Theeb Rent a Car Co.
Investment Update

Upgrading to "Overweight" on better margin outlook, momentum in long-term vehicle leasing and attractive valuation

Theeb Rent a Car Co. (Theeb)'s Q2-24 performance exceeded our and market expectations with healthy revenue growth and GP margin expansion. The company's future growth is expected to be derived from its ongoing momentum in long term leasing. We also anticipate better utilization level for its fleet going forward after facing some challenges on this front. However, the company may continue to feel pressure on its short-term rental business amid intensifying competition. We believe the company's H1-24 performance is indicative of recovery from subdued FY23. Based on revised assumptions we update our TP on Theeb to SAR 82/share and upgrade recommendation "Overweight". We believe the company's current market valuation (FY25E P/E: 15.9x) is placed favorably on risk/reward metrics, as improved margin outlook and vehicle leasing growth prospects offset the risks related to pressure in short-term rental.

Q2-24 earnings better than expected; higher GP margin supported the bottom line: Theeb's net income surged 49.0% Y/Y to SAR 45mn in Q2-24, beating AJC's estimate of SAR 41mn. The deviation from our estimate was mainly due to higher-than-expected GP margin. Revenue grew 13.6% Y/Y to SAR 322mn (in line with AJC's estimate of SAR 314mn). The topline growth was primarily attributed to 43.1% Y/Y surge in vehicle leasing revenue, while short-rental revenue declined 1.0%. The GP margin expanded by ~300 bps Y/Y to 32.9% and was higher than our expectation of 32.1%. Thus, gross profit was up 25.0% Y/Y. Operating profit rose 44.8% to SAR 69mn (AJC estimate: SAR 64mn) on the back of strong gross profit growth.

Long-term leasing to be a key revenue growth driver: Theeb's long term leasing revenue has seen robust growth over the past few years with a CAGR of 16.7% during FY19-23. In the past two quarters, there was an accelerated growth in the topline for the long-term leasing segment with H1-24 revenue growing by 36.6%. The company might have signed one or more large contracts in the leasing segment. The company has an excellent track record of growing the long term leasing business. Further, there are ample opportunities in the segment to grow further due to rising demand from the government sector, mega/giga projects, and increasing business, logistics and transportation activities. Thus, we forecast Theeb to continue its momentum in long term vehicle leasing with revenue CAGR of 15.4% during FY23-28E, leading to total revenue CAGR of 8.6%. We expect more fleet to be deployed into vehicle leasing, increasing the segments' proportion in the total fleet to 51% by FY28E compared to 46% in FY23. Theeb's total fleet is forecasted to grow at CAGR of 10.7% to over 44,000 by FY28E.

Intensified competition is likely to keep pressure in the short-term rental segment: Theeb seems to be lagging behind its peers in short-term rental with muted performance over past few quarters. In H1-24, the segment witnessed a 2.5% Y/Y decline in revenue. The company also faced low utilization rates for short rental fleet. Although there has been some improvement in utilization in the recent quarter, we expect pressure to persist on Theeb's short rental segment leading to lower growth compared to long term leasing. Nevertheless, with overall growth drivers for the sector in place, increasing travel and tourism, upcoming global sports, entertainment and business events are likely to aid the segment growth. We forecast Theeb's short-term rental revenue to post a CAGR of 5.6% during FY23-28E.

Recommendation	Overweight
Target Price (SAR)	82.0
Upside / (Downside)*	16.1%

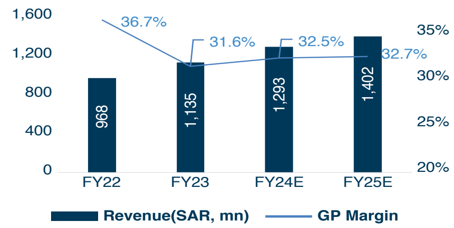
Source: Tadawul *prices as of 25th of August 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	968	1,135	1,293	1,402
Growth %	28.7%	17.3%	13.9%	8.5%
Gross Profit	355	359	421	458
Net Income	193	142	171	191
Growth %	53.6%	-26.4%	20.3%	12.0%
EPS	4.49	3.30	3.97	4.45
DPS	2.15	1.82	2.00	2.50

Source: Company reports, Aljazira Capital

Revenue and GP margin



Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	36.7%	31.6%	32.5%	32.7%
Net Margin	19.9%	12.5%	13.2%	13.6%
ROE	29.0%	19.5%	20.9%	21.2%
ROA	10.3%	6.3%	7.1%	7.3%
P/E	15.4	19.9	17.8	15.9
P/B	4.5	3.9	3.7	3.4
EV/EBITDA (x)	7.5	7.5	7.4	6.9
Dividend Yield	3.1%	2.8%	2.8%	3.5%

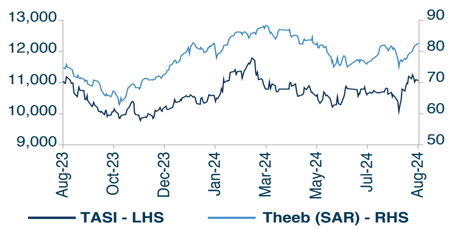
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	3.0
YTD%	7.3%
52 weeks (High)/(Low)	78.40/57.40
Share Outstanding (mn)	43.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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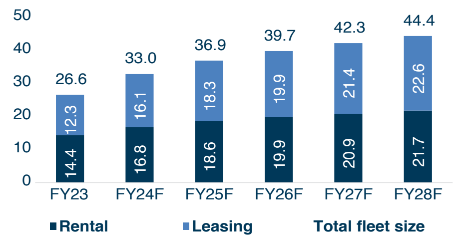
Expansion of core rental business with improved utilization level to support GP margin expansion; anticipated interest rate cuts could further boost the bottom line: The company's margins have improved in the last two quarters on better utilization level. We expect FY24E margins to be at 32.5% compared to 31.6% in FY23. Theeb's GP margin is expected to improve from 31.6% in FY23 to 33.0% in FY28E, due to expansion of core rental business (rental + leasing) with improved utilization amid anticipated healthy demand. Additionally, anticipated interest rate cuts would help Theeb lower its finance cost burden, improving its profitability. We expected the company's net margin to widen from 12.5% in FY23 to 16.9% in FY28E, leading to ~2x net profit at CAGR of 15.4% during FY23-28E.

Current valuation indicates a favorable risk/reward ratio post Q2-24 performance: Theeb's Q2-24 performance was better than our expectations. An impressive expansion of GP margin, strong long-term leasing growth and improved fleet utilization level were key highlights. Risks related to pressure in short-term rental, and lower utilization rate and margins compared to peers are already factored in the market price. Based on our revised estimates, mainly accounting for better margin expectations, we believe the stock has a favorable risk/reward ratio at current P/E of 15.9x on FY25E EPS.

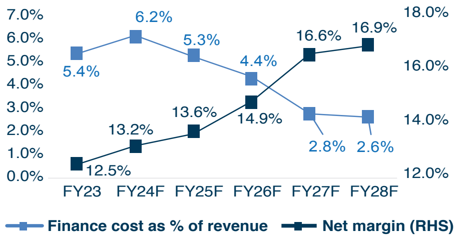
AJC view and valuation: Theeb showed improvement in its performance in Q2-24 with healthy topline growth and GP margin expansion. We expect the company to take it forward from here by sustaining the improvements shown in the latest quarter. Long-term leasing business is likely to be the key performance driver for the company. Amid the growing car rental market in Saudi Arabia. We forecast Theeb to continue to expand its fleet at CAGR of 10.7% to reach over 44,000 by FY28E, translating into revenue CAGR of 8.6% and net profit CAGR of 15.4% during FY23-28E. We valued Theeb with 50% weightage to DCF (WACC = 7.1% and terminal growth = 2.5%) and 50% weightage to FY25E P/E (19.0x) to arrive at a revised TP of **SAR 82/share**. We upgrade to an "**Overweight**" recommendation on the stock, as we believe the company's current market valuation is placed favorably on risk/reward metrics.

Theeb's fleet size ('000)



Source: Company reports, Aljazira Capital

Decreasing finance cost to help net margins



Source: Company reports, Aljazira Capital

Discounted Cash Flow model

SAR mn	FY24E	FY25E	FY26E	FY27E	FY28E
NOPAT	237.4	258.4	284.5	309.8	331.3
Depreciation & Amortization	83.8	90.4	85.3	87.9	89.6
Change in working capital	1.5	-11.8	-11.0	-10.5	-8.1
Capex	-208.6	-227.4	-247.9	-240.1	-226.9
FCFF	114.1	109.6	110.9	147.1	185.9
Discounting factor	1.0	0.9	0.9	0.8	0.8
Present value of FCFF	**111.3**	**100.1**	**96.0**	**120.7**	**143.6**
Sum of Present Value					571.8
PV of Terminal Value					4,100.3
Enterprise Value					**4,672.1**
Equity Value to common shareholders					3,407.2
No of outstanding share (in mn)					43.0
Fair value per share (SAR)					**SAR 79.2**

Source: AlJazira Capital research

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	79.2	**50%**	39.6
P/E	84.6	**50%**	42.3
Blended TP			82.0
Up/Downside			**16.1%**

Source: AlJazira Capital research

Key Financials

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	752.4	968.0	1,135.4	1,292.8	1,402.5	1,511.4	1,621.3	1,718.7
Y/Y	**14.0%**	**28.7%**	**17.3%**	**13.9%**	**8.5%**	**7.8%**	**7.3%**	**6.0%**
Cost	(503.9)	(612.8)	(776.5)	(872.2)	(944.5)	(1,016.0)	(1,088.1)	(1,152.0)
Gross profit	**248.5**	**355.1**	**358.9**	**420.6**	**458.0**	**495.4**	**533.2**	**566.6**
Operating Expenses	(70.2)	(95.9)	(112.5)	(128.5)	(140.8)	(148.7)	(157.9)	(167.4)
SG&A	(70.2)	(95.9)	(112.5)	(128.5)	(140.8)	(148.7)	(157.9)	(167.4)
Operating profit	**152.2**	**227.8**	**205.9**	**256.0**	**277.9**	**305.9**	**333.1**	**356.3**
Y/Y	**66.3%**	**49.7%**	**-9.6%**	**24.3%**	**8.5%**	**10.1%**	**8.9%**	**6.9%**
Financing Expense (net)	(19.7)	(24.1)	(54.4)	(71.7)	(72.1)	(64.4)	(43.3)	(43.5)
Income before zakat	**132.5**	**203.7**	**151.6**	**184.3**	**205.8**	**241.5**	**289.8**	**312.7**
Zakat	(6.8)	(10.6)	(9.5)	(13.4)	(14.4)	(16.9)	(20.3)	(21.9)
Net income	**125.7**	**193.1**	**142.1**	**170.9**	**191.4**	**224.6**	**269.5**	**290.8**
Y/Y	**98.8%**	**53.6%**	**-26.4%**	**20.3%**	**12.0%**	**17.4%**	**20.0%**	**7.9%**
EPS (SAR)	**2.92**	**4.49**	**3.30**	**3.97**	**4.45**	**5.22**	**6.27**	**6.76**
DPS (SAR)	**0.91**	**2.15**	**1.82**	**2.00**	**2.50**	**2.75**	**3.00**	**3.25**
Balance sheet								
Assets								
Cash & equivalent	58	100	52	76	150	249	171	203
Other current assets	215	344	418	422	438	454	469	481
Total current assets	273	444	470	498	588	703	640	684
Property plant & equipment	1,156	1,320	1,673	1,806	1,951	2,121	2,280	2,424
Other non-current assets	89	102	96	88	75	59	40	18
Total assets	**1,518**	**1,866**	**2,239**	**2,392**	**2,615**	**2,883**	**2,960**	**3,125**
Liabilities & owners' equity								
Total current liabilities	580	658	860	896	968	1,052	1,026	1,040
Long-term loans	288	455	569	597	657	723	668	646
Total other non-current liabilities	83	89	81	83	88	98	113	134
Paid -up capital	430	430	430	430	430	430	430	430
Statutory reserves	19	38	52	70	89	111	138	167
Retained earnings	118	197	247	316	382	468	583	707
Total owners' equity	567	665	730	816	901	1,009	1,151	1,305
Total equity & liabilities	**1,518**	**1,866**	**2,239**	**2,392**	**2,614**	**2,882**	**2,959**	**3,124**
Cashflow statement								
Operating activities	449	559	545	632	684	739	801	858
Investing activities	(6)	(5)	(71)	(45)	(48)	(52)	(56)	(59)
Financing activities	(23)	114	87	(105)	(49)	(29)	(244)	(177)
Change in cash	420	667	560	482	587	657	501	621
Ending cash balance	**58**	**100**	**52**	**76**	**150**	**249**	**171**	**203**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	0.5	0.7	0.5	0.6	0.6	0.7	0.6	0.7
Quick ratio (x)	0.5	0.7	0.5	0.5	0.6	0.7	0.6	0.7
Profitability ratios								
Gross profit margin	33.0%	36.7%	31.6%	32.5%	32.7%	32.8%	32.9%	33.0%
Operating margin	20.2%	23.5%	18.1%	19.8%	19.8%	20.2%	20.5%	20.7%
EBITDA margin	53.6%	53.1%	47.4%	44.7%	44.7%	44.6%	45.0%	45.3%
Net profit margin	16.7%	19.9%	12.5%	13.2%	13.6%	14.9%	16.6%	16.9%
Return on assets	8.3%	10.3%	6.3%	7.1%	7.3%	7.8%	9.1%	9.3%
Return on equity	22.2%	29.0%	19.5%	20.9%	21.2%	22.3%	23.4%	22.3%
Leverage ratio								
Debt / equity (x)	1.28	1.51	1.69	1.58	1.58	1.57	1.31	1.16
Market/valuation ratios								
EV/sales (x)	4.4	4.0	3.5	3.3	3.1	2.9	2.7	2.5
EV/EBITDA (x)	8.1	7.5	7.5	7.4	6.9	6.5	6.0	5.6
EPS (SAR)	2.92	4.49	3.30	3.97	4.45	5.22	6.27	6.76
BVPS (SAR) - Adjusted	13.2	15.5	17.0	19.0	21.0	23.5	26.8	30.3
Market price (SAR)	60.9	69.0	65.8	70.6	70.6	70.6	70.6	70.6
Market-Cap (SAR mn)	2,619	2,967	2,829	3,036	3,036	3,036	3,036	3,036
DPS (SAR)	0.91	2.15	1.82	2.00	2.50	2.75	3.00	3.25
Dividend yield	1.5%	3.1%	2.8%	2.8%	3.5%	3.9%	4.2%	4.6%
P/E ratio (x)	20.8	15.4	19.9	17.8	15.9	13.5	11.3	10.4
P/BV ratio (x)	4.6	4.5	3.9	3.7	3.4	3.0	2.6	2.3

Source: Company reports, Aljazira Capital Research

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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.

Disclaimer