Theeb Rent a Car Co.

Investment Update

الجزيرة كابيتال
aljazira capital

Resilient growth and compelling valuation outweigh near-term pressure from higher depreciation and ECL provisions; we maintain our "Overweight" rating

Theeb is well positioned to benefit from the sector's favorable outlook, supported by its diversified geographic footprint, broad customer base, and nationwide network of 66 branches. We forecast revenue to grow 5.2% Y/Y in FY26E and at a 4.4% CAGR over FY25-30E, driven by a 3.6% CAGR in fleet expansion to 48.3k vehicles, a SAR 1.2bn long-term leasing backlog, and a gradual recovery in used car sales to SAR 323mn by FY30E. While short-term rentals are expected to decline 1.2% in FY26E, we anticipate a recovery thereafter, with revenue growing at a 5.1% CAGR through FY30E. Despite resilient topline growth, we expect profitability to remain under pressure in FY26E. The planned remeasurement for the fleet residual value from Q3-26E is expected to result in an additional SAR 31mn charge, reducing FY26E gross margin by approximately 200bps to 28.2%. In addition, we forecast ECL allowance to increase to 39.6% of gross receivables, implying a provision expense of SAR 63.3mn. As market conditions normalize, we expect both residual values and credit quality to improve, supporting a gradual recovery in margins and earnings from FY27E onward. We believe these near-term headwinds are largely reflected in the current share price. Trading at an attractive FY27E P/E of 9.0x, Theeb offers compelling upside as profitability recovers. Accordingly, we maintain our "Overweight" recommendation with a revised target price of SAR 33.0/share (from SAR 53.0/share).

Q1-26 topline delivers strong Y/Y growth, while macro headwinds drive the lowest quarterly net income in two years: The company reported strong top-line growth of 22% Y/Y in Q1-26, with revenue reaching SAR 410mn. This performance was primarily driven by a 15% Y/Y increase in ST Rental and LT Lease revenue to SAR 314mn, alongside a significant 48% Y/Y growth in Used Car Sales (UCS) revenue to SAR 96mn. LT leasing revenue increased by 25% Y/Y to SAR 188mn, supported by a 29% Y/Y expansion in the segment fleet size. This growth more than offset the 3% decline in leasing yield (average rate per vehicle), which mainly reflected the company's increasing exposure to lower-yield sectors. Notably, app-based delivery service companies, such as HungerStation, accounted for approximately 11.8% of total revenue during the quarter. Meanwhile, ST rental revenue recorded a modest 3% Y/Y increase to SAR 126mn. The fleet size expanded by 4% Y/Y to 13.74k vehicles; however, average rental rates remained approximately 5% below the two-year quarterly average. In addition, utilization rates declined by around 175bps Y/Y, reflecting softer demand amid ongoing regional uncertainties. UCS revenue rose sharply to SAR 96mn in Q1-26. Unlike some industry peers that chose to retain vehicles due to weakness in the second-hand vehicle market, the company sold approximately 2.7k vehicles during the quarter. This came despite average used-car prices declining by around 4.9% Y/Y. As a result, the UCS segment reported a GPM of -6%, compared to 10% in Q1-25. Consequently, the company's consolidated GPM contracted by 444bps Y/Y to 29.2%. On the operating expense side, the company recognized SAR 22mn in ECL provisions vs. SAR 9.2mn in Q1-25, reflecting tighter market credit conditions and management's conservative provisioning approach. Total debt increased by 27% Y/Y to SAR 2.0bn, leading to higher finance costs during the quarter despite a generally lower interest rate environment compared to the previous year. Net income declined by 23% Y/Y to SAR 35mn, marking the lowest quarterly earnings level in the past two years.

Wide market coverage ensures higher accessibility; Food delivery sector exposure pressures segment profitability: Theeb's LT leasing fleet reached 29.0k vehicles in Q1-26, with a well-balanced geographic presence across the Kingdom, including 42% in the Central region, 33% in the Eastern region, and 25% in the Western region. The company is also diversified across more than six key sectors, with food manufacturing and distribution contributing 16% of segment revenue in the latest quarter. As of March 2026, the LT leasing backlog stood at SAR 1.7bn (FY26-31E), of which approx. SAR 500mn is expected to be recognized in FY26, providing strong visibility and support for future revenue streams. The company continues to expand its fleet to capture new business opportunities, and we expect the LT leasing fleet to reach 29.7k vehicles in FY26E, supported by recently awarded contracts. Over FY25-30E, we forecast fleet growth at a CAGR of 3.5%, reaching 32.3k vehicles by FY30E. While segment yields have been under pressure over the past two years, mainly due to increased exposure to lower-rate sectors, the impact remains manageable. Although food delivery services account for only around 12% of segment revenue, such contracts typically experience higher depreciation due to intensive vehicle usage and unlimited mileage terms. For example, the recent SAR 110.4mn contract with HungerStation implies an average annual revenue of approx. SAR 13.8k per vehicle, compared to around SAR 15.4k per vehicle with another logistic company, representing a 12% discount. Nevertheless, the company's diversified client base should help mitigate yield pressure, and we expect yields to remain broadly stable, growing at around 2% over FY25-30E. Accordingly, we forecast LT leasing revenue to increase by 10% Y/Y to SAR 724mn in FY26E and grow at a CAGR of 5.8% over FY25-30E.

Recommendation	**Overweight**
Target Price (SAR)	**33.0**
Upside / (Downside)*	**38.9%**

Source: Tadawul *prices as of 28th June 2026

Key Financials

SARmn (unless specified)	FY24	FY25	FY26E	FY27E
Revenues	1,303	1,497	1,575	1,666
Growth %	14.7%	14.9%	5.2%	5.8%
Gross Profit	418	470	445	482
Net Income	183	180	131	174
Growth %	28.6%	-1.3%	-27.4%	33.0%
EPS	2.77	2.73	1.98	2.64
DPS	1.41	1.38	1.00	1.40

Source: Company reports, AlJazira Capital Research

Key Ratios

	FY24	FY25	FY26E	FY27E
Gross Margin	32.1%	31.4%	28.2%	29.0%
EBIT Margin	21.0%	19.7%	15.6%	17.6%
Net Margin	14.0%	12.0%	8.3%	10.5%
ROE	22.0%	19.7%	13.4%	16.4%
ROA	7.1%	5.7%	3.8%	4.8%
P/E (x)	27.7	13.8	11.7	8.8
P/B (x)	6.1	2.7	1.6	1.5
EV/EBITDA (x)	11.3	6.3	5.4	5.0
Dividend Yield	1.8%	3.7%	4.3%	6.0%

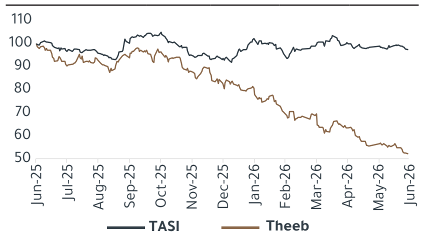
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap(bn)	1.56
YTD%	(38.2%)
52 week (High)/(Low)	44.7/23.6
Share Outstanding (mn)	66.0

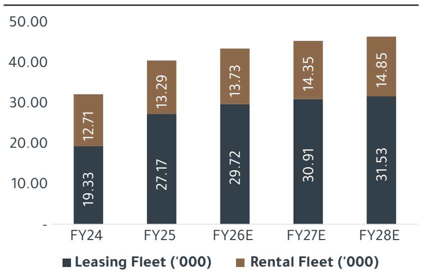
Source: Company reports, Aljazira Capital Research

Price Performance (Indexed)



Source: Bloomberg, AlJazira Capital Research

Fig 1: Fleet Composition



Source: AlJazira Capital Research, Company reports

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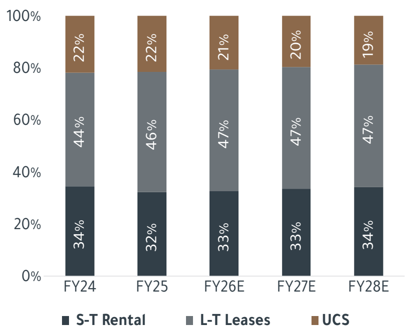
Soft utilization and pricing pressure to weigh on S-T rental, offset by medium-term demand catalysts: The company currently operates 66 branches across the Kingdom, with 41% located at airports. Recent regional developments have pressured demand in the rental segment, resulting in a 175bps decline in utilization to 69% in Q1-26, vs. 70.8% in 1Q-25. We expect utilization rates to remain under pressure throughout FY26, with a gradual recovery anticipated from FY27 onward. Accordingly, fleet expansion is expected to moderate, with an estimated addition of 445 vehicles in FY26E. However, upcoming events such as the Asian Cup and Expo are expected to support demand, driving rental fleet growth of 3.8% Y/Y and improving utilization rates over the medium term. In terms of pricing, Theeb continues to offer the lowest rental rates among listed peers, providing a competitive advantage. Nevertheless, weaker utilization levels and slower tourism activity are expected to pressure yields, which we forecast to decline by 4.4% in FY26E. While rates are expected to recover thereafter, the recovery is likely to be gradual given the highly competitive nature of the rental market. As a result, we forecast ST rental revenue to reach SAR 509mn in FY26E, down 1.2% Y/Y, before growing at a CAGR of 5.1% over FY25-30E. We expect total revenue to grow by 5.2% Y/Y in FY26E and at a CAGR of 4.4% over FY25-30E, reaching SAR 1,854mn by FY30E, supported by a fleet size CAGR of 3.6% over FY25-30E to reach 48.3k vehicles.

Weak used-car market and lower residual values set to weigh on profitability margins: We expect the UCS segment to face meaningful margin pressure in FY26E, driven by two primary factors. 1) Although Chinese vehicles account for less than 20% of the fleet, they generally carry lower residual values, weighing on profitability upon disposal. 2) The used-vehicle market remains weak, with used-car prices declining 4.5% Y/Y as of May 2026. That said, disruptions related to the Strait of Hormuz have extended vehicle delivery times which could provide upside to used-car prices if persist. We forecast vehicle recovery rates to remain around the current 50% level in FY26E before gradually improving to 55% by FY28E. As a result, we expect UCS revenue to remain broadly stable over the forecast period, reaching SAR 340mn by FY28E. Based on management guidance, the company is expected to remeasure the fleet residual values beginning in 3Q-26E. We estimate this downward remeasurement will result in an additional SAR 31mn charge, reflecting the continued weakness in secondhand vehicle prices. This is expected to reduce gross profit margin by approx. 200bps, bringing FY26E GPM to 28.2%. Thereafter, we anticipate a gradual recovery in margins as residual values stabilize and recovery rates improve, with GPM reaching 29.2% by FY28E. As a result of the macro pressures, we expect DPS to soften to SAR 1.00 in FY26E, followed by an increase to SAR 1.40 in FY27E.

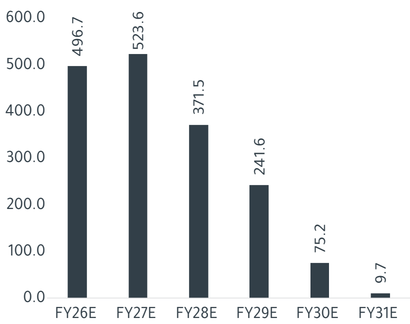
Elevated ECL provisions and higher leverage to pressure FY26E earnings; however, a recovery is evident: As a result of the recent deterioration in market conditions, the company's ECL allowance reached 36.0% of gross receivables, significantly above the peer's average of 20% as of Q1-26. This conservative provisioning approach resulted in an additional SAR 20.4mn ECL expense during the quarter. It is important to note that the proportion of the lowest-quality receivables (over 365 days past due) increased by 200bps in FY25 to 42%, indicating a continued deterioration in the receivables portfolio and suggesting further pressure on provisioning expenses in the short run. We forecast the ECL allowance to increase to 39.6% of gross receivables in FY26E, implying an expected provision expense of SAR 63.3mn. As the operating environment gradually normalizes, we expect credit quality to improve, allowing the company to reduce its provisioning ratio toward its historical average of around 36% FY27-30E. Beyond higher provisioning expenses, we expect elevated finance costs to remain another key drag on earnings in FY26E. Total debt increased 27% Y/Y to SAR 2.0bn, increasing the company's sensitivity to borrowing costs. While the recent interest rate environment has become more supportive, any upward movement in interest rates would place additional pressure on profitability given the company's higher leverage. Overall, we forecast net income to decline 27% Y/Y to SAR 131mn in FY26E, implying a net profit margin of 8.3%. Thereafter, supported by a recovery in revenue growth, improving market conditions, and normalization of provisioning levels, we expect net income to grow at a 5.8% CAGR over FY25-30E, reaching SAR 239mn by FY30E.

Fig 2: Revenue contribution



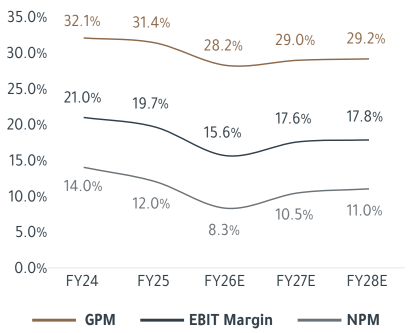
Source: Company reports, Aljazira Capital Research

Fig 3: L-T Leases Backlog (SAR Mn)



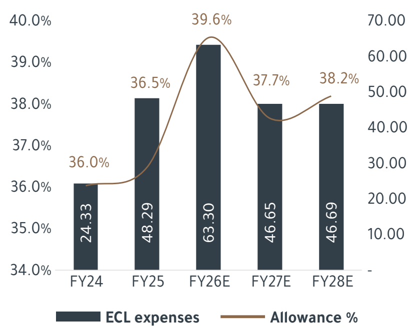
Source: Company reports, Aljazira Capital Research

Fig 4: Profitability Trends



Source: Company reports, Aljazira Capital Research

Fig 5: ECL Provisions are set to normalize



Source: Company reports, Aljazira Capital Research

Investment thesis and valuation: Despite temporary near-term headwinds from geopolitical factors Theeb is set to benefit from the sector momentum with a reach to all the administrative regions, and 1.2bn backlog FY26-30E the company's solid position grants profitability despite short-term headwinds. We expect the company to record a 5.2% revenue growth in FY26E, anchored by long-term leasing at a 5.8% CAGR (FY25-30E) and a steady recovery in Used Car Sales to SAR 323mn by FY30E. While short-term rental utilization faces temporary pressure at ~70% in FY26 due to regional tension, we expect a rapid recovery in FY27E, supporting the segment revenue to grow by 5.1% FY25-30E. While short-term challenges stem from deprecation expenses and ECL provisions, recovery is expected over the medium - long term. Correspondingly Net income is expected to record SAR 131mn; we expect a recovery of 33% the following year granted by 30% of the total backlog and 5.8% CAGR FY25-30E. Theeb's stock price has declined 38.2% YTD, reflecting market concerns around recent regional disruptions and margins contractions. While we acknowledge sector risks and the impact of geopolitical tensions in our valuation, we believe much of the downside is already priced in and current valuation of 9.0x FY27E P/E seems lucrative. We apply a blended valuation approach for Theeb. Our 50% weightage to DCF (WACC = 7.2% and terminal growth = 2.5%), 50% weightage to P/E multiple of 13.0x for FY27E EPS (discounted on the cost of equity 10.2%), help us arrive at a revised blended TP of **SAR 33.0 per share**, which implies an upside of 38.9%. Hence, we retain our rating at **"Overweight"**.

Valuation Methodology

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF	34.0	50%	17.0
P/E (13.0x FY27E - discounted)	32.6	50%	16.3
Weighted average price target			**33.0**
Up/Downside (%)			**38.9%**

Source: Tadawul *prices as of 28th June 2026

Key Financial Data

Amount in SARmn, unless otherwise specified	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement									
Revenues	968	1,135	1,303	1,497	1,575	1,666	1,729	1,780	1,854
Y/Y	**28.7%**	**17.3%**	**14.7%**	**14.9%**	**5.2%**	**5.8%**	**3.8%**	**3.0%**	**4.1%**
Cost	(612.8)	(776.5)	(884.9)	(1,027.1)	(1,130.0)	(1,183.7)	(1,225.2)	(1,246.2)	(1,286.6)
Gross profit	**355**	**359**	**418**	**470**	**445**	**482**	**504**	**534**	**567**
Gross profit margin	**36.7%**	**31.6%**	**32.1%**	**31.4%**	**28.2%**	**29.0%**	**29.2%**	**30.0%**	**30.6%**
Y/Y	**42.9%**	**1.1%**	**16.4%**	**12.5%**	**-5.4%**	**8.5%**	**4.5%**	**6.0%**	**6.2%**
Selling and marketing expenses	(49.1)	(58.1)	(68.0)	(75.6)	(76.5)	(81.6)	(86.5)	(90.8)	(96.4)
General and administrative expenses	(46.8)	(54.4)	(61.3)	(65.4)	(69.8)	(73.3)	(74.4)	(75.7)	(79.4)
Provision for expected credit losses	(31.4)	(40.5)	(24.3)	(48.3)	(63.3)	(46.7)	(46.7)	(48.1)	(50.1)
Operating profit	**228**	**206**	**273**	**294**	**246**	**293**	**309**	**332**	**354**
Operating margin	**23.5%**	**18.1%**	**21.0%**	**19.7%**	**15.6%**	**17.6%**	**17.8%**	**18.6%**	**19.1%**
Y/Y	**49.7%**	**-9.6%**	**32.7%**	**7.7%**	**-16.3%**	**18.8%**	**5.5%**	**7.5%**	**6.6%**
Financing Expense (net)	(24)	(54)	(86)	(109)	(112)	(114)	(113)	(110)	(108)
Income before zakat	**204**	**152**	**187**	**185**	**134**	**179**	**195**	**222**	**246**
Zakat	(11)	(9)	(4)	(5)	(3)	(4)	(5)	(6)	(6)
Net income	**193.1**	**142.1**	**182.7**	**180.3**	**131**	**174.1**	**190.6**	**216.4**	**239.4**
Net profit margin	**19.9%**	**12.5%**	**14.0%**	**12.0%**	**8.3%**	**10.5%**	**11.0%**	**12.2%**	**12.9%**
Y/Y	**53.6%**	**-26.4%**	**28.6%**	**-1.3%**	**-27.4%**	**33.0%**	**9.5%**	**13.6%**	**10.6%**
EPS (SAR)	**2.93**	**2.15**	**2.77**	**2.73**	**1.98**	**2.64**	**2.89**	**3.28**	**3.63**
DPS (SAR)	**1.47**	**1.09**	**1.41**	**1.38**	**1.00**	**1.40**	**1.75**	**2.00**	**2.40**
Balance sheet									
Assets									
Cash & equivalent	100	52	35	28	87	95	69	62	114
Other current assets	344	418	418	582	626	628	635	619	621
Total current assets	444	470	453	611	713	723	704	681	734
Property plant & equipment	1,320	1,673	2,038	2,506	2,709	2,872	2,935	3,051	3,183
Other non-current assets	102	96	85	67	51	39	31	26	25
Total assets	**1,866**	**2,239**	**2,576**	**3,183**	**3,473**	**3,635**	**3,670**	**3,757**	**3,942**
Liabilities & owners' equity									
Total current liabilities	658	860	973	1,188	1,300	1,337	1,311	1,304	1,345
Long-term loans	455	569	683	977	1,089	1,122	1,089	1,073	1,105
Total other non-current liabilities	89	81	90	104	104	114	133	159	188
Paid -up capital	430	430	430	660	660	660	660	660	660
Statutory reserves	38	52	68	-	11	26	42	61	81
Retained earnings	197	247	332	255	309	376	435	501	562
Total owners' equity	665	730	830	915	980	1,062	1,137	1,222	1,303
Total equity & liabilities	**1,866**	**2,239**	**2,576**	**3,183**	**3,473**	**3,635**	**3,670**	**3,757**	**3,942**
Cashflow statement									
Operating activities	559	601	653	771	734	805	858	922	987
Investing activities	(5)	(11)	(12)	(11)	(40)	(45)	(49)	(53)	(58)
Financing activities	114	52	33	304	43	(128)	(272)	(240)	(165)
Change in cash	667	642	674	1,064	738	632	538	629	764
Ending cash balance	100	52	35	28	87	95	69	62	114
Key fundamental ratios									
Liquidity ratios									
Current ratio (x)	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Quick ratio (x)	0.7	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Profitability ratios									
Gross profit margin	36.7%	31.6%	32.1%	31.4%	28.2%	29.0%	29.2%	30.0%	30.6%
Operating margin	23.5%	18.1%	21.0%	19.7%	15.6%	17.6%	17.8%	18.6%	19.1%
EBITDA margin	53.1%	44.2%	44.1%	47.4%	43.2%	45.0%	46.3%	48.5%	50.0%
Net profit margin	19.9%	12.5%	14.0%	12.0%	8.3%	10.5%	11.0%	12.2%	12.9%
Return on assets	10.3%	6.3%	7.1%	5.7%	3.8%	4.8%	5.2%	5.8%	6.1%
Return on equity	29.0%	19.5%	22.0%	19.7%	13.4%	16.4%	16.8%	17.7%	18.4%
Leverage ratio									
Debt / equity (x)	1.51	1.69	1.77	2.11	2.02	2.17	1.99	1.85	1.81
Market/valuation ratios									
EV/sales (x)	5.6	4.9	5.0	3.0	2.3	2.2	2.1	2.1	2.0
EV/EBITDA (x)	10.6	11.0	11.3	6.3	5.4	5.0	4.6	4.3	4.1
EPS (SAR)	2.93	2.15	2.77	2.73	1.98	2.64	2.89	3.28	3.63
BVPS (SAR) - Adjusted	10.1	11.1	12.6	13.9	14.9	16.1	17.2	18.5	19.8
Market price (SAR)	69.0	65.8	76.6	37.6	23.1	23.1	23.1	23.1	23.1
Market-Cap (SAR mn)	4,552	4,341	5,053	2,480	1,525	1,525	1,525	1,525	1,525
DPS (SAR)	1.47	1.09	1.41	1.38	1.00	1.40	1.75	2.00	2.40
Dividend yield	2.1%	1.7%	1.8%	3.7%	4.3%	6.0%	7.6%	8.7%	10.4%
P/E ratio (x)	23.6	30.6	27.7	13.8	11.7	8.8	8.0	7.0	6.4
P/BV ratio (x)	6.8	5.9	6.1	2.7	1.6	1.5	1.4	1.3	1.2

Source: Company reports, AlJazira capital Research, prices as of 28th June, 2026

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RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated “Overweight” will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated “Underweight” would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated “Neutral” is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.