



WEALTH MANAGEMENT

GCC EQUITIES

TRANSPORTATION

RESEARCH NOTE

Recommendation

BUY

CMP (SAR) (27/6/12) :	41.50
TARGET PRICE (SAR):	56.00
EXPECTED RETURN (%):	35%

STOCK DATA

MCAP (SAR'million)	1,013
52 WEEK HIGH (SAR)	51.75
52 WEEK LOW (SAR)	30.10

QUARTERLY NET PROFIT

SAR'mn	2010	2011
Q1	22.6	22.9
Q2	22.7	23.9
Q3	28.2	25.8
Q4	21.5	28.0

ANALYST

Gaurav Ramaiya
Asst. Vice President - Research
Email: gaurav@fincorp.org
Tel: (+968) 24822300 Ext. 348

BUDGET SAUDI (SSE: 4260)

Budget Saudi continues to be at the forefront of the steadily growing car rental industry in Saudi Arabia, with improving demand and fleet expansion driving earnings growth.

KEY HIGHLIGHTS

- United International Transportation Company Ltd. (Budget Saudi) is Saudi Arabia's largest car rental company which owns the franchise for international brand 'Budget' in the Kingdom. The company's services include short and long-term car rentals, pre-owned car sales, hajj and umrah services, premier limousine services, lodge and drive, cross border and corporate leasing services. The company offers operating leases for commercial, passenger, SUV, MUV, semi luxury, and luxury vehicles.
- Budget Saudi is currently the market leader in Saudi Arabia's car rental industry with a fleet of more than 17,000 cars, 90 rental offices extending to all major cities and towns, as well as all 8 major airports. The company derives 53% of its revenues from car rental services and 47% from leasing services.
- The car rental industry in Saudi Arabia is driven by the flow of visitors to the country for both religious tourism (hajj and umrah) as well as business visitors. The industry has seen a steady recovery in 2010 and 2011, following a decline in 2009 associated with the economic downturn as well as reduced religious tourism due to fears of H1N1 pandemic. Market reports suggest that the volume of car rental business in the kingdom exceeded SAR 2 billion in 2010 and is expected to increase by 20% in 2012.
- Business car rental is expected to be one of the fastest growing segments as business visitor arrivals continue to grow steadily with economic activity in the country, increasing in line with the significant government spending plans underway. Religious tourism is also an important driver of revenues for car rental companies due to large annual influx of visitors for hajj and umrah. Data from Saudi Arabia's General Authority of Civil Aviation indicate that around 28% of annual passenger traffic at King Abdulaziz International Airport comprised of hajj and umrah visitors. Annual school vacation and summer holiday season also see an increase in short-term rentals.
- Budget Saudi reported revenue of SAR 137 million in Q1 2012, 12.8% higher YoY. Net profit during the quarter rose 24.5% YoY to SAR 29 million as operating margin improved from 20.9% in Q1 2011 to 22.7% in Q1 2012. The increase in revenues was driven by an increase short-term rentals due to umrah and school vacation season, while operating profits were also boosted by a 10% increase in gain from car sales.

✦ We estimate revenues of SAR 584 million and net profit of SAR 107 million for FY 2012, implying YoY growth of 15% and 6% respectively. Growth is expected to be driven by the continued increase in business and religious visitors to the kingdom coupled with an increase in the company's fleet of vehicles as management continues to expand its operations. We conservatively estimate gains from car sales at SAR 65 million for FY 2012, highlighting however the possibility of this to surprise on the upside.

✦ The stock currently trades at 9.5x its FY 2012 (E) EPS of SAR 4.38. We estimate a fair value for the stock to be at SAR 56, based on a Discounted Cash Flow valuation as shown below.. This offers a 35% upside from current levels. Downside risks include a sharp slowdown in domestic economic activity impacting the flow of business visitors or unexpected global health risks that may slow the religious tourism in the kingdom.

DCF Assumptions

Beta	1.11
Rf	4.5%
Rm-Rf	5.0%
Cost of Equity (Ke)	10.1%
Cost of Debt (Kd)	3.0%
Kd*(1-tax rate)	2.9%
WACC	7.5%
Terminal Growth (%)	3.0%

Source: FINCORP Research, Reuters

Discounted Cash Flow Valuation

(SAR'000)	FY'12 e	FY'13 e	FY'14 e	FY'15 e	Terminal
EBIT*(1-T)	114,189	121,040	128,303	136,001	140,081
Reinvestment Rate	42%	42%	42%	42%	40%
Reinvested Cash Flows	48,475	51,384	54,467	57,735	56,144
FCFF	65,714	69,657	73,836	78,266	83,937
Discounted FCFF	62,251	61,391	60,542	59,706	-
Terminal Value	1,871,454				
Discounted TV	1,427,653				
Firm Value	1,671,543				
Net Debt	294,690				
Equity Value	1,376,853				
Value / Share (SAR)	56.43				

Source: Company Financials, FINCORP Research

Reinvestment Rate Calculation

(SAR'000)	FY'07	FY'08	FY'09	FY'10	FY'11	Q'12
Depreciation & Amortization	152,966	222,679	234,196	215,916	259,874	71,150
Capital Expenditures	(352,500)	(361,410)	(339,950)	(385,660)	(510,930)	(132,830)
Asset Sale Proceeds	89,090	135,330	164,310	172,560	178,686	42,900
Change in Working Capital	(29,040)	(14,230)	40	(74,700)	50,620	1,780
Reinvested Cash Flows	(139,484)	(17,631)	58,596	(71,884)	(21,751)	(17,000)
Reinvestment Rate (%)	149%	19%	-61%	71%	20%	56%

Average Reinvestment Rate (%)	42%
--------------------------------------	------------

Source: Company Financials, FINCORP Research

KEY FINANCIAL HIGHLIGHTS			
(SAR'million)	2010	2011	2012 (E)
Revenue	451.1	508.2	584.4
Operating Profit	103.6	111.4	117.6
Net Profit	94.8	100.7	106.8
EPS (SAR)	3.89	4.13	4.38
P/E (x)	-	10.0	9.5
BVPS (SAR)	18.89	21.20	23.69
P/BV (x)	-	2.0	1.8
DPS (SAR)	1.69	1.88	2.00
Dividend Yield (%)	-	4.5%	4.8%
ROE (%)	21.9%	20.6%	19.5%

Source: Company disclosure, FINCORP Investment Research

Q1 2012 RESULT HIGHLIGHTS					
(SAR'million)	Q1 2012	Q1 2011	Q4 2011	YoY (%)	QoQ (%)
Revenue	137.1	121.5	133.3	12.8%	2.9%
Operating Profit	31.1	25.4	30.9	22.4%	0.6%
Net Profit	28.5	22.9	28.0	24.5%	1.8%
EPS (SAR)	1.17	0.94	1.15	24.5%	1.8%

Source: Company disclosure, FINCORP Investment Research

Saudi Arabia - Tourist Arrivals by Purpose of Trip

('000)	2009	2010	2011	2012 E
Leisure	633	662	701	750
Business	2,800	2,940	3,125	3,359
Other	8,815	9,305	9,948	10,760
TOTAL	12,248	12,907	13,774	14,869

Growth (%)	2009	2010	2011	2012 E
Leisure	0.5%	4.6%	5.9%	7.0%
Business	0.5%	5.0%	6.3%	7.5%
Other	0.5%	5.6%	6.9%	8.2%
TOTAL	0.5%	5.4%	6.7%	7.9%

Source: Business Monitor

Passenger Traffic at King Abdulaziz Airport (Jeddah)

('000)	2007	2008	2009	2010
Umrah	2,382	2,817	3,100	3,562
Hajj	1,825	2,218	1,742	1,943
International	5,782	6,303	6,736	8,062
Domestic	6,192	6,172	6,088	6,231
Other	128	133	92	95
TOTAL	16,309	17,643	17,758	19,893

Composition (%)	2007	2008	2009	2010
Umrah	14.6%	16.0%	17.5%	17.9%
Hajj	11.2%	12.6%	9.8%	9.8%
International	35.5%	35.7%	37.9%	40.5%
Domestic	38.0%	35.0%	34.3%	31.3%
Other	0.8%	0.8%	0.5%	0.5%

Source: Saudi Arabia General Authority of Civil Aviation

RESEARCH

CONTACT DETAILS

Nandakumar Chenicheri	(+968) 24822300 Ext: 353	nandakumar@fincorp.org
Gaurav Ramaiya	(+968) 24822300 Ext: 348	gaurav@fincorp.org
Mable C Pereira	(+968) 24822300 Ext: 342	mable@fincorp.org

BROKERAGE

CONTACT DETAILS

Mohammad Al Ghalayini	(+968) 24822300 Ext: 333	mohammad@fincorp.org
Deena Omeir	(+968) 24822300 Ext: 334	deena@fincorp.org