Theeb Rent a Car Co.

Results Flash Note Q3-23

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Lower GP margin and utilization rate, increase in operating costs, and higher finance expense put pressure on earnings; TP revised down

Theeb Rent a Car Co. (Theeb)'s net profit declined 36.2% Y/Y to SAR 34.3mn in Q3-23, below our estimate of SAR 45.0mn. The variation from our estimates was mainly due to the lower-than-expected gross margin and higher OPEX, despite higher-than-expected revenue. Revenue increased 15.3% Y/Y to SAR 288.4mn, above our estimate of SAR 273.4mn. We believe that lower gross margin resulted from lower selling prices of used vehicles in addition to decrease in utilization for short-term car rental. We expect pressure on GP margin to persist with gradual improvement in upcoming years as the utilization increases and revenue mix shifts more towards core rental business. Thus, we revised our GP margin estimates for FY24E from 34.9% to 32.0%. Accordingly, net income estimates for FY24E are revised to SAR 175.3mn from SAR 203.5mn earlier. Nevertheless, long term growth for the company is to be driven by the anticipated strong demand in the car rental sector. We cut our TP for Theeb to SAR 72.1/share but maintain "Overweight" recommendation on the stock.

- Theeb posted net income of SAR 34.3mn, down 36.2% Y/Y in Q3-23. The bottom line was below our estimate of SAR 45.0mn mainly on account of higher-than-expected OPEX and lower gross margin, which was partially offset by higher revenue. The net income for Q3-23 was also impacted by a Y/Y increase in finance expenses. Given the reduction in gross margin, lower utilization in short-term car rentals, higher OPEX and finance costs in the recent quarters, we revised our net profit estimates for FY24E lower to SAR 175.3mn from SAR 203.5mn earlier. The downward revision is mainly due to expectation of a lower GP margin, as we anticipate a lower utilization rate and higher contribution to the total revenue from the sale of used vehicles (low margin) compared to our earlier estimates.
- Revenue rose 15.3% Y/Y to SAR 288.4mn in Q3-23, as against our estimate of SAR 273.4mn. We forecast FY23E revenue to reach SAR 1,129mn and grow further by 9.6% to SAR 1,237mn in FY24E. We have revised the FY24E revenue higher as we expect expanded fleet size and continued contribution from used vehicle sales to drive revenue growth amid ongoing demand in the sector.
- Gross profit rose 3.8% Y/Y to SAR 92.0mn, as healthy revenue growth was offset by significant contraction in gross margin. In Q3-23, the gross margin decreased 352bps Y/Y to 31.9% and was below our estimate of 35.0%. Gross margin likely to have weighed down by lower fleet utilization in short-term rental segment and possibly lower resale value for cars sold during the quarter. We expect gross margin pressure to persist and revise down our GP margin estimates for FY24E from 34.9% to 32.0%.
- Operating profit declined 17.5% Y/Y to SAR 53.1mn in Q3-23, below our estimate of SAR 62.1mn due to higher OPEX. The OPEX witnessed another surge as the impairment charges escalated to SAR 11mn from SAR 2.3mn in Q3-22.

AJC view: Theeb posted a weak set of results in Q3-23 for the second consecutive quarter. GP margin continues to be under pressure. We believe lower fleet utilization and increased contribution from low-margin segment (used car sale) to be weighing on margins. Additionally, margins on used cars seem to have decreased compared to last year when the segment enjoyed high demand as well as prices. Hence, we revised our estimates downward. Based on our revised estimates, we value the stock with 50% weightage each to DCF (Terminal growth = 2.5%, risk free rate = 3.5% and WACC = 7.3%) and P/E (16.0x). The blended valuation yields a TP of **SAR 72.1/share**. The stock currently trades at FY24E P/E of 14.2x and implies an upside of 24.4%. Hence, we retain our "**Overweight**" recommendation on the stock.

Results Summary

SARmn	Q3-22	Q2-23	Q3-23	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	250.2	283.4	288.4	15.3%	1.8%	5.5%
Gross Profit	88.6	82.2	92.0	3.8%	11.9%	-3.9%
Gross Margin	*35.4%*	*29.0%*	*31.9%*	-	-	-
EBIT	64.3	46.5	53.1	-17.5%	14.2%	-14.5%
Net Profit	**53.8**	**29.9**	**34.3**	-36.2%	14.8%	-23.8%
EPS	1.25	0.70	0.80	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Recommendation	Overweight
Target Price (SAR)	72.1
Upside / (Downside)*	24.4%

Source: Tadawul *prices as of 14'h of November 2023

Key Financials

SARmn (unless specified)	FY21	FY22	FY23E	FY24E
Revenue	752.4	968.0	1,128.6	1,236.7
Growth %	14.0%	28.7%	16.6%	9.6%
Net Income	125.7	193.1	148.4	175.3
Growth %	98.8%	53.6%	-23.2%	18.2%
EPS	2.92	4.49	3.45	4.08

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23E	FY24E
Gross Margin	33.0%	36.7%	31.8%	32.0%
Net Margin	16.7%	19.9%	13.1%	14.2%
ROE	22.2%	29.0%	20.4%	21.5%
P/E (x)	20.8	15.4	16.8	14.2
P/B (x)	4.6	4.5	3.6	3.2
EV/EBITDA (x)	8.1	7.5	6.6	6.5
Dividend Yield	1.5%	3.1%	3.4%	3.0%

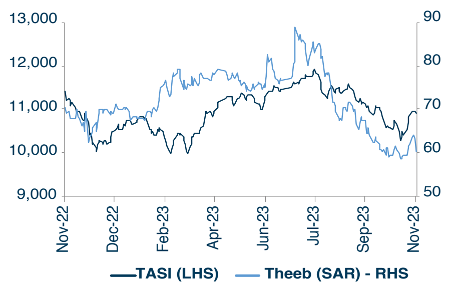
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	2.48
YTD%	-12.3%
52 week (High)/(Low)	89.9/57.8
Share Outstanding (bn)	43.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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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