Target Price: SAR80/share
Current Price: SAR68.1/share
Upside: 17.5% (+Div. Yield: 2.8%)
Rating: Overweight

Theeb Rent a Car Company (Theeb)

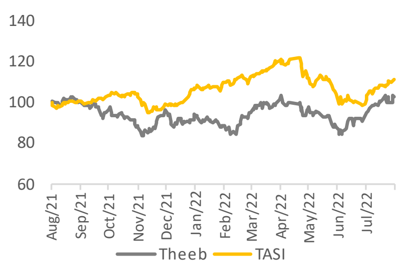
A steady growth ride on local travel/tourism in KSA

- Theeb is a beneficiary of the growing domestic travel & tourism sector in the Kingdom. Significant fleet addition expected in 2022e on continuing strong demand.
- Proven track record, increasing loyal customer base, focus on expansions, and Govt. initiatives position Theeb for a steady growth trajectory for 2023 and beyond.
- We use an equal mix of PE (18x)/DCF valuations to initiate on the Company with a target price of SAR80/sh., implying an upside of 17.5%, excluding a 2.8% div. yield (' 22e).

Stock data	
TASI ticker	4261.SE
Mcap (SARmn)	2,928
Avg. Trd. Val (3m) (SARmn)	11.0
Free float	74.9%
QFI holding	1.59%
TASI FF weight	0.10%

Source: Bloomberg

TASI vs Theeb indexed to 100



Source: Bloomberg (as of 17th Aug 2022)

Short-term rental business poised to grow with domestic tourism & travel sector: Increasing number of events (Riyadh/Jeddah seasons - 15mn/5mn visitors respectively in 2022) and travel activities within the Kingdom has resulted in a strong demand for short-term car rental activities (45% y/y growth in 1H22). Long-term leasing revenues, which help in adding stability and diversification, also grew 18% y/y in 1H22. 1H22 already has seen around 2.1k net adds in the fleet, and we expect the avg. fleet size to increase by ~20% in 2022e to drive a strong topline growth of 23% y/y in 2022.

A well-integrated business model yielding high operational efficiency: Healthy financials, growth-oriented management, focus on Saudi clientele (~90% revenues), and strong local brand recognition positions Theeb as one of the leading beneficiaries in a fragmented industry. With a large network of strategically located branches and frequently renovated and customized fleet mix, the Company has built a huge loyal customer base (~65% of the mix). Govt's 2030 targets of 330mn airline passengers (~50mn in 2021), foreign tourist arrivals of 30mn (~4mn in 2021), mega projects, and entertainment centers assure longer-term growth visibility.

Valuation and Risks: We expect a sales growth of 23%/12% in 2022/23, supported by the fleet expansion of 20%/4% to cater to growing demand from a pick-up in mobility. We expect a net profit CAGR of 18.8% during 2021-23. 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.

Figure 1: Key financial metrics

SARmn	2020a	2021a	2022e	2023e
Revenue	660	752	923	1,038
Revenue growth	*5%*	*14%*	*23%*	*12%*
Gross Profit	162	249	334	370
Gross Profit margin	*25%*	*33%*	*36%*	*36%*
EBITDA	326	403	501	535
Op. income	92	152	199	216
Net profit	63	126	161	177
Net profit margin	*10%*	*17%*	*17%*	*17%*
EPS (SAR)	1.5	2.9	3.8	4.1
DPS (SAR)	0.7	0.91	1.9	2.1
P/E	46.2x	23.3x	18.1x	16.5x

Source: Company, GIB Capital

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Investment case

Theeb buys vehicles (avg. fleet of ~19,000/22700 vehicles as of 2021/2022e) to provide leasing (long-term lease) and car renting (short-term lease) services in the Kingdom of Saudi Arabia. The Company monetizes its diverse vehicle fleet mix by serving individual customers and corporates and sells the used fleet after 2.8 years on average. The company generates the bulk of its business from local airports (and not international airports) and city branches from mainly Saudi clientele and has strong brand recognition among Saudi nationals. Thus it is a key beneficiary of local travel/tourism in KSA.

Being 30 years into the car **rental** market, Theeb enjoys a market-leading share in the industry, with one of the largest rented fleets of over 9,000 vehicles (for short-term lease) as of 2021. The Company has built a wide network of strategically located airport branches (15, as of 2021) and city branches (36), providing easy customer access, which is vital for efficient and high-quality customer service. COVID-19 pandemic-related restrictions slowed down the Company's rental segment but recovered quickly by growing 41% y/y in 2021, underlying the demand for car renting.

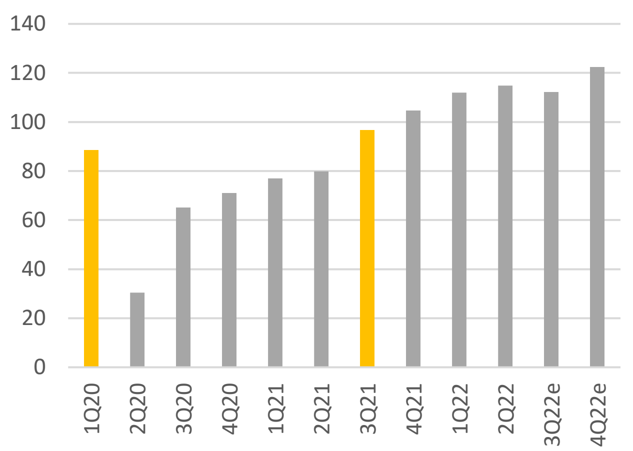
Long-term **leasing** business provides defensiveness given the longer tenures (2 to 5 years) of fixed payment contracts (SAR489mn of leasing backlog revenue). Theeb has been quite successful in growing this business at a CAGR of 34% from 2017 to 2021, mainly through winning new lease contracts and renewal of existing ones, as seen by a significant increase in the leased fleet. The Company is serving a diverse set of 345 corporate clients through a fleet of over 9,700 vehicles for long-term lease as of 2021, growing from over 4,900 levels as of 2017.

The Company's avg. Fleet age is 2.4 years in the rental segment and 3.5 years in the leasing segment. It continues to sell its vehicles after around three years to manage its fleet efficiently with a strategy to have a younger fleet of vehicles that attracts repeat customers.

The Company has a good record of a consistent improvement in financial performance, with revenue growing at a CAGR of 9% from 2017-2021 and net profit growing significantly higher by 45% over the same period. The stellar expansion in gross profit margin from 21% in 2017 to 33% on 2021 was mainly due to 1) an increase in rental utilization from 69% to 74%, 2) a change in depreciation estimates to be in line with IFRS, 3) higher yields on sale of used vehicles driving gross margin expansion. Accordingly, Operating margins have also grown from 8% in 2017 to 20% in 2021, driven by higher operating leverage.

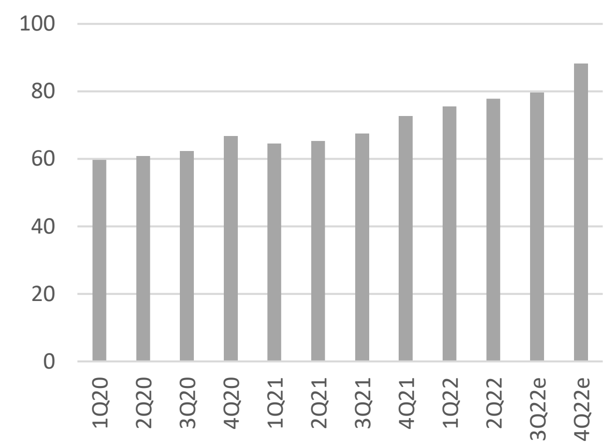
Theeb's strategy emphasizes continued investment in capacity expansion to gain a higher market share across the business segments. Thus, the Company's Capex is likely to remain elevated over the next few years. The Company's moderate level of leverage with a net debt-to-equity ratio of 0.9x and net debt/EBITDA of 1.3x (for 2022) provides room for raising funds to drive future Capex plans.

Figure 2: A quick recovery in short-term rental revenue in 2H21/1H22 despite the steep impact of COVID-19 led disruption. Revenues (SARmn) bounced back as restrictions were lifted



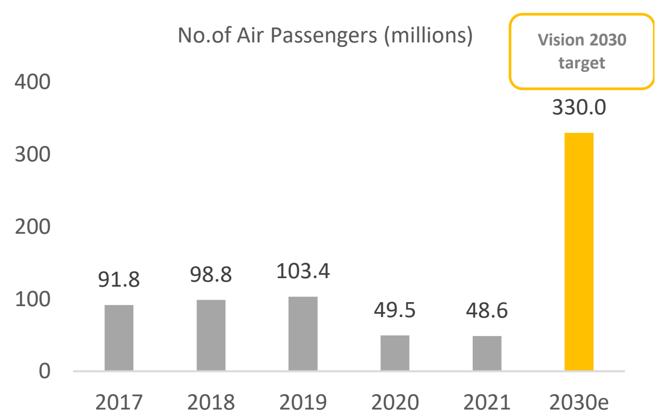
Source: Company data, GIB Capital

Figure 3: Resilient performance of the long-term lease revenue (SARmn) despite the impact of COVID-19 disruption. Revenues are linear, growing at a steady state



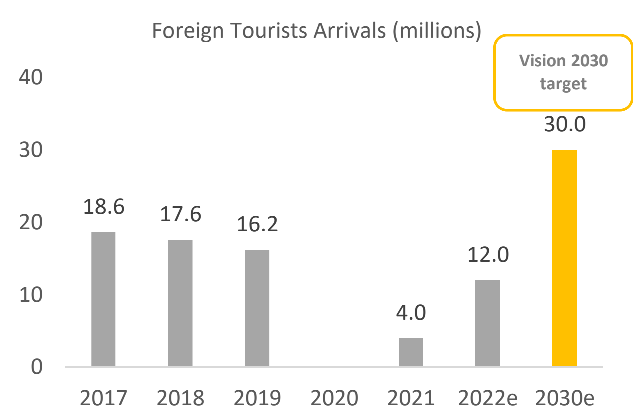
Source: Company data, GIB Capital

Figure 4: No. of Airline passengers is one of the drivers as Theeb has 15 branches at airport locations, driving 46% of ST rev. in 2021



Source: : GACA 2021, GIB Capital

Figure 5: Exponential growth in Foreign tourists arrivals indicates longer-term visibility for Theeb



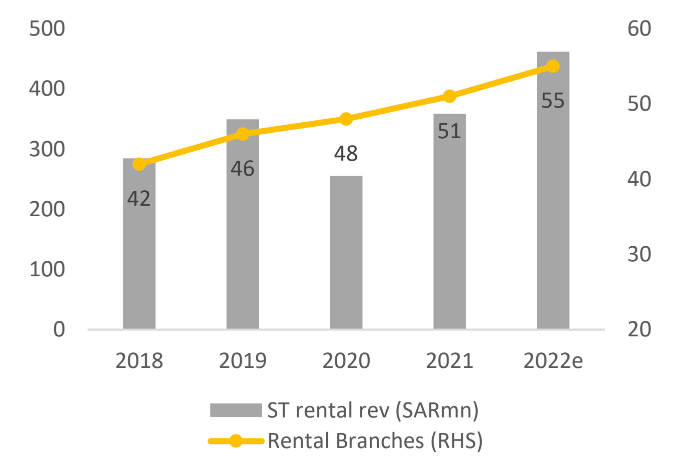
Source: Ministry of Tourism of Saudi Arabia, GIB Capital

Key assumptions

1. Revenue

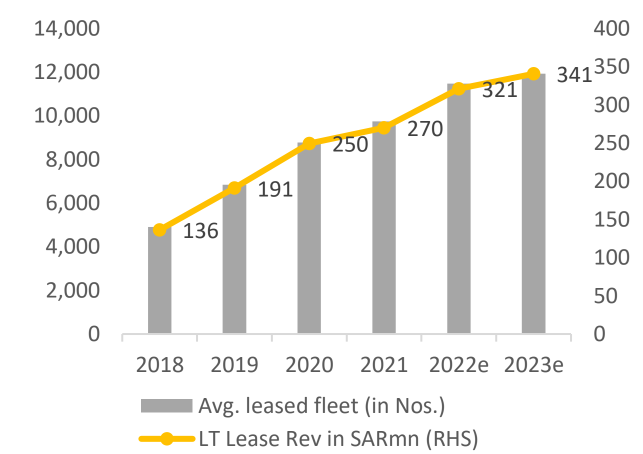
We expect Theeb to grow its revenue by 23% y/y in 2022, largely driven by higher growth in short-term rental revenue of 29% y/y and long-term leasing revenue growth of 19% y/y. Theeb's branch and fleet expansion plan **(gross addition of 12,000 vehicles in the last 18 months)** have helped to capitalize on the rising demand for car rental services as domestic travel activity is getting a boost from entertainment events, Giga projects, and pilgrim visits. We expect the Company to see **strong growth momentum continuing in 2H22** as its recently opened branches at Hail city and Al Qassim locations. Its presence at new Giga project sites will help drive medium-term growth. These branches would also capture new leasing contracts from growing corporate mobility at these highly commercial locations, driving the growth of the long-term vehicle leasing business. Theeb derives about 46% of its short-term lease revenue for 2021 from Airport branches, especially the likes of Riyadh (13.4% of short-term lease revenue in 2021), Jeddah (12.6% in 2021), and Abha (5.2% in 2021). We believe Theeb's presence at such key airport locations should continue to be a key driver of growth, benefiting from KSA's efforts to increase passenger capacity from over 100mn in 2019 to 330mn by 2030 (Vision 2030).

Figure 6: Car rental branch expansion is one of the indicators of growth of short-term rental revenues for Theeb



Source: Company data, GIB Capital

Figure 7: Long-term leasing revenue is mainly driven by fleet expansion, as pricing could remain range bound



Source: Company data, GIB Capital

Rental and leasing fleet: We are forecasting a CAGR of 16.1% during 2021-2023 in the average daily rented fleet, in line with Company's **target to add three/four branches a year.** We expect Theeb to maintain sustained levels of high rental fleet utilization of 73% in 2022 and 75% in 2023, benefitting from its attractive fleet mix and consistent efforts to better customer service. Avg. vehicle fleet under long-term leasing business is expected to grow at 10.7% CAGR over the next two years as the company eyes to gain market share using a customized fleet mix bundled with value-added services.

Pricing: Realization for the car rental business is expected to grow steadily at a 2.5% CAGR over the next 2 years mainly because of the addition of a newer fleet amidst increasing demand. We believe that competition from the entry of new players such as Udrive and fleet expansion plans by Budget could keep the rental rates in check for the near term.

Monthly leasing rates (for long-term lease) could continue to be in the range of SAR 2300-2400 over next two years as Company will focus much on gaining a higher volume of lease contracts through attractive pricing.

<u>Sale of used cars:</u> Theeb's used car sales are expected to grow at a CAGR of 23.7% over the next two years, mainly driven by attractive market conditions yielding higher gains. We expect the Company to sell about 21%/22% of its annual fleet in 2022/23, given its strategy to have a frequent fleet renovation in the rental business. However, the expiry of any large leasing contracts could lead to higher growth for this segment.

2. Costs:

Depreciation being the main driver of costs (40% of COGS in 2020, 42% in 2021) will depend on the size of the overall vehicle fleet. We expect the depreciation costs to grow at 11.6% CAGR over the next two years as Company keeps adding a vehicle fleet at a slightly higher pace.

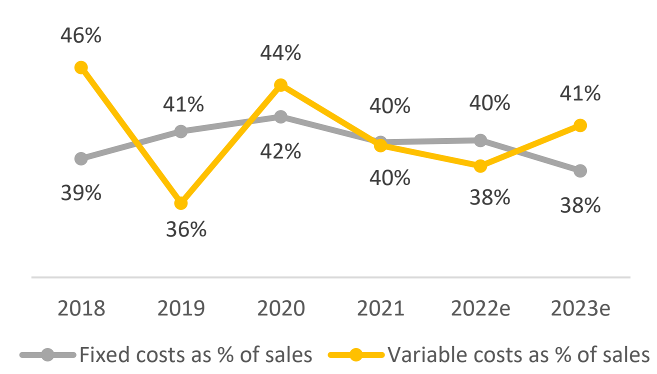
Cost of the vehicle sold is another major cost (29% of COGS in 2020, 21% in 2021) which is net book value of the used vehicle fleet held for sale.

Sales & Marketing expenses and General and Administrative expenses are linked to revenue. They should see some inflation in the near term as Company needs to add workforce with the addition of new branches.

3. Gross profit & Operating profit:

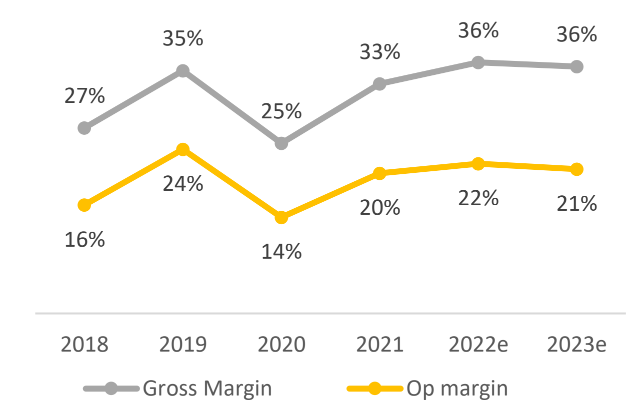
In the past five years, Theeb has shown decent performance both at gross profit and operating profit levels, mainly due to an increase in the scale of the rental and leasing business driving higher operating leverage and higher realizations from used vehicle sales. We expect the Company to continue the margin expansion trajectory as it scales up further.

Figure 8: Higher share of fixed costs provides enough scope for operating leverage



Source: Company data, GIB Capital

Figure 9: Theeb should continue to post steady margins driven by continued efforts to scale-up the operations



Source: Company data, GIB Capital

Company Profile

Theeb Rent a Car is a leading company in the car rental industry, operational for the last 30 years in the Kingdom. The organization has 1,320 (as of 2020) employees with 51 branches spread across the Central, Western, Eastern, Northern, and Southern areas. The Company has 3 core areas of operation. Under short-term renting business, the Company offers vehicle rental services on a daily, weekly or monthly basis to individual and corporate customers, using a fleet of over 9,000 cars (as of 2021). Under the second major segment, Theeb provides Long-term lease services with contract periods of 2-5 years and has a fleet of more than 9,700 vehicles (as of 2021). The third key segment involves the sale of used automobiles owned by the Company after monetizing them through rental and leasing services. Short-term leases are the source of Theeb's major proportion of revenue and gross profits, followed by long-term leases. The food and beverage sector accounts for the highest revenue share at 18% of total long-term leasing revenues.

Figure 10: Company's business model

Car Rental	Vehicle Lease	Sale of Used Vehicles
The company provides car rental services to its retail and corporate customers on a daily, weekly and monthly basis	Started in 2014, the vehicle lease services are mainly for the corporate customers in both government and private sectors	Company sells its used vehicles from its own fleet after a certain age while it does not sell any third party used vehicles.

Source: Company data

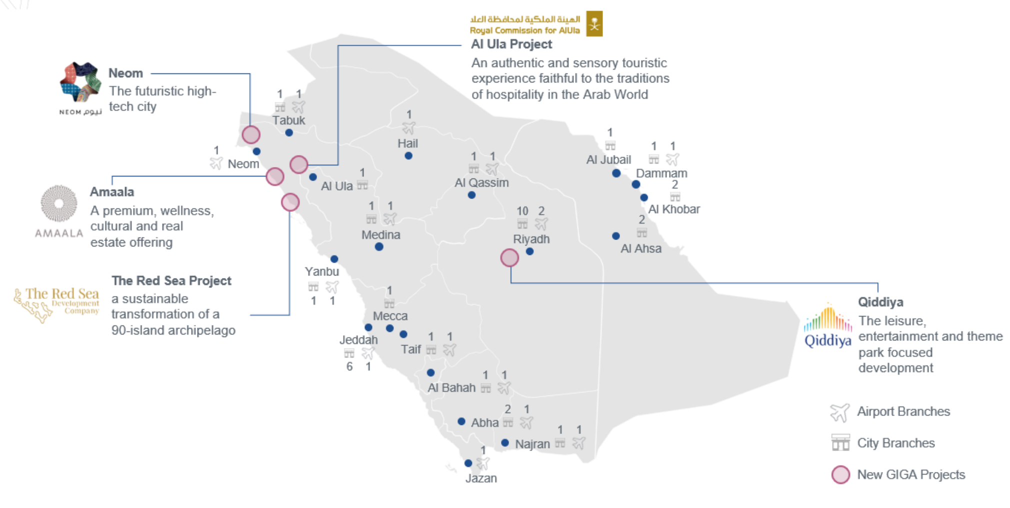
Diversified Business model: Despite dealing in the same mobility segment, the seasonality and characteristics vary greatly for the three core operating segments. The car rental business is a seasonally adjusted segment and is, therefore, peaks in travel seasons and largely driven by individual customers. Long-term leases are relatively stable as the lease contracts range with a maximum period of 5 years, resulting in better visibility. Lastly, the used car sales market depends upon the cars owned by the company post end of short-term leases and long-term leases, when the Company intends to sell.

Reputation and brand name: The Company established itself as a leading brand in KSA. In 2019, the Company ranked 1st in the vehicle rental segment and 5th within the vehicle leasing segment. The Company is focused on maintaining the positive perception associated with the brand. As a result, it pays attention to several factors, such as the simplicity of booking a vehicle online, the range of available vehicles, the level of maintenance of vehicles, and how well the post-rental services are, such as roadside assistance, handling accidents, and vehicle replacement when necessary.

Large loyalty member base: Theeb has developed a successful loyalty program to maintain and expand its client base, creating a unique advantage in a highly competitive market. The Theeb Membership Program was developed to offer customers the chance to benefit from standard services like faster car rentals at a reduced rate with more free extra kilometers and to obtain "Theeb Loyalty Points" that can be exchanged for cash or converted into rewards from other companies' loyalty programs, like Al Fursan. Three membership tiers, each offering different discounts and benefits, are available through the Company's membership program. In 2021, Theeb memberships were launched in a new form. The closure of the first ease contract initiates the automatic issuance of the (bronze) membership, and the (Ataa) membership provides benefits for those with special requirements. Total memberships rose by 20%, with the total count just over 360,000.

Well-spread-out geographical footprint of the Company: Theeb has 51 car rental branches across the Kingdom, with 15 airport branches strategically covering international airports (Riyadh, Jeddah, Dammam, Abha, Madina, Taif, Qasim), domestic airports (Al-Baha, Hail, Jazan, Najran, Yanbu, Tabuk, and Neom) and 36 city branches. With 15 branches each, the Western and Central regions have the highest regional demographic. With regard to short-term revenues from the regional standpoint, the Central region accounted for 45% of the total revenue, followed by the Western region accounting for 27%. The Company has entered into lease agreements with the airport operators, granting it the right to conduct a car rental business at the respective airport.

Figure 11: Car Rental (short-term leasing) sector market share details (2019)



Source: Company data

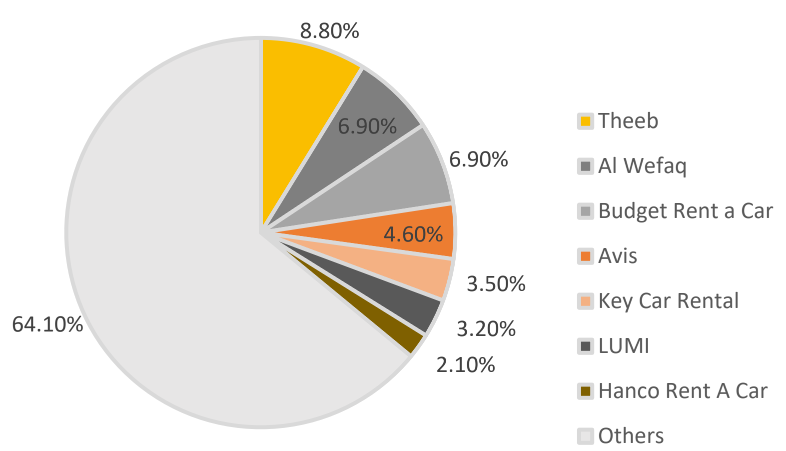
Clients mix: The Company's car rental customers are categorized into individual and corporate customers renting cars for various leisure, business, and other purposes. The individual car rental customers accounted for 91.8% of car rental revenue in the financial year ended 31 December 2019, while the corporate car rental customers accounted for 8.2% of car rental revenue in the same period.

About the sector

The car rental and vehicle leasing industry in the KSA consists of local players such as Theeb, Al Wefaq, and Shary, and international players, namely Budget, Avis, and Hertz. Local players typically have a high brand awareness within the country due to their strong regional presence and local focus. In contrast, international players have a strong brand name and usually operate in franchise agreements with local firms.

Overview of the Car Rental Sector: The car rental sector consists of customers that rent cars daily, weekly or monthly, wherein the rental period does not exceed a year. The market comprises individuals that rent cars for domestic and commercial use. Insurance companies are also customers of the segment that rent cars to provide their policyholders with a substitute car while their primary vehicle is being fixed. The KSA's car rental industry is primarily dominated by individuals rather than corporates and by domestic travelers rather than international expatriate travelers, unlike other globally developed markets (Europe, United States, etc.). Therefore, car rental companies experience a large diverse customer base, mainly serving the domestic market. In value terms, the Kingdom's car rental sector had grown at a CAGR of 1.2% over the 2014-2019 period, reaching SAR3.98bn in 2019. The industry is quite fragmented with the presence of both domestic and international players, competing by adding the vehicle fleet to address the growing demand. In volume terms, the no. of vehicles in the car rental sector had grown at a CAGR of 4.7% over the 2014-2019 period to reach 199,000 cars. As per 2019 data, Theeb is a leading player with the largest vehicle fleet in the car renting business.

Figure 12: Car Rental (short-term leasing) sector market share details (2019)

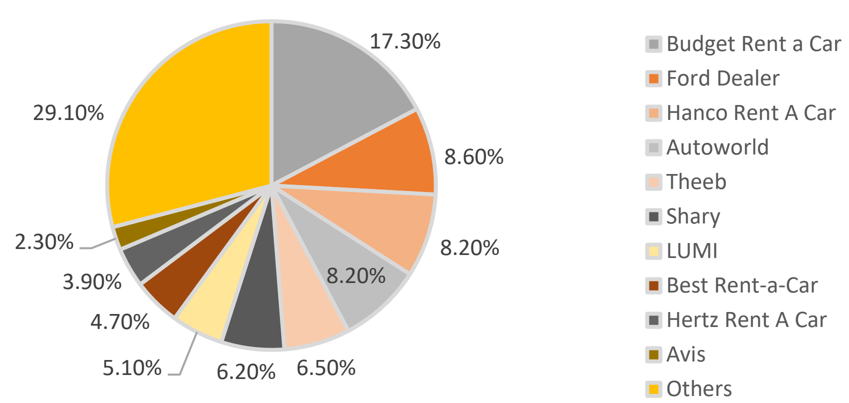


Source: Company data

Overview of the Vehicle Lease Sector: The vehicle lease sector services mainly business consumer requirements (Business-to-business) according to their idiosyncratic needs. The industry has many clients, including medium-sized businesses, for-profit and non-profit organizations, and governmental organizations (such as ministries and authorities). Contracts for lease agreements often range between 2-5 years, and the vehicle must either be returned to the leasing company or purchased for the residual value. The industry is dominated by the top 5 players holding 48.8% of the value market share because of higher entry barriers. Budget Rent a Car Co. has the largest share of 17.3%, and the rest of the market share is distributed between lessors and car agents. The vehicle leasing market in KSA has grown at a CAGR of 8.2% over the 2014-2019 period in value terms. The industry saw the impact of various factors such as – a) Introduction of 15% VAT on the purchase of new vehicles, b) Investments in Giga-/Mega-projects driving corporate mobility in the Kingdom c) Growing conversion from outright purchase and financial leasing to operational leasing by the Saudi Government (e.g. ministries or authorities) and semi-Government entities aimed at improving financial position.

As a result, the number of leased vehicles in KSA for the industry has grown at a CAGR of 6.9% to reach 147,500 units in 2019 from 2014 levels.

Figure 13: Long-term vehicle leasing sector market share details (2019)

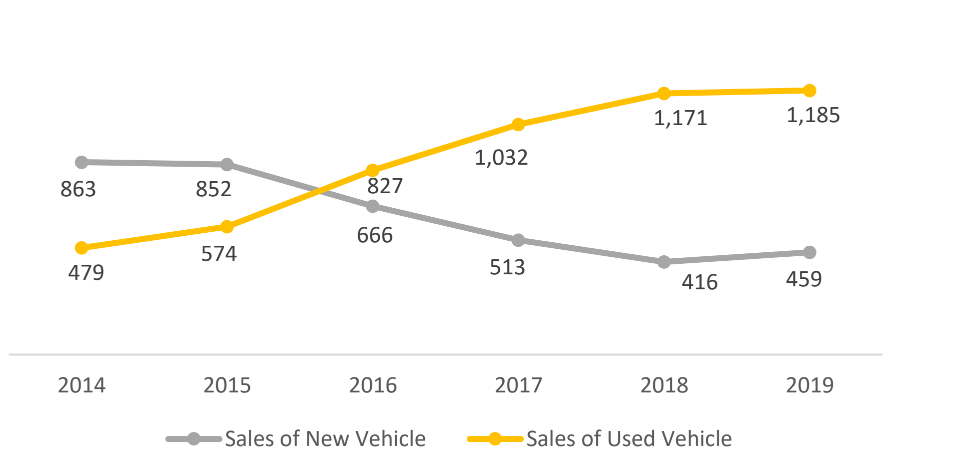


Source: Company data

Overview of the Used Vehicle Sector: The sale of used vehicles is a critical step of the value chain for the car rental and vehicle lease segments and is the last step of the vehicle lifecycle. Vehicle age, mileage, general conditions, and conditions of vehicles for sale are key for determining vehicle price for sale. All key major car renting and long-term leasing companies in the KSA are in the business of sale of used vehicles to have better business synergy. The key to generating higher IRR is mainly a function of the ability to charge higher pricing by selling through non-auction routes as well as efficient fleet management. Various factors influenced the growth of Used vehicle sales in the KSA after the year 2014, such as,

1. Economic slowdown post-2016, resulting from falling oil prices, impacted spending on the purchase of new vehicles and shifted in favor of higher used vehicles purchases
2. The introduction of value added tax on the purchase of new vehicles in 2018 and increasing to 15% in 2020 boosted demand for a used vehicle over new vehicles
3. Higher growth in vehicle leasing led to an increased used vehicle fleet on the roads and improved market dynamics

Figure 14: The Kingdom's sale of new vehicles vs used vehicles in '000s (2019)

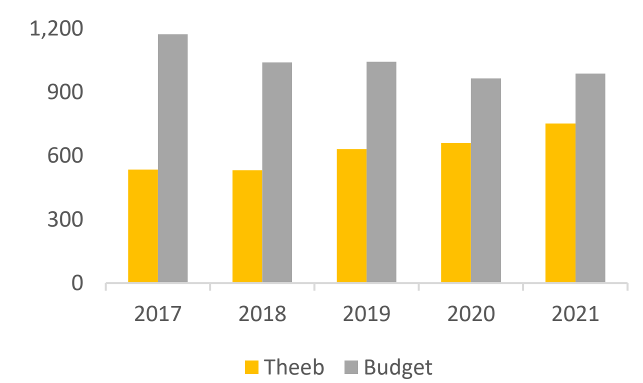


Source: Company data

Competitive landscape:

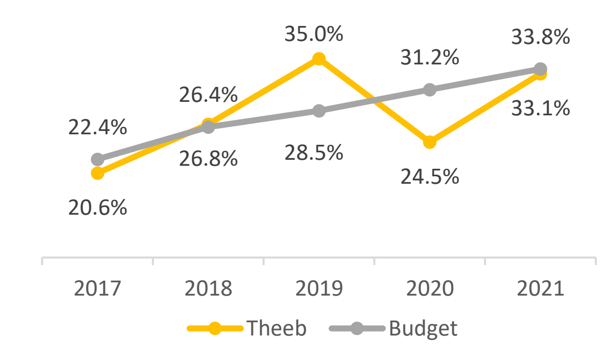
Financial performance of Theeb vs Budget:

Figure 15: Theeb has shown a consistent revenue (SARmn) trend vs the declining trend witnessed in the case of Budget.



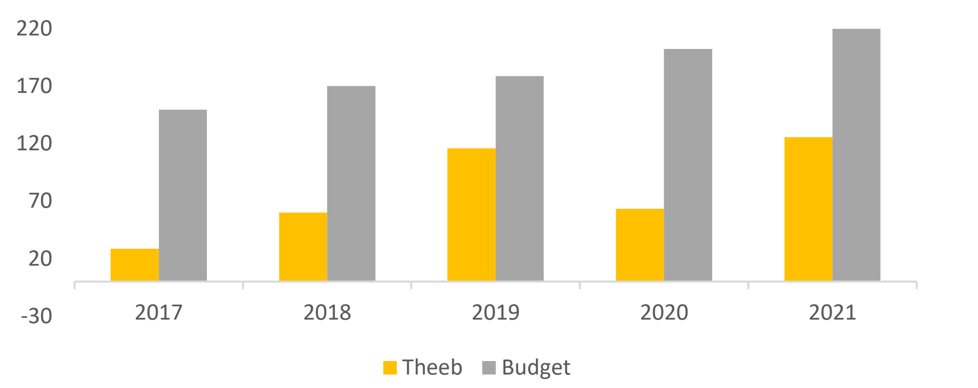
Source: Company data, GIB Capital

Figure 16: Theeb has successfully narrowed down the Gross margin gap with the Budget on account of continued recovery in car rental utilizations



Source: Company data, GIB Capital

Figure 17: Theeb's net income (SARmn) has been volatile given the higher impact of COVID while Budget grew in a steady state due to a higher share of Long-term leasing business



Source: Company data

Strategy

The Company's strategy as disclosed in its IPO Prospectus:

Continue Growth of Short-Term Lease business by

- Expand car rental (Short term lease) business by opening new branches in airports, cities, and mega development and construction projects with scope for additional rental demand.
- Focus on improving customer experience by providing an IT platform for enhancing its marketing activities and automated services offering.
- Capturing growth in new avenues such as the women segment and travelers in domestic/international airports to gain a higher market share over the competitors.
- Constantly optimizing its fleet mix and vehicle categories to deliver popular and marketable vehicle models to meet customers' needs, including based on various seasons.

Continue Growth of Long-Term Lease business by

- Continue growing its customer base in the current three regions (Central, Western, and Eastern) and expand its activities to northern and southern regions, including in new mega projects with potential for additional lease demand.
- Focus on customer experience improvement by engaging in various initiatives, including improving the Company's IT platform for automated services offering and enhancing its sales activities by focusing on product offerings tailored to each client's needs.
- Drive growth in commercial vehicle leasing (i.e., vehicles mainly used for goods transportation).

Pursue Operational excellence by

- Manage fleet at optimum level by balancing utilization and vehicle availability.
- Performance improvement across the branches by undertaking several initiatives such as process standardization, monitoring fleet levels, and further automation of its processes
- Refining its organizational efficiency and corporate governance practices through better policies.
- Optimize used vehicle sales operations and monetization.

IPO details

The Company was listed on 29 Mar 2021. The Company raised SAR516mn with 60.1x institutional coverage and 33.9x retail coverage. The book building price range was SAR35-40/share and was listed at SAR52/share.

Ownership

The ownership structure is shown below.

Figure 18: Ownership structure

Ownership	Stake
Al-Theeb Mohammad Ahmed Abdullah	24%
Al-Theeb Mohammad Hamoud Abdullah	14%
BlackRock Inc.	0.43%
State Street Corp.	0.02%

Source: Tadawul, Bloomberg

The stock does not meet the size criteria to get into the MSCI EM index yet based on our understanding.

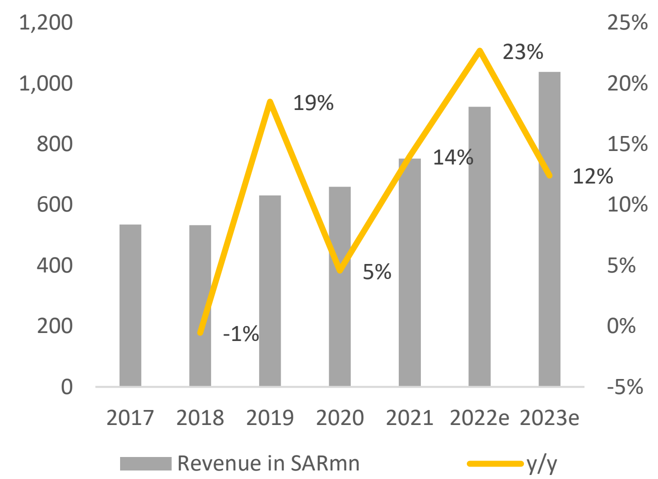
Financial analysis

Revenue growth: Revenue increased at a CAGR of 9% from 2017 to 2021. The increase was primarily driven by strong growth of the long-term lease business (34% CAGR), while the car rental business grew at a slower pace (3% CAGR) as it recovered from the COVID effect. The short-term leasing revenue was also impacted by the closure of the King Abdulaziz airport branch in Jeddah in March 2017 (SAR 16mn revenue in 2017) as well as the closure of nine other branches due to poor performance affected by the departure of expatriates.

Margins swing given fixed costs: The Company increased gross margins from 20.6% in 2017 to 33.1% in 2021. The increase in margins is mainly attributed to the increase in the rental fleet utilization, which increased from 69.4% in 2017 to 74.4% in 2021, and higher operating leverage.

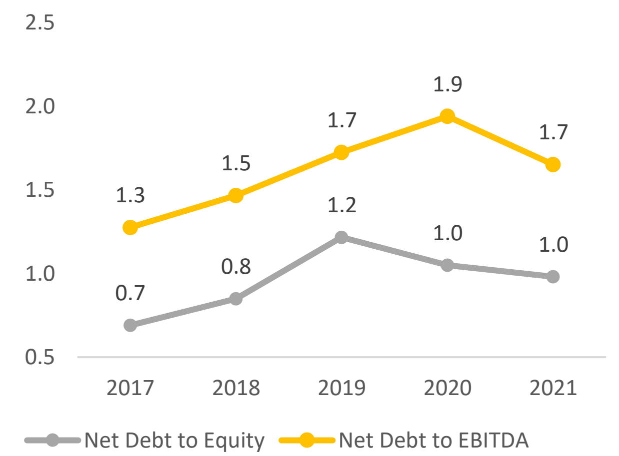
Fleet expansion financed through borrowing: Company's net debt grew over 2x in 2021 compared to the levels witnessed in 2017, mainly due to financing for major vehicle purchases. Theeb invested about SAR1.9bn from 2017 to 2021 to purchase new vehicles. As a result, Net debt to equity increased to 98% in 2021 compared to the 69% level in 2017, while net debt/EBITDA stood at 1.7x.

Figure 19: Revenue trend



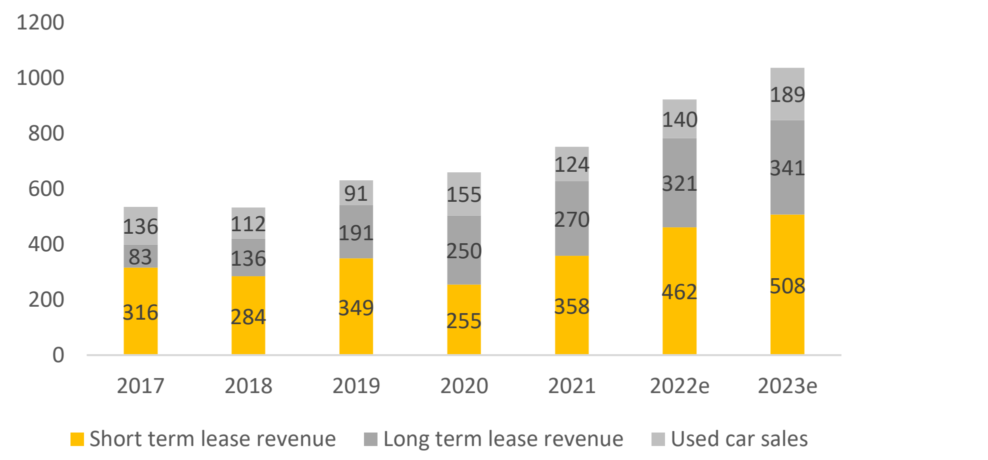
Source: Company data, GIB Capital

Figure 20: Leverage increased due to purchase of vehicles



Source: Company data, GIB Capital

Figure 21: Revenue growth during 2017-2021 period was largely driven by Long term lease revenue



Source: Company data, GIB Capital

Valuation

The key assumptions for the financials are discussed on page 2.

As for WACC, we use a cost of equity of 10% and a WACC of 8.4% based on a Target capital structure (D/A) of 25% because of the IFRS 16 liabilities. The cost of debt is 3.5% and terminal growth is 2.5%.

We arrive at our Target price per share at SAR80/share based on an equal mix of DCF-based value at SAR80/share and PE-based value at SAR79/share (1 year forward).

Figure 22: DCF model

DCF model (SARmn)	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
EBIT	233	261	281	295	322	346	377	403	436
tax	-12	-13	-15	-16	-17	-19	-21	-22	-24
Change in WC	62	111	125	147	156	170	181	197	209
Dep	255	267	281	293	307	318	333	344	358
Amort, adjusted for lease payments	-3	-3	-2	-2	-2	-2	-2	-2	-2
Capex	-530	-439	-490	-505	-559	-576	-636	-655	-719
FCF	**5**	**183**	**181**	**213**	**206**	**238**	**232**	**264**	**258**
Terminal Value	**0**	**0**	**0**	**0**	**0**	**0**			**4,494**

Enterprise value of explicit period	1,228
PV of Terminal Value	2,774
Total Enterprise Value	**4,002**
(-)Debt, incl. lease liabilities	(789)
(+) Cash	71
(+) Associate	0
(-) Other liabilities	(28)
(-) Minority	0
Equity value	**3,256**
Number of shares	43
Equity value per share	76
Adjusted DCF-based equity value per share*	**80**
Cost of Equity	10.0%
Cost of debt	3.5%
Target D/A	25%
WACC	**8.4%**

P/E	18
EPS 2023	4.1
PE-based price	**74**
Adjusted PE-based Price*	**79**

*Source: GIB Capital, * Target price is rounded, and time value adjusted 1 year forward*

Sensitivity analysis

Figure 23: Sensitivity of terminal growth rate and WACC

		Terminal growth				
		2.00%	**2.25%**	**2.50%**	**2.75%**	**3.00%**
	7.4%	92	96	101	105	111
W	**7.9%**	83	86	90	94	98
A	**8.4%**	75	78	80	84	87
C	**8.9%**	68	70	73	75	78
C	**9.4%**	62	64	66	68	71

Source: GIB Capital

Peer multiples

The global peers are trading at 7.8x PE, given that most of them are based out of mature markets. It would be more appropriate to use the PE multiple of local peers such as Budget and apply a premium, given that growth rates are higher for Theeb. The 1Y historical PE average for Theeb is 23.1x. As mentioned above, we use an 18x P/E multiple for our relative valuation.

Figure 24: Peer valuations

Name	Mkt Cap (USDmn)	P/E	P/E FY1	P/E FY2	Div. Yield %
Median	**5,132**	**5.6**	**5.6**	**7.8**	**4.6**
United International Transports	875	14.2	14.1	13.2	4.1
Motus Holdings ltd.	1,273	5.6	7.3	7.3	4.6
MOVIDA Participacoes SA	1,031	5.2	5.6	5.0	9.3
Hertz Global Holdings Inc.	7,891	35.4	5.1	7.8	-
Avis Budget Group Inc.	8,950	4.6	4.0	8.2	-
Localiza Rent a CAR	12,356	23.1	21.8	18.1	1.3
ALD SA	5,132	4.4	5.2	6.7	8.8

Source: Bloomberg(as on 17 August 2022)

Risks

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 25: Summarized financial statements

Income statement	2020a	2021a	2022e	2023e
Revenue	**660**	**752**	**923**	**1,038**
revenue y/y	*5%*	*14%*	*23%*	*12%*
COGS	498	503	589	668
Gross Profit	**162**	**249**	**334**	**370**
Gross Profit margin	*25%*	*33%*	*36%*	*36%*
Sales & Marketing	27	34	51	55
G&A	32	37	51	54
Operating profit	**92**	**152**	**199**	**216**
Operating margin	*14%*	*20%*	*22%*	*21%*
Finance costs	32	26	30	30
Other income	8	4	3	3
PBT	**67**	**132**	**174**	**191**
Zakat/tax	4	7	12	13
Net income	**63**	**126**	**161**	**177**
Net margin	*10%*	*17%*	*17%*	*17%*
y/y	*-45%*	*99%*	*28%*	*10%*
EPS	**1.5**	**2.9**	**3.8**	**4.1**
DPS	0.7	0.91	1.9	2.1
Payout	47%	31%	50%	50%
EBITDA	**326**	**403**	**501**	**535**
Net debt (w/o lease liabilities)	506	557	659	590
Net debt (w/ lease liabilities)	633	666	772	708

Balance Sheet	2020a	2021a	2022e	2023e
Inventories	9	6	10	12
Accounts Receivable, Net	109	139	177	199
Contract assets (Accrued income)	6	9	9	9
Prepayments	35	61	71	81
Bank balances and cash	40	58	26	95
Total Current Assets	**209**	**273**	**294**	**396**
Right-of-use assets	119	89	96	104
Property, plant and equipment, net	979	1,156	1,309	1,319
Total Non-Current Assets	**1,099**	**1,245**	**1,406**	**1,422**
Total Assets	**1,307**	**1,518**	**1,700**	**1,818**
Current Liabilities	460	580	677	702
Non-current Liabilities	365	371	375	380
Equity	482	567	648	737
Total Equity and Liabilities	**1,307**	**1,518**	**1,700**	**1,818**
BVPS	11.2	13.2	15.1	17.1

Cashflow	2020a	2021a	2022e	2023e
Cashflow from Operations	126	47	37	223
Cashflow from Investing	-4	-6	-9	-10
Cashflow from Financing	-142	-23	-60	-143
Total Cashflows	**-19**	**18**	**-32**	**69**

Source: Company, GIB Capital

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Figure 26: Key ratios

Key ratios	2020a	2021a	2022e	2023e
Profitability ratios				
RoA	5%	8%	9%	10%
RoE	13%	22%	25%	24%
Sales/Assets	50%	50%	54%	57%
Net margin	9.6%	16.7%	17.5%	17.1%
Liquidity ratios				
Current Assets/ Current Liabilities	0.5	0.5	0.4	0.6
Debt to Total Equity	1.4	1.3	1.2	1.1
Receivable Days	60	67	70	70
Inventory Days	6	4	4	4
Payable days	47	84	84	84
Cash conversion cycle	19	-13	-10	-10
Debt ratios				
Net Debt/EBITDA (w/o IFRS liab.)	1.5	1.4	1.3	1.1
Net Debt/EBITDA (w/ IFRS liab.)	1.9	1.7	1.5	1.3
Debt/Assets (w/o IFRS liab.)	0.4	0.4	0.4	0.3
Net Debt/Equity (w/o IFRS liab.)	1.0	1.0	1.0	0.8
Valuation ratios				
P/E	46.3	23.3	18.1	16.5
P/B	6.1	5.2	4.5	4.0
EV/EBITDA	11.2	9.0	7.3	6.8
Dividend Yield	1.0%	1.3%	2.8%	3.0%

Source: Company, GIB Capital

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