



## Healthy revenue growth and operating efficiency led to strong earnings growth

Theeb Rent a Car Co. (Theeb)'s net profit jumped 35.4% Y/Y to SAR 46.5mn in Q3-24, in line with our estimate of SAR 44.6mn. The net income growth was aided by healthy topline growth and operating margin expansion, despite the lower GP margin. Revenue increased 17.0% Y/Y to SAR 337.4mn, in line with our estimate of SAR 328.2mn, driven by a 42.9% Y/Y growth in the long-term rental segment, and a 21.4% Y/Y increase in the sale of used cars. The GP margin contracted 80bps Y/Y, while operating margin expanded 250bps. We keep our TP of **SAR 82.0/share** on Theeb and maintain an **"Overweight"** recommendation.

- Theeb posted a net income of SAR 46.5mn, up 35.4% Y/Y in Q3-24. The bottom line was in line with our estimate of SAR 44.6mn. The net income growth during the quarter was aided by healthy topline and operating margin expansion, despite the lower GP margin.
- Revenue rose 17.0% Y/Y to SAR 337.4mn in Q3-24, in line with our estimate of SAR 328.2mn. The revenue growth was led by a 42.9% Y/Y surge in the long-term rental segment, and a 21.4% increase in the sale of used cars. On the other hand, pressure on short-term rentals remained, with a decline of 3.8% Y/Y in revenue; marking the third consecutive quarter of decline.
- Gross profit rose 14.3% Y/Y to SAR 106.6mn, in line with our estimate of SAR 107.3mn, as slightly higher revenue was offset by a lower-than-expected GP margin. The GP margin contracted despite healthy revenue growth. In Q3-24, the gross margin decreased ~80bps Y/Y to 31.6%, and was below our estimate of 32.7%. Higher contribution from long-term rentals and sale of used vehicles could have weighed on the GP margin.
- Operating profit rose 32.7% Y/Y to SAR 70.9mn in Q3-24, due to a 10.4% Y/Y decline in OPEX, and came in line with our estimate of SAR 68.6mn. Operating margin widened to 21.0% in Q3-24 vs. 18.5% in Q3-23 (AJC estimate: 20.9%). During the quarter, Theeb witnessed improved utilization rates for the short term and long-term rental segments. Moreover, there were improvements in certain operational cost items.

**AJC view:** Theeb's Q3-24 performance was in line with our expectations. As anticipated, the long-term rental segment continues to be a growth driver for the company. On the other hand, challenges in short-term rentals persist. However, the company's utilization rates improved for both segments compared to the previous quarter. Overall operational performance was strong with a double-digit decline in OPEX, coupled with healthy revenue growth, which translated into an expansion of operating margins. We believe the long-term leasing business is likely to be the key performance driver for the company. Moreover, the growing car rental market in Saudi Arabia will support the expansion of overall business in the future. Thus, we forecast net income to grow 25.0% Y/Y to SAR 178mn in FY24E and 9.6% Y/Y to SAR 195mn in FY25E. The stock currently trades at a P/E of 16.4x based on FY25E estimates, and an EV/EBITDA of 7.1x based on our FY25E estimates. We keep our TP of **SAR 82.0/share** on Theeb and maintain **"Overweight"** recommendation.

### Results Summary

SAR mn	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	288.4	321.8	337.4	17.0%	4.9%	2.8%
Gross Profit	93.2	105.8	106.6	14.3%	0.7%	-0.7%
<i>Gross Margin</i>	<i>32.3%</i>	<i>32.9%</i>	<i>31.6%</i>	-	-	-
EBIT	53.4	69.1	70.9	32.7%	2.6%	3.3%
Net Profit	<b>34.3</b>	<b>44.6</b>	<b>46.5</b>	35.4%	4.3%	4.3%
EPS	0.80	1.04	1.08	-	-	-

Source: Company Reports, Aljazira Capital Research

### Recommendation **Overweight**

Target Price (SAR) **82.0**

Upside / (Downside)\* **10.2%**

Source: Tadawul \*prices as of 6<sup>th</sup> of November 2024

### Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	968	1,135	1,302	1,406
Growth %	28.7%	17.3%	14.7%	8.0%
Gross Profit	355	359	421	459
Net Income	193	142	178	195
Growth %	53.6%	-26.4%	25.0%	9.6%
EPS	4.49	3.30	4.13	4.52
DPS	2.15	1.82	2.00	2.50

Source: Company reports, Aljazira Capital Research

### Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	36.7%	31.6%	32.3%	32.6%
Net Margin	19.9%	12.5%	13.6%	13.8%
ROE	29.0%	19.5%	21.6%	21.4%
ROA	10.3%	6.3%	7.4%	7.4%
P/E	15.4	19.9	18.0	16.4
P/B	4.5	3.9	3.9	3.5
EV/EBITDA (x)	7.5	7.5	7.4	7.1
Dividend Yield	3.1%	2.8%	2.7%	3.4%

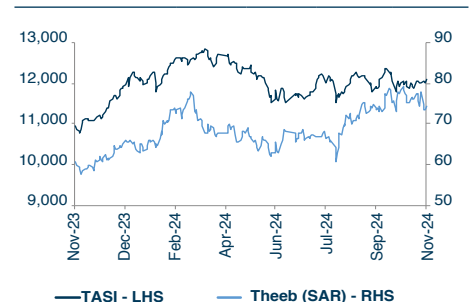
Source: Company reports, Aljazira Capital Research

### Key Market Data

Market Cap(bn)	3.2
YTD%	<b>13.1%</b>
52 week (High)/(Low)	81.0/57.4
Share Outstanding (mn)	43.0

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital Research

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RESEARCH  
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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.

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