) and bottom-line (+97% y/y, +25% q/q) coming largely 10% and 50% above our estimates respectively. The company mentioned it was due to the solid performance of both short rental and long term leases alongside increase in fleet size. Theeb sold twice as many cars (1,221 vs. 563 in 3Q21) resulting in high growth in the used car sales segment (149% y/y, 32% y/y) with increased resale values (revenue per car sold was up +16% y/y). Lower provision for credit losses than usual also helped improve operating margin to 26% in 3Q22 (vs 23% in 2Q22 and 18% in 3Q21).

Figure 1: Key financial metrics

SARmn	2021a	2022e	2023e	2024e
Revenue	752	963	1,132	1,228
Revenue growth	14%	28%	18%	8%
Gross Profit	249	361	420	461
Gross Profit margin	33%	37%	37%	38%
EBITDA	403	542	610	642
Op. income	152	236	279	299
Net profit	126	198	227	246
Net profit margin	17%	21%	20%	20%
EPS (SAR)	2.9	4.6	5.3	5.7
DPS (SAR)	0.91	2.2	2.6	2.9
P/E	25.8x	16.3x	14.2x	13.1x

Source: Company, GIB Capital

#### Stock data

TASI ticker	4261.SE
Mcap (SARmn)	3,229
Avg. Trd. Val (3m) (SARmn)	6.8
Free float	64.5%
QFI holding	2.3%
TASI FF weight	0.13%

Source: Bloomberg

#### TASI vs Theeb indexed to 100



Source: Bloomberg

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**Valuation and Risks:** Our valuation method is unchanged – average of DCF based and PE (16x 2024EPS of SAR5.7/share) based valuations to arrive at a rounded target price of SAR90/share. We expect sales growth of 28%/18% and a net profit growth of 58%/15% in 2022e/23e. 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.

## Financials

Figure 2: Summarized financial statements

Income statement	2021a	2022e	2023e	2024e
<b>Revenue</b>	<b>752</b>	<b>963</b>	<b>1,132</b>	<b>1,228</b>
revenue y/y	14%	28%	18%	8%
COGS	503	602	712	767
<b>Gross Profit</b>	<b>249</b>	<b>361</b>	<b>420</b>	<b>461</b>
Gross Profit margin	33%	37%	37%	38%
Sales & Marketing	34	51	58	63
G&A	37	47	57	65
<b>Operating profit</b>	<b>152</b>	<b>236</b>	<b>279</b>	<b>299</b>
Operating margin	20%	24%	25%	24%
Finance costs	26	31	40	40
Other income	4	3	3	3
<b>PBT</b>	<b>132</b>	<b>209</b>	<b>242</b>	<b>262</b>
Zakat/tax	7	10	15	16
<b>Net income</b>	<b>126</b>	<b>198</b>	<b>227</b>	<b>246</b>
Net margin	17%	21%	20%	20%
y/y	99%	58%	15%	8%
<b>EPS</b>	<b>2.9</b>	<b>4.6</b>	<b>5.3</b>	<b>5.7</b>
DPS	0.91	2.2	2.6	2.9
Payout	31%	47%	50%	50%
<b>EBITDA</b>	<b>403</b>	<b>542</b>	<b>610</b>	<b>642</b>
Net debt (w/o lease liabilities)	557	646	541	414
Net debt (w/ lease liabilities)	666	760	658	535

  

Balance Sheet	2021a	2022e	2023e	2024e
Inventories	6	11	13	14
Accounts Receivable, Net	139	179	211	229
Contract assets (Accrued income)	9	9	9	9
Prepayments	61	73	86	93
Bank balances and cash	58	39	144	271
<b>Total Current Assets</b>	<b>273</b>	<b>311</b>	<b>464</b>	<b>616</b>
Right-of-use assets	89	96	104	109
Property, plant and equipment, net	1,156	1,322	1,315	1,302
<b>Total Non-Current Assets</b>	<b>1,245</b>	<b>1,418</b>	<b>1,418</b>	<b>1,410</b>
<b>Total Assets</b>	<b>1,518</b>	<b>1,729</b>	<b>1,882</b>	<b>2,026</b>
Current Liabilities	580	681	716	733
Non-current Liabilities	371	375	380	383
Equity	567	673	787	910
<b>Total Equity and Liabilities</b>	<b>1,518</b>	<b>1,729</b>	<b>1,882</b>	<b>2,026</b>
BVPS	13.2	15.7	18.3	21.2

  

Cashflow	2021a	2022e	2023e	2024e
Cashflow from Operations	47	64	290	325
Cashflow from Investing	-6	-10	-11	-12
Cashflow from Financing	-23	-73	-173	-187
<b>Total Cashflows</b>	<b>18</b>	<b>-19</b>	<b>106</b>	<b>126</b>

Source: Company, GIB Capital

Key ratios	2021a	2022e	2023e	2024e
<b>Profitability ratios</b>				
RoA	8%	11%	12%	12%
RoE	22%	29%	29%	27%
Sales/Assets	50%	56%	60%	61%
Net margin	16.7%	20.6%	20.1%	20.1%
<b>Liquidity ratios</b>				
Current Assets/ Current Liabilities	0.5	0.5	0.6	0.8
Debt to Total Equity	1.3	1.2	1.0	0.9
Receivable Days	67	68	68	68
Inventory Days	4	4	4	4
Payable days	84	84	84	84
Cash conversion cycle	-13	-12	-12	-12
<b>Debt ratios</b>				
Net Debt/EBITDA (w/o IFRS liab.)	1.4	1.2	0.9	0.6
Net Debt/EBITDA (w/ IFRS liab.)	1.7	1.4	1.1	0.8
Debt/Assets (w/o IFRS liab.)	0.4	0.4	0.3	0.2
Net Debt/Equity (w/o IFRS liab.)	1.0	1.0	0.7	0.5
<b>Valuation ratios</b>				
P/E	25.8	16.3	14.2	13.1
P/B	5.7	4.8	4.1	3.6
EV/EBITDA	9.9	7.4	6.6	6.2
FCF yield	-0.4%	0.9%	7.9%	8.9%
Dividend Yield	1.2%	2.9%	3.5%	3.8%

Source: Company, GIB Capital

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