

Lower than expected net income for Q1-2017. Budget posted net income of SAR42.5mn for the quarter compared to our estimate of SAR49.7mn, 11.3% below the market consensus. The deviation was mainly due to lower rental revenue and a higher COGS. We remain "Neutral" on the company with a lower PT of SAR 23.1 per share.

- Budget Saudi reported lower than expected net income for 1Q2017. Net income came at SAR42.5mn (EPS SAR 0.60), showing a decline in earnings compared to the same quarter last year of SAR48.8mn, -12.9%YoY. The quarterly result was mainly due to lower rental revenue, in addition to increase in cost of revenue 2.8%YoY, and a lower net gain on vehicle sales due to vehicles sales volume and mix.
- Revenue for the quarter stood at SAR298.91mn compared to SAR300.32mn in 1Q2016; a decrease of 0.5%YoY. According to the company, the slight decrease resulted from a 28.5% YoY decline in sales from short rentals segment, the decline was partly compensated by lease revenues which increased 5.6%YoY during 1Q2017.
- Gross profit stood at SAR 66.0mn depicting a decline of 62.7%QoQ, and 10.7%YoY. Gross margin for the quarter stood at 22.0% compared to 24.6% for the same quarter last year and 33.3% last quarter. Broadly, the decline in short term revenue and higher COGS contributed to a decline in gross margins. Income from operation stood at SAR46.7mn compared to SAR 55.7mn for the same quarter last year, the 16.2% YoY decline was due to lower other income by SAR3.4mn along with increase in G&A expenses.

AJC view: Rental revenue segment stands at SAR31.2mn compared to SAR43.6mn in 1Q2016. We expect lease revenue to continue to compensate rental revenue downturn. Revised EPS FY2017 is estimated at SAR2.30 per share. The company currently trades at TTM PE of 9.5x and an estimated forward PE multiple of 9.7x. We remain "Neutral" on the company with a lower PT of SAR 23.1 Per share.

Results Summary

SARmn (unless specified)	Q1-2016	Q4-2016	Q1-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	300.0	214.5	298.9	-0.4%	39.3%	37.6%
Gross Profit	73.9	32.4	66.1	-10.6%	104.0%	-
Gross Margin	24.6%	15.1%	22.1%	-	-	-
EBIT	61.6	9.7	48.1	-22.0%	395.8%	-
Net Profit	48.8	35.2	42.5	-13.0%	20.7%	-14.5%
EPS	0.69	0.49	0.60	-13.1%	22.4%	-

Source: Company reports, Aljazira Capital

Recommendation	'Neutral'
Current Price* (SAR)	22.4
Target Price (SAR)	23.1
Upside / (Downside)	3.3%

*prices as of 7th of May 2017

Key Financials

SARmn (unless specified)	FY15*	FY16	FY17E
Revenue	875.8	1182.5	1182.8
Gross Profit	140.5	279.0	259.2
Net Profit	188.8	170.1	163.4
EPS	2.65	2.39	2.30**

Source: Company reports, Aljazira Capital *Based on Saudi SOCPA standards
**After bonus share

Key Ratios

SARmn (unless specified)	FY15*	FY16	FY17E
Gross Margin	16.0%	23.5%	21.9%
Net Margin	21.6%	14.3%	13.8%
P/E	11.6	11.8	9.7
P/BV	2.4	2.1	1.4
EV / EBITDA	4.9	4.3	5.6
Dividend Yield	3.5%	3.7%	5.6%

Source: Company reports, Aljazira Capital *Based on Saudi SOCPA standards

Key Market Data

Market Cap (bn)	1.6
YTD %	-24.3%
Shares Outstanding (mn)	71.2
52 Week (High)	33.8
52 Week (Low)	18.6

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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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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