United International Transportation Co.
Investment Update

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

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%

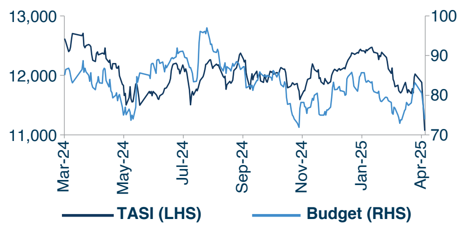
Source: Company reports, Aljazira Capital

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

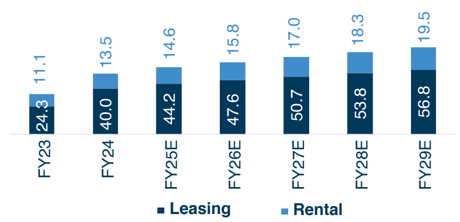
Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, AlJazira Capital Research

Budget's fleet size ('000)



Source: Company, AlJazira Capital Research

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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%.

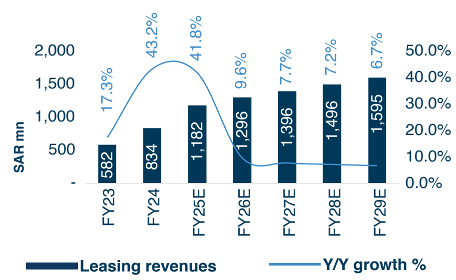
AJC view and valuation: Budget's acquisition of AutoWorld will give it a lead over peers with expanded scale of operation. Over the long term we expect it to maintain its healthy growth in short-term and long-term segments. Cost synergies post integration to support margin expansion. Despite the more 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%**

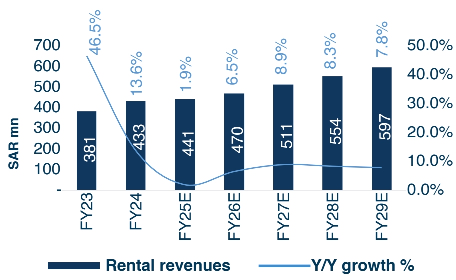
Source: AlJazira Capital Research

Leasing revenues



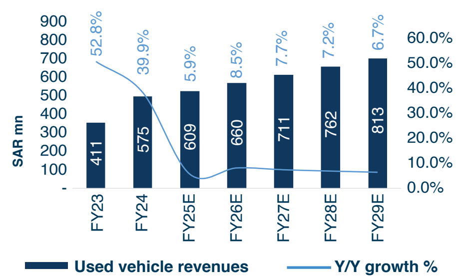
Source: Company, AlJazira Capital Research

Rental revenues



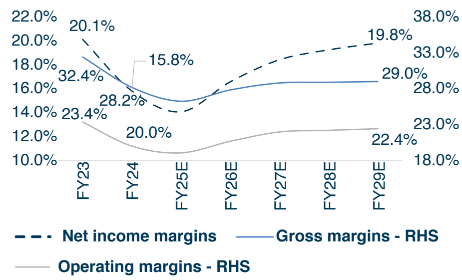
Source: Company, AlJazira Capital Research

Used-vehicle revenues



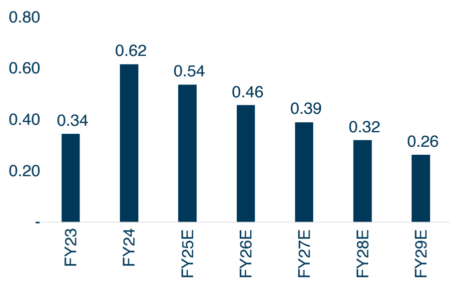
Source: Company, AlJazira Capital Research

Margin profile



Source: Company, AlJazira Capital Research

Debt/equity ratio



Source: Company, AlJazira Capital Research

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, Aljazira Capital Research, # calculated based on new number of shares, * market price as of April 06, 2025

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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