Theeb Rent a Car Co.

Result Flash Note Q4-23

Provision expenses & weak gross margin pressured Q4-23 earnings, while revenue continues to record a double digit growth.

Theeb Rent a Car Co. (Theeb)'s net profit declined 33.8% Y/Y to SAR 35.5mn in Q4-23, slightly below our estimate of SAR 38.0mn. The deviation from our estimates was mainly due to the higher-than expected OPEX, whereas the contraction in GP margin was offset by higher-than-expected top-line. Revenue posted a healthy growth of 11.2% Y/Y to SAR 300.67mn during Q4-23, slightly above our estimated SAR 293.2mn. GP margin for the quarter came at 31.1%, compared to 36.0% in Q4-22. GP margin was impacted by the revenue mix, as utilization rates of short term rental segment declined, despite the higher average rented fleet. We expect pressure on GP margin to persist with gradual improvement in upcoming years as the utilization increases and revenue mix shifts more towards core rental business. OPEX was impacted by the increase in another surge in accounts receivable provisions. Nevertheless, revenue is expected to continue its growth trajectory during 2024 with 9%Y/Y on the back of the expected strong demand in the car rental sector, while used cars sales' low margin to keep overall margins under pressure. We revised down our recommendation to "Neutral" with a TP of SAR 72.1/share after a 28% rally from the latest bottom.

- Theeb posted net income of SAR 35.5mn, down 33.8% Y/Y in Q4-23. The bottom line was slightly below our estimate of SAR 38.0mn; mainly due to higher-than-expected OPEX and lower gross margin. Theeb bottom-line for FY23 declined by 26.4% from FY22 levels, reaching to SAR 142.1mn. This is attributed mainly to the lower utilization rates of short-term rental segment (the highest margins), higher contribution of used cars sales (lower margins), added to higher provision expenses, despite the improved top-line in all segments.
- Revenue rose 11.2% Y/Y to SAR 300.7mn in Q4-23, slightly above our estimate of SAR 293.2mn, as the company increased its growth in all segments. FY23 revenue reached SAR 1,135mn, surpassing the SAR 1bn level for the first time; due to the 11% increase in average rented fleet, which resulted from the 22% increase in total fleet. Moreover, used cars sales increased by 43% during the year.
- Gross profit declined 3.2% Y/Y to SAR 94.2mn, in-line with our estimated SAR 94.5mn. GP margins came at 31.3%, well below our estimated 32.2%. The company's margins contraction continued to offset the growth in the top-line; as utilization rates of the higher margin segment have declined (short-term car rental), accompanied by higher contribution of used cars sales (lower margins segment). This trend shadowed FY23 performance, as the company GP margin fell to 31.6% compared to 36.4% in FY22.
- Operating profit declined 20.3% Y/Y to SAR 48.1mn in Q4-23, below our estimate of SAR 56.4mn due to higher OPEX. This is most likely attributed to another surge in accounts receivable impairment provision. Provision expense is expected to stand at SAR 17.5mn, above our estimate of SAR 10.3mn and SAR 12.6mn in Q4-22. Operating margin came at 16.0% compared to our estimated 19.2%, recording the lowest margin since Q4-20.

AJC view and valuation: The pressure on Theeb's earnings amid margins contraction is persistent, despite the improvement in the top-line. GP margin has been impacted in the last few quarters due to the lower utilization rates of car rental segment and higher contribution of used cars sales. Additionally, operational icome is still under pressure from the provisions. We believe that part of the pressure on margins is sustainable, yet be expect the GP margins to show improvement in the future as the company gains its targeted market share and shift its focus to operational efficiency. Nevertheless, long term growth for the company is to be driven by the anticipated strong demand in the car rental sector. Hence, we estimate an 8.9% growth in the Theeb's top-line in FY24, but we still believe that GP expansions will be limited, improving marginally to 32.0% during the period. The stock currently trades at FY24E P/E of 18.0x, in-line with the stock's historical trading multiple of 18.2x, indicating the stock is a fairly priced. We revised our rating to "**Neutral**" on the stock with same TP at **SAR 72.1/share**.

Results Summary

SAR mn	Q4-22	Q3-23	Q4-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	270.3	288.4	300.8	11.2%	4.3%	2.5%
Gross Profit	97.3	92.0	94.2	-3.2%	2.4%	-0.4%
Gross Margin	*36.0%*	*31.9%*	*31.3%*	-	-	-
EBIT	60.3	53.1	48.1	-20.3%	-9.4%	-14.7%
Net Profit	53.7	34.3	35.5	-33.8%	3.5%	-6.5%
EPS	1.25	0.80	0.83	-	-	-

Source: Company Reports, AlJazira Capital

Recommendation	**Neutral**
Target Price (SAR)	**72.1**
Upside / (Downside)*	**-1.6%**

Source: Tadawul *prices as of 13th of March 2024

Key Financials

SARmn (unless specified)	FY21	FY22	FY23	FY24E
Revenues	752.4	968.0	1,135.4	1,236.7
Growth %	14.0%	28.7%	17.3%	8.9%
Net Income	125.7	193.1	142.1	175.3
Growth %	98.8%	53.6%	-26.4%	23.4%
EPS	2.92	4.49	3.30	4.08

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23	FY24E
Gross Margin	33.0%	36.7%	31.6%	32.0%
Net Margin	16.7%	19.9%	12.5%	14.2%
ROE	22.2%	29.0%	19.5%	21.5%
P/E (x)	20.8	15.4	19.9	18.0
P/B (x)	4.6	4.5	3.9	3.7
EV/EBITDA (x)	8.1	7.5	7.5	7.3
DPS	0.91	2.15	1.64	2.0
Dividend Yield	1.5%	3.1%	2.5%	2.7%

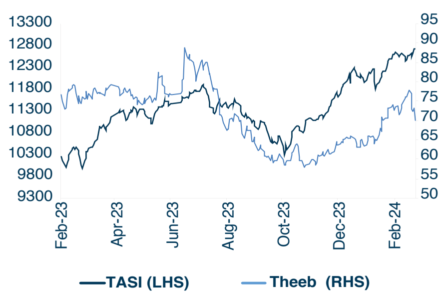
Source: Company reports, Argaam, AJC research

Key Market Data

Market Cap(bn)	3.00
YTD%	11.4%
52 week (High)/(Low)	89.9/57.8
Share Outstanding (mn)	43.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, AJC Research

Equity Analyst
Ahmed AlMutawah
+966 11 2256250
a.almutawah@aljaziracapital.com.sa

RESEARCH DIVISION

Head of Sell-Side Research - AGM
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

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.

Disclaimer