GIB CAPITAL جي آي بي كابيتال

Target Price: SAR91/share
Current Price: SAR75.0/share
Upside: ~22% (+Div. Yield: 2.7%)
Rating: Overweight

United International Transportation Co. (BUDGET)

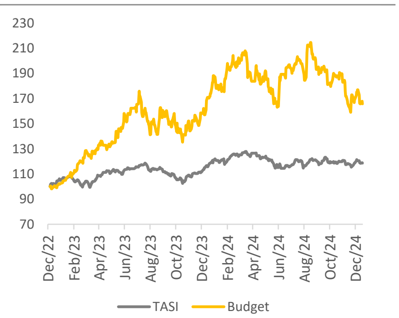
Strategic move in Vehicle lease market, Market share jumps to 18%

- AW transaction widens Budget's client base and solidifies its market position; Expect synergies of SAR42mn over the 3 years.
- On the back of fleet expansion and better efficiencies, we expect revenues and earnings to grow in 2023-27e at CAGRs of 18% and 17%, respectively.
- We revise our TP to **SAR91 per share** (SAR 69.2 earlier, adjusted for shares issuance) based on DCF and P/E (18x on 2025e EPS) with an "**Overweight**" rating.

Stock data	
TASI ticker	4260
Mcap (SARmn)	5,863
Avg. Trd. Val (3m) (SARmn)	17.4
Free float	95.0%
QFI holding	16.7%
TASI FF weight	0.26%

Source: Bloomberg, Tadawul

TASI vs Budget indexed to 100



Source: Bloomberg

AutoWorld acquisition supports Budget's growth strategy and entrenches its leadership: By late July-24, Budget completed the acquisition of Al Jazira Equipment Co. (AutoWorld; AW) company's entire share capital via its fully owned company Aljozoor Alrasekha Trucking Co. (Rahaal). In exchange, Budget issued new shares to the selling shareholders of AutoWorld, raising its capital from SAR711.67mn to SAR781.67mn. While AW operates solely on long-term leasing, this strategic move would elevate Budget's market share in the industry by 6pps, up to 18%, further solidifying its leading position by adding ~14k of vehicles owned by AW. Budget's total fleet is expected to hover around 52k by 2024e end, with full quarterly impact realizing in 4Q24e. Accordingly, we expect revenues to post a CAGR of 18% during 2023-28e.

Potential integration synergies to be realized in 3 years: Budget intends to keep the operations of AW running separately, while integrating the company at the macro level in terms of technology, upper management and limiting the workshop center business to serve the group's fleet only. AW's insurance, finances and spare parts expenses are most likely to be reduced, as Budget is likely to utilize its bargaining power in negotiation those terms with the vendors for the benefit of AW. Consequently, Budget expects SAR42mn synergies to be realized over 3 years, on the back of higher economies of scale and operational efficiency.

Finance expenses are expected to increase initially, but leverage level remains healthy: Budget debt level rose to SAR1.51bn by Sep-24 from SAR665mn in Jun-24, driven mainly by the debt level of AW, causing a significant increase in finance cost during 3Q24. However, we believe that Budget's balance sheet remains stronger than peers, as net debt-to-equity ratio is still at a healthy level of 0.55X (compared to peers 'average of 1.5x). Going forward, we forecast finance costs of SAR 69-67mn in 2024-25e, respectively (compared to SAR 37mn in 2023), with a gradual decrease afterwards (SAR 50mn in 2026e) amid lower interest rates and deleveraging.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Revenue	1,378	1,930	2,426	2,539
Revenue growth	*34%*	*40%*	*26%*	*5%*
Gross Profit	447	583	762	812
Gross Profit margin	*32%*	*30%*	*31%*	*32%*
EBITDA	642	784	1,012	1,106
Net profit	277	296	392	476
Net profit margin	*20%*	*15%*	*16%*	*19%*
EPS (SAR)	3.9	4.0	5.0	6.1
DPS (SAR)	1.5	1.2	2.0	2.4
P/E	19.3x	18.8x	15.0x	12.3x

Source: Company's report, GIB Capital

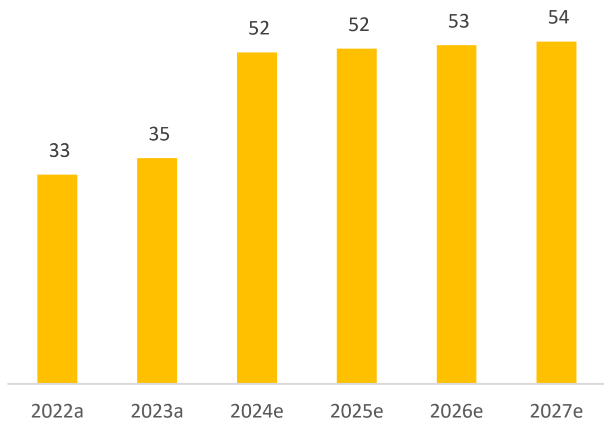
Ahmed Almutawah
+966-11-834 8498
ahmed.almutawah@gibcapital.com

Revenue mix's skewness to leases may dilute margins: AW has historically reported higher GP margins, with an average of ~40% between 2020-9M23 compared to an average of ~33% for Budget during 2020-23. However, we attribute part of this gap to the differences in accounting treatment of employees' expenses, as AW recognizes them under OPEX while Budget recognizes more than 60% of those expenses as COGS. However, after consolidation, we expect Budget to recognize those costs as COGS, thus diluting the higher gross margins of AW. As a result, we expect an average GP margin for budget at 31.5% for 2024-27e (compared to 32.4% in 2023 and 35% in 2022), weighted down by higher contribution of lease revenues (which typically have lower margins). At the same time, we forecast an average operating margin of 20.4% for 2024-27e (compared to 23.4% in 2023 and 26.2% in 2022). Consequently, we expect earnings to grow at a CAGR of 17% during 2023-27e, reaching SAR 518mn.

4Q24 preview: 4Q24 is expected to fully reflect the impact of the AW acquisition (3Q24 was impacted only in two months). Hence, we forecast an annual growth in revenues of 57% for the quarter, reaching SAR582mn; driven mainly by an 88% y/y growth in leases revenues and 38% growth in sales of used cars. We expect margins to be under pressure during the quarter with a GP margin of 30.5% and an operating margin of 19.1%. Meanwhile, we expect finance costs to be largely flat q/q, at SAR24mn; due to lower interest rates, despite the higher leverage position. Accordingly, we expect Budget to post earnings of SAR84mn (+27% y/y, +17% q/q) during the quarter.

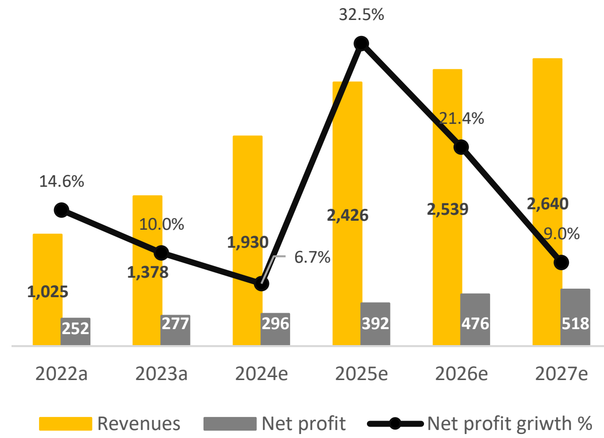
Valuation and risk: Post revision in our estimate, incorporating the AW's acquisition and rolling forward valuation to 2025, we revise our 1Y forward TP **to SAR91 per share** (SAR 69.2 earlier, adjusted for shares issuance), based on the average of DCF (SAR92 TP) and P/E (18x, for 2025 EPS; SAR90 TP). Accordingly, we keep our "**Overweight**" recommendation on the stock. Key downside risks include lower-than-expected contribution from tourism, increased competition, supply chain disruptions for vehicles, lower-than-expected retention rates of lease clients, and weaker-than-expected impact of acquisitions.

Figure 2: Fleet Size Trend (in thousands)



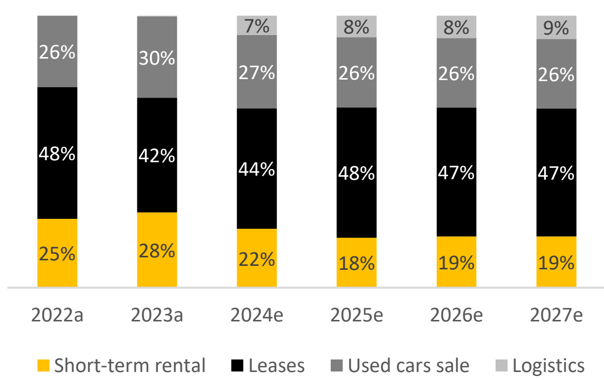
Source: Company's data, GIB Capital

Figure 3: Financial Performance Trend (in SAR mn)



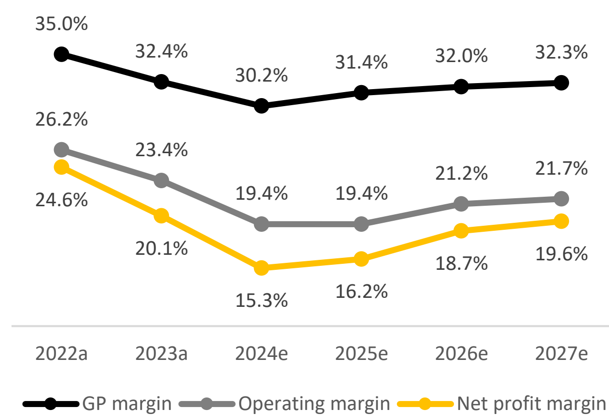
Source: Company's data, GIB Capital

Figure 4: Revenue Mix Trend



Source: Company's data, GIB Capital

Figure 5: Margins Trend

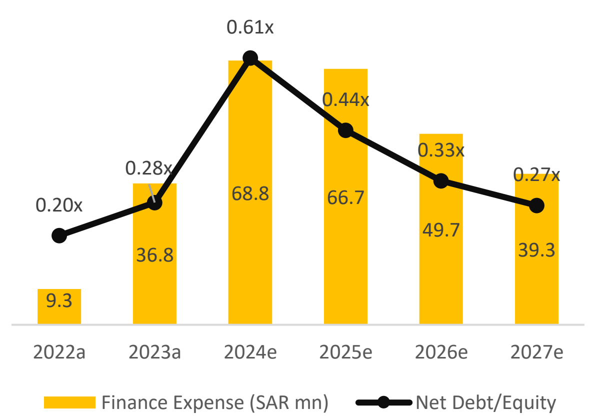


Source: Company's data, GIB Capital

Figure 6: RoA & RoE Trend

Source: Company's data, GIB Capital

Figure 7: Leverage Trend



Source: Company's data, GIB Capital

Financials

Figure 8: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e
Revenue	**1,378**	**1,930**	**2,426**	**2,539**
revenue y/y	*34%*	*40%*	*26%*	*5%*
COGS	-932	-1,347	-1,664	-1,727
Gross Profit	**447**	**583**	**762**	**812**
Gross Profit margin	*32.4%*	*30.2%*	*31%*	*32%*
S&M	-60	-78	-104	-108
G&A	-89	-158	-194	-190
Other operating income, net	35	52	49	63
Operating profit	**322**	**374**	**469**	**539**
Operating margin	*23.4%*	*19.4%*	*19%*	*21%*
Finance costs	-37	-69	-67	-50
PBT	**285**	**305**	**403**	**489**
Zakat/tax	-8	-9	-11	-13
Net income	**277**	**296**	**392**	**476**
Net margin	*20.1%*	*15.3%*	*16%*	*19%*
y/y	*10%*	*7%*	*33%*	*21%*
EPS	3.9	4.0	5.0	6.1
DPS	1.5	1.2	2.0	2.4
Payout	39%	30%	40%	40%
EBITDA	**642**	**784**	**1,012**	**1,106**
Net debt (w/o lease liabilities)	518	1,636	1,298	1,053
Net debt (w/ lease liabilities)	607	1,757	1,421	1,177

Balance Sheet	2023a	2024e	2025e	2026e
Inventories	35	79	66	63
Accounts Receivable, Net	288	708	495	501
Prepayments and other receivables	36	90	111	115
Bank balances and cash	34	57	45	50
Total Current Assets	**393**	**934**	**717**	**728**
Right-of-use assets	96	281	286	290
Property, plant and equipment, net	2,482	3,864	3,934	3,991
Total Non-Current Assets	**2,620**	**4,225**	**4,300**	**4,362**
Total Assets	**3,013**	**5,158**	**5,017**	**5,090**
Current Liabilities	683	1,420	1,221	1,129
Non-current Liabilities	427	1,006	828	708
Equity	1,860	2,691	2,926	3,212
Total Equity and Liabilities	**3,013**	**5,158**	**5,017**	**5,090**
BVPS	26.1	36.3	37.4	41.1

Cashflow	2023a	2024e	2025e	2026e
Cashflow from Operations	44	-50	633	559
Cashflow from Investing	-10	6	-24	-25
Cashflow from Financing	-21	37	-621	-529
Total Cashflows	**13**	**-6**	**-12**	**5**

Source: Company data, GIB Capital

Figure 9: Key ratios

Key ratios	2023a	2024e	2025e	2026e
Profitability ratios				
RoA	9%	6%	8%	9%
RoE	15%	11%	13%	15%
Sales/Assets	46%	37%	48%	50%
Net margin	20%	15%	16%	19%
EBITDA margin	47%	41%	42%	44%
Liquidity ratios				
Current Assets/ Current Liabilities	0.6	0.7	0.6	0.6
Debt to Total Equity	0.3	0.7	0.5	0.4
Receivable Days	76	75	75	72
Inventory Days	14	11	10	9
Payable days	59	38	40	41
Cash conversion cycle	31	48	45	40
Debt ratios				
Net Debt/EBITDA	0.8	2.1	1.3	1.0
Debt/Assets	0.18	0.33	0.27	0.22
Net Debt/Equity	0.28	0.61	0.44	0.33
Valuation ratios				
P/E	19.3	18.8	15.0	12.3
P/B	2.9	2.1	2.0	1.8
EV/EBITDA	11.8	9.7	7.5	6.8
FCF Yield	0.1%	-5.3%	9.6%	8.3%
Div. Yield	2.0%	1.6%	2.7%	3.2%

Source: Company data, GIB Capital

Disclaimer

This research report has been prepared by GIB Capital, Riyadh, Saudi Arabia. It has been prepared for the general use of GIB Capital's clients and may not be altered, redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of GIB Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by GIB Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. GIB Capital makes no representations or warranties (express or implied) regarding the data and information provided and GIB Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. GIB Capital or its officers (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. GIB Capital may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. GIB Capital and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document. Where the report contains or refers to a recommendation about a specific security or securities service, please note that it may not be suitable for all recipients. Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations. The subjectivity in future expectations is complex and may miss actual or reported numbers.

This research document and any recommendations contained are subject to change without prior notice. GIB Capital assumes no responsibility to update the information in this research document. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law, or which would subject GIB Capital to any registration or licensing requirement within such jurisdiction

The principal activities of GIB Capital are Dealing, Custody, Managing, Arranging and Advising pursuant to the Capital Market Authority ("CMA") License No. 07078-37.

We use a rating system based on potential upside, 1 year from today, referred to as the Target price. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

Contact us for queries:

Sell Side Research Department,
GIB Capital,
B1, Granada Business & Residential Park,
Eastern Ring Road, PO Box 89589, Riyadh 11692
www.gibcapital.com