

Acquisition to strain near term margins more-than-expected but poised to leverage largest fleet size and expanded market reach amid rising demand.

Budget Saudi leads Saudi car rental market with the largest vehicle fleet post-acquisition of AutoWorld (AW). Moreover, the company's expanded market reach and healthy car rental demand outlook are expected to deliver double-digit growth in topline (FY24-29E CAGR: 10.2%). Furthermore, Budget remains well-positioned for future fleet expansion despite increased leverage (0.62x D/E in FY24). However, lower margins in AW's business will weigh on the company's margins. With full integration and reclassification costs in Q4-24, we believe the near-term impact on gross/operating/net margins to be higher than earlier expected. Nevertheless, margins are expected to improve gradually with the realization of synergies (SAR 30-50mn by FY26E). Thus, we forecast net income to increase at CAGR of 15.3% during FY24-29E. Based on revised assumptions we revise our TP on Budget to **SAR 84.0/share** (from SAR 96.0/share earlier) and maintain our "Neutral" stance. We believe the current valuation (FY25E P/E: 17.2x) factors in most of the gains from the acquisition as well as the future growth prospects.

Strong used vehicle sales led to stronger topline in Q4-24; reclassification of costs indicates higher pressure on margins: Budget's revenue grew by 68.6% Y/Y to SAR 623mn (above AJC's estimate of SAR 563mn). The deviation from our estimate was mainly due to higher-than-expected revenue from used vehicle sales. This was counteracted by the contraction of GP margin by ~810 bps Y/Y to 24.1%, which was below our expectation of 30.5%. Operating profit rose 69.4% Y/Y to SAR 132.1mn (above AJC's estimate) with the operating margin standing at 21.2% vs. 21.1% in Q4-23. Net income grew sharply to SAR 100.1mn (51.4% Y/Y) in Q4-24, above AJC's estimate of SAR 78.0mn due to exceptionally lower general and administrative expenses (owing to reclassification of AW's costs), reversal of credit loss provision and higher other operating income.

Fleet expansion to be core focus area in coming years: In FY24 overall fleet increased 51.5% as 18.2K vehicles (4.9K organic and 13.3K inorganic) were added, with AutoWorld adding 13.3K vehicles. Budget devised strategy to enhance its focus on fleet expansion, wherein AutoWorld optimizes its fleet by retiring less profitable assets and increases the long-term lease contracts. Headwinds from Chinese cars fleet have bottomed out as only 300+ vehicles are yet to be sold. Thus, the impact on margins would be limited in FY25E. We expect the overall fleet to increase by 9.8% in FY25E to reach 58.8K. Leasing fleet to drive this growth (10.5% growth) with its fleet reaching 44.2K, and rental fleet to grow to 14.6K (7.8% growth). Given the sectoral tailwinds led by rising tourism and robust demand for used vehicles, we forecast the overall fleet size to expand at 6.7% CAGR over FY25-29E and to reach 76.3K by FY29E. Which is slightly conservative compared to the management guidance of 8-10% rise in fleet beyond FY25, given highly competitive landscape in the short-term rental business.

AutoWorld integration to bolster long-term lease segment's growth but exert pressure on overall profitability margins: AutoWorld has strengthened Budget's market positioning in car rental segment by making it the largest company in terms of fleet size. AutoWorld's strong presence in the Eastern region and the Oil & Gas sector bodes well for Budget's long-term leasing business. Through this acquisition, we expect leasing revenues to grow at 13.9% CAGR over FY24-29E, to reach a revenue base of SAR 1,595mn by FY29E. However, integration could exert pressure on the overall profitability margins due to its nature to be a lower margin business. Further higher leverage in AutoWorld could pressurize the net income too in the short-term.

Short-term rental segment's organic growth to continue: Budget's short-term rental revenue witnessed robust growth of 13.6% Y/Y in FY24, driven by increased utilization and better pricing strategy. This indicates its ability to leverage its market position in a growing but competitive market. However, in the short-term we believe the heated competitive intensity among the incumbents could result in price wars for gaining market share. This could mute the growth of short-term rental revenues. Thus, we expect the revenues to grow just by 1.9% Y/Y in FY25E. However, over longer-term we believe the short-rental business is well placed to continue its growth due to – 1) its diverse and largest branch network among its peers, 2) ongoing fleet expansion (from 7k+ in FY21 to ~13k in FY24), 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 to expand at 7.6% CAGR over FY24-29E, thus aiding it to expand the revenues to SAR 597mn, implying a 6.6% revenue CAGR.

Recommendation	Neutral
Target Price (SAR)	84.0
Upside / (Downside)*	13.5%

Source: Tadawul *prices as of 6th of April 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	1,971	2,392	2,595	2,795
Growth %	43.0%	21.4%	8.4%	7.7%
Gross Profit	556	628	722	805
Net Income	312	337	430	515
Growth %	12.4%	8.0%	27.7%	19.7%
EPS	3.99	4.31	5.50	6.59
DPS	1.45	1.75	2.25	2.75

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	28.2%	26.3%	27.8%	28.8%
Net Margin	15.8%	14.1%	16.6%	18.4%
ROE	13.7%	12.0%	14.2%	15.6%
ROA	7.8%	6.6%	8.2%	9.4%
P/E	20.8	17.2	13.4	11.2
P/B	2.2	1.8	1.7	1.5
EV/EBITDA (x)	6.4	5.8	5.3	4.9
Dividend Yield	1.7%	2.4%	3.0%	3.7%

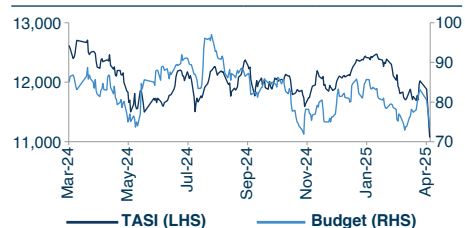
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	5.8
YTD%	-9.6%
52 weeks (High)/(Low)	98.60/71.00
Share Outstanding (bn)	78.2

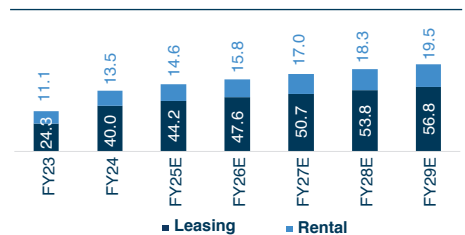
Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital Research

Budget's fleet size ('000)



Source: Company, Aljazira Capital Research

Head of Sell-Side Research

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa



Pressure on Used-vehicle sales bottomed out due to miniscule Chinese cars pending for sale: For last 4-5 quarters Budget Saudi experienced headwinds in used-vehicle sales business due to declining prices of used-cars resulting from higher supply of Chinese cars. However, currently the company has just 300+ fleet of Chinese cars which are pending for sale, thus the pressure on margins could be limited in FY25E. Further the management doesn't intend to buy any additional Chinese fleet, which could help in margin recovery for this segment. Accordingly, we expect the used-vehicle revenues to increase from SAR 575mn in FY24 to SAR 813mn by FY29E, implying 7.2% CAGR over FY24-29E.

Cost synergies from AutoWorld, limited headwinds from Chinese car and enhanced focus on government & corporate contracts to aid in margin expansion over FY25-29E: AutoWorld operates in a lower-margin business than Budget due to its focus on long-term leasing and a different customer mix, impacting Budget's overall margin profile. However, management expects SAR 50mn in cost synergies by FY26E from insurance savings, vehicle purchase discounts, and rebates, helping offset this impact. The headwinds from selling the Chinese car fleet are expected to be limited, supporting better margins on used vehicle sales. Additionally, the company's expansion in government and corporate contracts should drive margin growth. The recent reclassification from SG&A to COGS has led us to lower our FY25E gross profit (GP) margin estimate to 26.3% (-190bps Y/Y). However, we expect it to improve, reaching 29.0% by FY29E, driven by i) cost synergies from AutoWorld, ii) operating leverage, and iii) an increased focus on government and corporate contracts. Similarly, the operating margin is projected to dip to 19.1% in FY25E before expanding to 22.4% by FY29E.

Balance sheet leverage to ease with planned debt restructuring, thus aiding the net margin expansion: Budget's leverage level increased from 0.34x debt/equity as of FY23 to 0.62x by FY24. Despite this sharp increase, it is still ~1/3rd the industry average, thus placing it comfortably for the upcoming capex on fleet expansion. However, we don't see any need to further leverage the balance sheet given healthy cash generation. Thus, we expect the debt to ease going forward. Moreover, AutoWorld integration already achieved SAR 350mn of debt restructuring, with a part of remaining SAR 400mn expected to be restructured in the coming quarters. This debt restructuring coupled with rate cuts would lower finance expenses. We forecast finance expenses to increase from SAR 72mn in FY24 to SAR 109mn in FY25E (1st full year integration) and gradually decrease to SAR 64mn by FY29E, and thus aid in net margin expansion from 15.8% in FY24 to 19.8%.

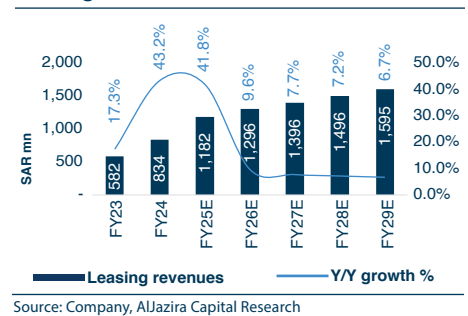
AJC view and valuation: Budget's acquisition of AutoWorld will give it a lead over peers with expanded scale of operation. Over the long term we expect it to maintain its healthy growth in short-term and long-term segments. Cost synergies post integration to support margin expansion. Despite the more leveraged AutoWorld's balance sheet, Budget's financial position is expected to be comfortable to support any further expansion to gain most out of the upcoming growth in sector. We forecast Budget's fleet to expand at CAGR (FY24-29E) of 7.4% to reach over 76.3K by FY29E, translating into revenue CAGR of 10.2% and net profit CAGR of 15.3% over FY24-29E. We value Budget Saudi with 50% weightage to DCF (WACC = 9.4% and terminal growth = 2.5%) and 50% weightage to P/E (19.0x) valuation applied to FY26E EPS and discounted at WACC to arrive at a TP of **SAR 84.0/share**. Full realization synergies from the AW acquisition are expected by FY26E, hence we believe it will better reflect the company's earnings profile. We reiterate our **"Neutral"** stance, as we believe the current market valuation already factors in most of the gains related acquisition and future growth.

Valuation Methodology

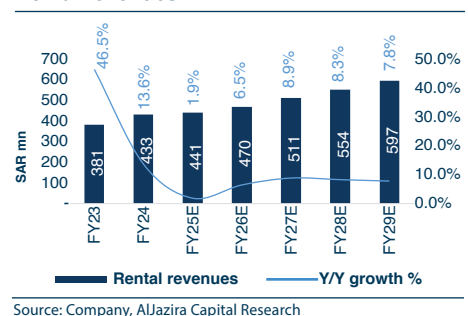
Blended Valuation	TP (SAR)	Weight	Weighted TP
DCF	78.0	50%	39.0
P/E (19.0x; FY26E discounted at WACC)	90.0	50%	45.0
TP (SAR/share)			84.0
Upside/Downside			13.5%

Source: ALJazira Capital Research

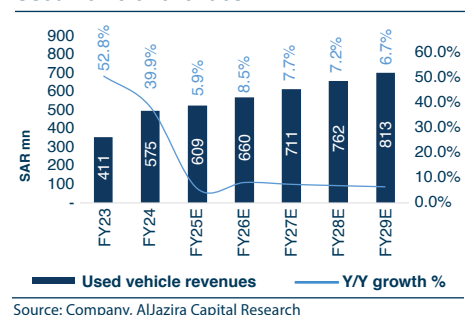
Leasing revenues



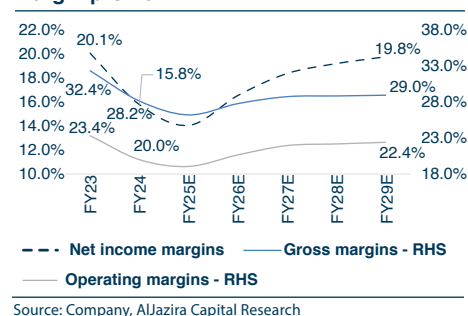
Rental revenues



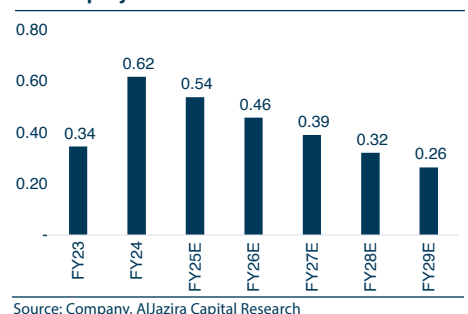
Used-vehicle revenues



Margin profile



Debt/equity ratio





Key Financials

Amount in USD mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement							
Revenues	1,378	1,971	2,392	2,595	2,795	2,998	3,201
Y/Y	34.4%	43.0%	21.4%	8.4%	7.7%	7.2%	6.8%
Cost of Sales	932	1,415	1,764	1,872	1,990	2,131	2,273
Gross profit	447	556	628	722	805	866	928
Selling and distribution expenses	(60)	(89)	(84)	(91)	(94)	(99)	(104)
Administrative expenses	(89)	(120)	(140)	(152)	(159)	(169)	(179)
Other operating income	35	57	65	70	75	81	86
Operating profit	322	394	456	537	614	666	718
YoY growth	20.0%	22.6%	15.6%	17.6%	14.5%	8.3%	7.9%
Financial charges	(37)	(72)	(109)	(93)	(84)	(71)	(64)
Profit before zakat	285	323	347	443	531	595	654
Zakat	(8)	(11)	(10)	(13)	(16)	(18)	(20)
Net income	277	312	337	430	515	577	634
Y/Y	10.0%	12.4%	8.0%	27.7%	19.7%	12.1%	9.9%
EPS	3.55	3.99	4.31	5.50	6.59	7.38	8.11
DPS	1.50	1.45	1.75	2.25	2.75	3.00	3.25
Balance sheet							
Assets							
Cash & bank balance	34	86	141	218	282	342	444
Other current assets	359	779	866	883	977	1,082	1,202
Property & Equipment	2,482	3,766	3,834	3,904	3,975	4,048	4,122
Other non-current assets	41	61	61	61	61	61	61
Total assets	3,013	5,009	5,237	5,420	5,666	5,924	6,239
Liabilities & owners' equity							
Total current liabilities	683	1,144	1,255	1,241	1,230	1,208	1,194
Total non-current liabilities	427	1,124	1,042	984	941	878	827
Paid-up capital	712	782	782	782	782	782	782
Statutory reserves	224	224	224	224	224	224	224
Retained earnings	924	1,137	1,337	1,591	1,891	2,234	2,614
Total owners' equity	1,861	2,143	2,343	2,597	2,897	3,240	3,620
Total equity & liabilities	3,013	5,009	5,237	5,420	5,666	5,924	6,239
Cashflow statement							
Operating activities	8	83	(234)	(172)	(182)	(131)	(99)
Investing activities	(10)	(18)	570	581	593	605	617
Financing activities	14	(13)	(281)	(331)	(348)	(413)	(415)
Change in cash	13	52	55	78	63	60	102
Ending cash balance	34	86	141	218	282	342	444
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	0.6	0.8	0.8	0.9	1.0	1.2	1.4
Quick ratio (x)	0.5	0.6	0.7	0.7	0.8	1.0	1.1
Profitability ratios							
GP Margin	32.4%	28.2%	26.3%	27.8%	28.8%	28.9%	29.0%
Operating Margins	23.4%	20.0%	19.1%	20.7%	22.0%	22.2%	22.4%
EBITDA Margin	47.8%	39.5%	30.8%	31.7%	32.5%	32.2%	31.9%
Net Margins	20.1%	15.8%	14.1%	16.6%	18.4%	19.2%	19.8%
Return on assets	10.0%	7.8%	6.6%	8.1%	9.3%	10.0%	10.4%
Return on equity	15.5%	13.7%	12.0%	14.2%	15.6%	15.9%	15.9%
Leverage ratio							
Debt/equity (x)	0.34	0.62	0.54	0.46	0.39	0.32	0.26
Market/valuation ratios							
EV/sales (x)	2.3	2.8	2.0	1.7	1.6	1.5	1.4
EV/EBITDA (x)	8.4	6.3	5.8	5.3	4.9	4.7	4.5
EPS (SAR)#	3.55	3.99	4.31	5.50	6.59	7.38	8.11
BVPS (SAR)#	23.80	34.51	37.06	40.32	44.16	48.54	53.40
Market price (SAR)*	79.0	81.9	74.0	74.0	74.0	74.0	74.0
Market-Cap (SAR mn)	6,175.2	6,401.9	5,784.4	5,784.4	5,784.4	5,784.4	5,784.4
Dividend yield	1.9%	1.8%	2.4%	3.0%	3.7%	4.1%	4.4%
P/E ratio (x)	22.3	20.5	17.2	13.4	11.2	10.0	9.1
P/BV ratio (x)	2.8	2.0	1.8	1.7	1.5	1.4	1.3

Source: Company reports, Aljazeera Capital Research, # calculated based on new number of shares, * market price as of April 06, 2025





RESEARCH DIVISION

Head of Sell-Side Research - Director
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

The purpose of producing this report is to present a general view on the company/economic sector/economic subject under research, and not to recommend a buy/sell/hold for any security or any other assets. Based on that, this report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of stocks, bonds, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes without any prior warning, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Al-Jazira Capital from sources believed to be reliable, but Al-Jazira Capital has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Al-Jazira Capital shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the stock or securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some stocks or securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Al-Jazira Capital, and they undertake that neither them, nor their wives or children hold positions directly in any listed shares or securities contained in this report during the time of publication of this report, however, The authors and/or their wives/children of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. This report has been produced independently and separately by the Research Division at Al-Jazira Capital and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Al-Jazira Capital. Funds managed by Al-Jazira Capital and its subsidiaries for third parties may own the securities that are the subject of this document. Al-Jazira Capital or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Al-Jazira Capital maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Al-Jazira Capital board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission of Al-Jazira Capital. Persons who receive this report should make themselves aware, of and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.

Asset Management | Brokerage | Investment Banking | Custody | Advisory

Head Office: King Fahad Road, P.O. Box: 20438, Riyadh 11455, Saudi Arabia, Tel: 011 2256000 - Fax: 011 2256068