United International Transportation Co. (BUDGET SAUDI)

Investment Update

AutoWorld acquisition to strengthen leadership position; switch to "Neutral" as acquisition gains mostly priced in

United International Transportation Co. (Budget Saudi) acquired AutoWorld recently. The acquisition will increase the market share of the company in Saudi car rental market to 18% from 12%, further strengthening its leadership position. We see the acquisition to be positive for the company accelerating its growth, particularly in the long-term leasing segment. We also anticipate healthy growth in short-term rental to continue, given favorable market dynamics and company's strong market position. The cost synergies that are expected to be derived from the acquisition would help to keep margins at a healthy level. Overall, we see an EPS accretion of ~12% to our FY25E estimates due to the acquisition. We forecast Budget Saudi's fleet to expand at CAGR of 13.0% to reach over 65,000 by FY28E, translating into revenue CAGR of 16.6% and net profit CAGR of 14.8% during FY23-28E. Based on revised assumptions we update our TP on Budget Saudi to SAR 96/share but switch to "Neutral" recommendation. We believe the company's current market valuation (FY25E P/E: 17.4x) factors in most of the gains from the acquisition as well as the future growth prospects.

Strong topline growth but flat earnings, as GP margin contracted: Budget Saudi's net income was almost flat at SAR 70mn (-0.2% Y/Y) in Q2-24, in line with AJC's estimate of SAR 72mn. Revenue grew 24.8% Y/Y to SAR 425mn (above AJC's estimate of SAR 381mn). The topline growth was driven by strong growth in both long term leasing (+18.7%Y/Y) and short term rental (+23.9% Y/Y) on the back of expanded fleet and stable utilization rates. Revenue from the sale of used vehicles rose 8.8% Y/Y, while acquisition of Overseas Development Company added SAR 20mn to the topline during the quarter. The revenue growth was counteracted by the contraction of GP margin by ~500 bps Y/Y to 28.2%, which was below our expectation of 32.2%. Thus, gross profit was up by just 6.0% Y/Y. Operating profit rose 0.3% to SAR 83mn (in line with AJC estimate) with the operating margin standing at 19.4% vs. 24.2% in Q2-23.

AutoWorld acquisition to double long term leasing revenue by FY25E, synergies to support operational efficiencies: Budget Saudi completed acquisition of AutoWorld in July through its 100% owned subsidiary Rahal. The consolidation will take place from Q3-24. Post the acquisition Budget Saudi's market share in the Saudi car rental segment will grow from ~12% to ~18%. The total fleet is estimated to reach 53,000 (as of June) with an addition of approximately 16,000 long term leasing vehicles from AutoWorld, as it is operating only in long term leasing business. Moreover, Budget Saudi will benefit from AutoWorld's presence in Eastern region and the Oil and Gas sector. Thus, considering Budget Saudi's both organic and inorganic expansion, we estimate total fleet to expand to over 56k by the end of the end of this year, with long term leasing fleet expanding to over 42k from 24.3k in FY23. With the full year impact of acquisition in FY25E long term leasing revenue is forecasted to double from SAR 582mn in FY23 to SAR 1,181mn in FY25E. The topline for long term leasing segment is forecasted to record a CAGR of 18.9% over FY23-28E, leading to total revenue CAGR of 16.6% during the same period and total fleet size exceeding 65k.

Short-term rental segment's organic growth to continue: Budget Saudi's short-term rental revenue witnessed robust growth of 25.2% Y/Y in H1-24, indicating the company's ability to maintain a healthy utilization of expanding fleet, leveraging its market position in a growing but competitive market. We believe the company's short-rental business is placed well to continue its growth due to – 1) its diverse and largest branch network (111 branches) among its peers, 2) ongoing fleet expansion (from 7k+ in FY21 to ~12k currently), 3) rising domestic and international travel and 4) increasing number of visitors for both religious and leisure tourism. We forecast the short-term rental fleet of the company to expand at CAGR of 7.0% during FY23-28E, translating into revenue CAGR of 11.5%.

Recommendation	Neutral
Target Price (SAR)	96.0
Upside / (Downside)*	5.7%

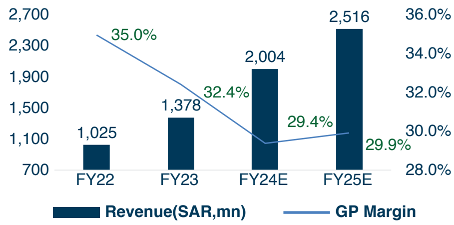
Source: Tadawul *prices as of 01st of September 2024

Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	1,025	1,378	2,004	2,516
Growth %	3.7%	34.4%	45.4%	25.5%
Gross Profit	358	447	589	752
Net Income	252	277	308	408
Growth %	14.6%	10.0%	11.2%	32.3%
EPS	3.22	3.55	3.94	5.22
DPS	1.90	1.50	1.50	2.25

Source: Company reports, Aljazira Capital

Revenue and GP margin



Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	35.0%	32.4%	29.4%	29.9%
Net Margin	24.6%	20.1%	15.4%	16.2%
ROE	15.2%	15.5%	13.9%	15.1%
ROA	11.4%	10.0%	7.9%	8.2%
P/E	14.2	22.3	23.0	17.4
P/B	3.7	3.5	2.5	2.3
EV/EBITDA (x)	6.1	8.4	8.4	7.0
Dividend Yield	4.2%	1.9%	1.7%	2.5%

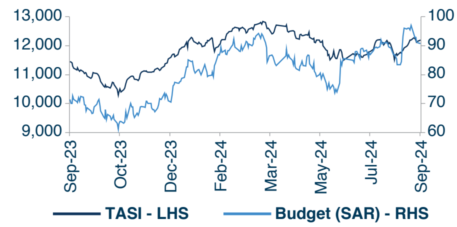
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	7.1
YTD%	14.9%
52 weeks (High)/(Low)	98.60/59.60
Share Outstanding (mn)	78.2

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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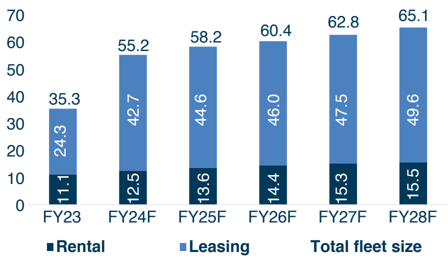
Cost synergies worth SAR 30-50mn to be realized post integration, to help offset lower revenue per car for AutoWorld: Based on our calculation average revenue per car (average over the past few years) for AutoWorld is 4-5% lower as compared to Budget due to its presence in only long term leasing and different mix of targeted customers. Thus, it will affect Budget's revenue per car post integration. Conversely, the cost synergies worth SAR 30-50mn are expected to be realized over the next three years (14% in 1st year, 65% in 2nd year and 100% in 3rd year). Nevertheless, as targeted by the management, we assume complete synergies to be realized by FY25E. Synergies are expected to be derived from 1) 3.8% additional discount for Budget Saudi on new vehicle compared to AutoWorld 2) insurance cost saving – Budget Saudi has least insurance cost among peers, the advantage will be passed on to AutoWorld, 3) rebate on spare part procurement when buying in bulk. Hence, we expect consistent improvement in margins after contracting in FY24E (effect of both lower margins for Budget Saudi and integration of AutoWorld). We forecast the GP margin to drop to 29.4% in FY24E and then improve to 30.2% by FY28E. Similarly, operating margin is also expected to squeeze to 19.1% in FY24E and then expand to 21.3% by FY28E.

Balance sheet leverage to increase but still below the peers, increased finance expenses to drag net margin: As of September 2023, AutoWorld had bank loans worth SAR 649mn. Thus, Budget Saudi's leverage level is expected to increase from debt/equity of 0.34x as of FY23 to 0.55x as of FY24E. Still, very much below its peers (Theeb: 1.6x, Lumi: 1.4x), placing the company comfortably for upcoming CAPEX on fleet expansion. However, additional debt will lead to higher finance expenses. We estimate finance expenses to rise from SAR 37mn in FY23 to SAR 70mn in FY24E (impact only in H2-24) and SAR 104mn in FY25E. Later, finance expenses are likely to drop with anticipated rate cuts.

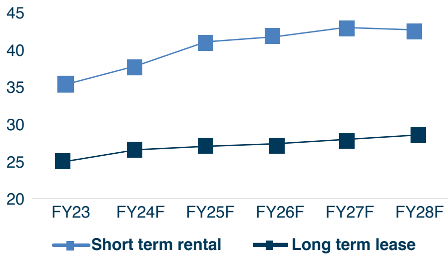
Transaction to result in 12% EPS accretion in FY25E: We assume AutoWorld's fleet to grow to ~17k by FY25E and it will contribute more than SAR 600mn to the top line of Budget Saudi. Thus, at ~8% net margin for AutoWorld, 100% cost synergies assumed to be realized in FY25E and accounting for dilution for existing Budget Saudi shareholders due to issuance of 7mn share to AutoWorld shareholder, we expect an EPS accretion of ~12% in FY25E.

Budget's fleet size ('000)



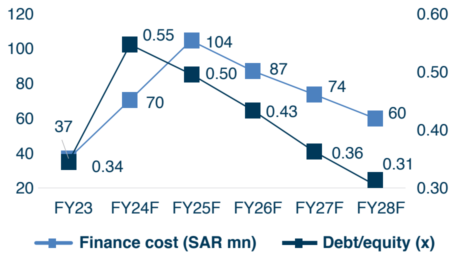
Source: Company reports, Aljazira Capital

Average revenue per available vehicle



Source: Company reports, Aljazira Capital

Finance cost and leverage to rise post-acquisition before easing later



Source: Company reports, Aljazira Capital

AJC view and valuation: Budget Saudi's acquisition of AutoWorld will give it a lead over peers with expanded scale of operation and a market share of 18%. We expect the company to maintain its healthy growth in both the short-term and long-term segments. Cost synergies post the integration are expected to support margins. Despite the comparatively more leveraged AutoWorld's balance sheet, Budget Saudi's financial position is expected to be comfortable to support any further expansion to gain most out of the upcoming growth in the sector and further strengthen its market position. We forecast Budget Saudi's fleet to expand at CAGR of 13.0% to reach over 65,000 by FY28E, translating into revenue CAGR of 16.6% and net profit CAGR of 14.8% during FY23-28E. We valued Budget Saudi with 50% weightage to DCF (WACC = 8.5% and terminal growth = 2.5%) and 50% weightage to FY25E P/E (19.0x) to arrive at a revised TP of **SAR 96/share**. We switch to a "**Neutral**" recommendation on the stock, as we believe the company's current market valuation already factors in most of the gains related acquisition and future growth.

Blended valuation summary

	TP (SAR)	Weight	Weighted TP
DCF	92.0	**50%**	46.0
P/E	99.0	**50%**	49.5
Blended TP			**96.0**

Source: AlJazira Capital research

United International Transportation Co. (BUDGET SAUDI)

Investment Update

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	988	1,025	1,378	2,004	2,516	2,669	2,834	2,966
Y/Y	**2.4%**	**3.7%**	**34.4%**	**45.4%**	**25.5%**	**6.1%**	**6.2%**	**4.6%**
Cost of Sales	**655**	**667**	**932**	**1,415**	**1,764**	**1,867**	**1,980**	**2,070**
Gross profit	334	358	447	589	752	802	855	896
Selling and distribution expenses	(52)	(45)	(60)	(80)	(97)	(98)	(101)	(105)
Administrative expenses	(59)	(65)	(89)	(152)	(166)	(174)	(182)	(190)
Other operating income	20	31	35	46	47	49	52	55
Operating profit	**230**	**268**	**322**	**382**	**513**	**557**	**602**	**632**
Y/Y growth	**8.9%**	**16.6%**	**20.0%**	**18.8%**	**34.1%**	**8.7%**	**7.9%**	**5.0%**
Financial charges	(2)	(9)	(37)	(70)	(104)	(87)	(74)	(60)
Profit before zakat	**228**	**259**	**285**	**319**	**423**	**485**	**542**	**586**
Zakat	(8)	(7)	(8)	(11)	(15)	(17)	(19)	(34)
Net income	**220**	**252**	**277**	**308**	**408**	**468**	**523**	**552**
Y/Y	**8.6%**	**14.6%**	**10.0%**	**11.2%**	**32.3%**	**14.7%**	**11.9%**	**5.5%**
EPS	**2.81**	**3.22**	**3.55**	**3.94**	**5.22**	**5.98**	**6.70**	**7.07**
DPS	**1.90**	**1.90**	**1.50**	**1.50**	**2.25**	**2.75**	**3.25**	**3.50**
Balance sheet								
Assets								
Cash & bank balance	105	21	34	18	177	247	278	336
Other current assets	201	266	359	776	821	876	935	986
Property & Equipment	1,531	2,131	2,482	3,824	3,894	3,965	4,038	4,113
Other non-current assets	19	21	41	46	46	46	46	46
Total assets	**1,884**	**2,520**	**3,013**	**4,802**	**5,101**	**5,322**	**5,510**	**5,718**
Liabilities & owners' equity								
Total current liabilities	207	524	683	1,299	1,321	1,315	1,289	1,266
Total non-current liabilities	79	271	427	873	918	892	838	789
Paid -up capital	712	712	712	782	782	782	782	782
Statutory reserves	224	224	224	224	224	224	224	224
Retained earnings	663	789	924	1,115	1,347	1,600	1,869	2,148
Total owners' equity	1,599	1,725	1,861	2,122	2,353	2,606	2,875	3,154
Total equity & liabilities	**1,884**	**2,520**	**3,013**	**4,802**	**5,101**	**5,322**	**5,510**	**5,718**
Cashflow statement								
Operating activities	146	(291)	8	(873)	(5)	(13)	86	114
Investing activities	(41)	(13)	(10)	245	395	403	362	369
Financing activities	(146)	221	14	613	(231)	(320)	(417)	(425)
Change in cash	(41)	(83)	13	(16)	158	70	31	58
Ending cash balance	**105**	**21**	**34**	**18**	**177**	**247**	**278**	**336**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	1.5	0.5	0.6	0.6	0.8	0.9	0.9	1.0
Quick ratio (x)	1.3	0.4	0.5	0.5	0.7	0.7	0.8	0.9
Profitability ratios								
GP Margin	33.8%	35.0%	32.4%	29.4%	29.9%	30.1%	30.2%	30.2%
Operating Margins	23.3%	26.2%	23.4%	19.1%	20.4%	20.9%	21.2%	21.3%
EBITDA Margin	44.9%	50.2%	47.8%	33.8%	31.8%	31.9%	31.8%	31.6%
Net Margins	22.3%	24.6%	20.1%	15.4%	16.2%	17.5%	18.5%	18.6%
Return on assets	12.1%	11.4%	10.0%	7.9%	8.2%	9.0%	9.7%	9.8%
Return on equity	14.1%	15.2%	15.5%	13.9%	15.1%	15.9%	16.3%	15.9%
Leverage ratio								
Debt/equity (x)	0.02	0.26	0.34	0.55	0.50	0.43	0.36	0.31
Market/valuation ratios								
EV/sales (x)	2.7	3.5	2.3	2.8	2.3	2.1	2.0	2.0
EV/EBITDA (x)	8.1	6.1	8.4	8.4	7.0	6.7	6.4	6.3
EPS (SAR)#	2.81	3.22	3.55	3.94	5.22	5.98	6.70	7.07
BVPS (SAR)#	20.45	22.06	23.80	33.10	36.07	39.30	42.75	46.31
Market price (SAR)*	46.6	45.7	79.0	90.8	90.8	90.8	90.8	90.8
Market-Cap (SAR mn)	3,638.7	3,568.3	6,175.2	7,097.6	7,097.6	7,097.6	7,097.6	7,097.6
Dividend yield	4.1%	4.2%	1.9%	1.7%	2.5%	3.0%	3.6%	3.9%
P/E ratio (x)	16.5	14.2	22.3	23.0	17.4	15.2	13.6	12.8
P/BV ratio (x)	4.0	3.7	3.5	2.5	2.3	2.1	1.9	1.8

Source: Company reports, Aljazira Capital Research, # calculated based on new number of shares, * market price as of September 01, 2024

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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