



United International Transportation Co. (Budget Saudi)'s net profit grew 9.3% Y/Y to SAR 45.5mn in Q1-20, ahead of our estimate of SAR 34.9mn. This deviation from our estimate was primarily owing to higher-than-expected proceeds from sale of vehicles, which enabled revenue to increase 6.7% Y/Y to SAR 276.7mn, above our estimate of SAR 239.1mn. We maintain our **"Neutral"** recommendation on the stock, while lower TP to **SAR 27.2/share** from SAR 36.4/share earlier.

- Budget Saudi posted net income of SAR 45.5mn (+9.3% Y/Y) in Q1-20, above AJC's estimated net profit of SAR 34.9mn. The bottom-line growth was attributed to revenue growth of 6.7% Y/Y driven by increased sale of used vehicles, partly offset by the provision of SAR 8.9mn for bad debts during the quarter. Going forward, we expect provisions for loss of trade receivables to increase, particularly in the corporate leasing segment, adversely affecting net profit.
- Revenue for Q1-20 increased 6.7% Y/Y to SAR 276.7mn, against our estimate of SAR 239.1mn. The growth was driven by increased proceedings from sale of vehicles, as momentum in demand for used vehicles continued from the previous quarter. Additionally, sales value of vehicles also remained high amid strong demand. However, we expect revenue to be under pressure over the next two quarters, as both retail and corporate leasing businesses are likely to be adversely impacted by the precautionary measures implemented to contain the spread of COVID-19.
- Gross profit for the quarter jumped 14.2% Y/Y to SAR 81.7mn, against our estimate of SAR 62.4mn. The GP margin improved by ~200bps to 29.5%, as increase in cost of sales (3.8% Y/Y) was comparatively moderate.
- Operating profit rose to SAR 47.9mn (+9.4% Y/Y) in Q1-20, above our estimate of SAR 37.6mn. Operating margin expanded by 40bps Y/Y to 17.3%.

**AJC View:** Budget Saudi's Q1-20 result was better than our expectations due to higher sale of used cars; however, we expect the next two quarters to be challenging for the company's core leasing business. The short-term rental business (~26% of FY19 revenue and 35% of fleet size) is expected to be impacted significantly due to lockdown and travel ban to curb COVID-19 spread. Even after the lifting of lockdown, rentals are expected to be lower; hence, revenue would remain muted. On the other hand, the long-term leasing business (~49% of FY19 revenue and 65% of fleet size) is likely to be hit on account of loss of trade receivables; thus, provision against these losses might impact earnings in the next few quarters. We believe that Budget Saudi's earnings would remain under pressure in Q2-20 and Q3-20, while there might be some recovery in business in Q4-20. We maintain our recommendation on Budget Saudi at **"Neutral"**, but lower TP to **SAR 27.2/share** from SAR 36.4/share previously.

## Results Summary

SARmn (unless specified)	Q1-19	Q4-19	Q1-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	259	274	277	6.7%	1.0%	15.7%
Gross Profit	72	75	82	14.2%	9.0%	31.0%
<i>Gross Margin</i>	<i>27.6%</i>	<i>27.3%</i>	<i>29.5%</i>	-	-	-
EBIT	44	50	48	9.4%	-4.9%	27.7%
Net Profit	42	48	45	9.3%	-5.9%	30.3%

Source: Company reports, Aljazira Capital

## Neutral

Target Price (SAR) **27.2**

Upside / (Downside)\* **-3.9%**

Source: Tadawul \*prices as of 22<sup>nd</sup> of June 2020

### Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenues	1,041.0	1,043.5	759.4
Growth %	-11.3%	0.2%	-27.2%
Net Income	170.0	178.6	126.1
Growth %	13.7%	5.1%	-29.4%
EPS	2.39	2.51	1.77

Source: Company reports, Aljazira Capital

### Key Ratios

	FY18	FY19	FY20E
Gross Margin	26.4%	28.5%	28.0%
Net Margin	16.3%	17.1%	16.6%
P/E	11.0x	14.5x	16.0x
P/B	1.7x	2.2x	1.7x
EV/EBITDA (x)	2.7x	3.9x	3.2x

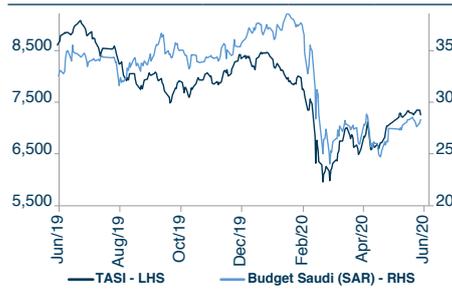
Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (bn)	2.0
YTD %	-23.2%
52 Week High/ Low	39.2/23.1
Shares Outstanding (mn)	71.2

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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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.

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