



United International Transportation Co. (Budget Saudi)'s net profit declined 10.6% Y/Y to SAR 40.5mn in Q3-20, above our estimate of SAR 32.0mn. The variance in net income was due to higher-than-expected revenue and operating margin. Revenue for Q3-20 dropped 10.9% Y/Y to SAR 227.7mn, above our estimate of SAR 211.6mn. The revenue decreased on account of lower utilization in rental business, as demand was hit by reduction in commercial activities amid COVID-19 pandemic. We maintain our "Neutral" recommendation on the stock, while revise TP to **SAR 34.3/share** to account for improvement in economic conditions.

- Budget Saudi registered net income of SAR 40.5mn (-10.6% Y/Y) in Q3-20, above our estimate of SAR 32.0mn. The decline in net profit was attributed to significant decrease in revenue during the quarter, as business activities remained muted due to COVID-19 related restrictions.
- Revenue slumped 10.9% Y/Y to SAR 227.7mn in Q3-20, however beats our estimate of SAR 211.6mn. Top-line was primarily dragged by lower demand for short rentals owing to sluggish business activities due to the pandemic. Fleet utilization and used car sales improved compared to Q2-20 driven by lifting of lockdown and relaxation in travel restrictions. We believe conditions would improve further in coming quarters with gradual resumption of Umrah pilgrimage.
- Gross profit (GP) for the quarter fell 16.3% Y/Y to SAR 64.7mn, as against our estimate of SAR 57.6mn. The GP margin contracted by ~180bps to 28.4% as the decline in cost of sales (-8.6% Y/Y, SAR 163.0mn) was lower than decline in revenue.
- Operating profit was down 12.8% Y/Y to SAR 42.4mn in Q3-20, ahead of our estimate of SAR 34.6mn. The operating margin contracted by 40bps Y/Y to 18.6%, as the impact lower GP margin was partially offset by lower OPEX.

AJC View: Budget Saudi's Q3-20 result despite of the Y/Y drop was promising. The top line was supported by the lifting of lockdown, as business activities gained momentum. Short-term rentals and used vehicle sales showed signs of recovery during the quarter. We expect further improvement in the short-term rentals business in coming quarters, with more relaxation in travel restrictions and gradual resumption of Umrah pilgrimage. Meanwhile, the relatively resilient long-term leasing business (~49% of FY19 revenue and 65% of fleet size) should continue to stay robust. Additionally, better utilization of fleet should support the company in gaining operating efficiencies and it would reflect in margins expansion. Overall, we believe that, even though, it will take time to get back to pre-COVID-19 situation, operating conditions for the company should improve in the near future. The stock is currently trading at P/B of 2.3x to our FY20 estimates and 2.2x to our FY21 estimates. We maintain our "Neutral" recommendation, while revise TP to **SAR 34.3/share** on Budget Saudi.

Results Summary

SARmn (unless specified)	Q3-19	Q2-20	Q3-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	256	188	228	-10.9%	21.3%	7.6%
Gross Profit	77	46	65	-16.3%	41.2%	12.3%
<i>Gross Margin</i>	<i>30.2%</i>	<i>24.4%</i>	<i>28.4%</i>	-	-	-
EBIT	49	24	42	-12.8%	80.0%	22.7%
Net Profit	45	23	40	-10.6%	79.1%	26.3%

Source: Company reports, Aljazeera Capital

Neutral

Target Price (SAR) **34.3**

Upside / (Downside)* **-9.2%**

Source: Tadawul *prices as of 22nd of October 2020

Key Financials

SARmn (unless specified)	FY19	FY20E	FY21E
Revenues	1,043.5	922.6	1,047.1
Growth %	0.2%	-11.6%	13.5%
Net Income	178.6	148.3	167.2
Growth %	5.1%	-17.0%	12.8%
EPS	2.51	2.08	2.35

Source: Company reports, Aljazeera Capital

Key Ratios

	FY19	FY20E	FY21E
Gross Margin	28.5%	27.6%	27.1%
Net Margin	17.1%	16.1%	16.0%
P/E (x)	14.5	18.1	16.1
P/B (x)	2.2	2.3	2.2
EV/EBITDA (x)	3.9	3.5	3.3

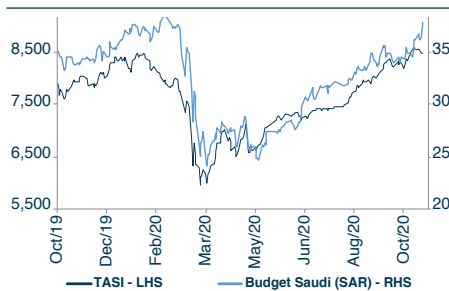
Source: Company reports, Aljazeera Capital

Key Market Data

Market Cap (bn)	2.7
YTD %	3.6%
52 Week High/ Low	39.2/23.1
Shares Outstanding (mn)	71.2

Source: Company reports, Aljazeera Capital

Price Performance



Source: Tadawul, Aljazeera Capital

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- 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.
- 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.
- 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.
- 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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