

United International Transportation Co. (Budget Saudi)'s net profit plunged 48.1% Y/Y to SAR 22.6mn in Q2-20, largely in line with our estimate of SAR 20.4mn. The decline in net income was due to a steep fall in revenue and the subsequent contraction of the operating margin. Revenue for Q2-20 dropped 26.3% Y/Y to SAR 187.7mn, above our estimate of SAR 139.4mn, as short-term rental revenue and sale of vehicles were hit by the COVID-19-led lockdowns. We maintain our "Neutral" recommendation and TP of SAR 30.0/share on the stock.

- Budget Saudi posted net income of SAR 22.6mn (-48.1% Y/Y) in Q2-20, broadly in line with our estimate of SAR 20.4mn. The significant contraction in the bottom line was attributed to a decline in revenue due to the lack of commercial activity during the pandemic-led lockdown. We believe the company's net profit is likely to remain under pressure in FY20, while some recovery could be expected in H2-20 with the gradual resumption of commercial activities and domestic flights.
- Revenue for Q2-20 decreased 26.3% Y/Y to SAR 187.7mn, against our estimate of SAR 139.4mn. The top line was primarily impacted by the significant drop in utilization in short-term rentals due to the lack of commercial activity amid the lockdown. Vehicle sales were also hit by the lockdown, as the company could not sell all the vehicles due for sale in Q2-20.
- Gross profit (GP) for the quarter fell 37.8% Y/Y to SAR 45.8mn, against our estimate of SAR 37.6mn. The GP margin contracted by ~450bps to 24.4% as the cost of sales (-21.5% Y/Y, SAR 141.9mn) declined at a slower pace than revenue.
- Operating profit decreased 49.1% Y/Y to SAR 23.6mn in Q2-20, in line with our estimate of SAR 22.4mn. The operating margin contracted by 560bps Y/Y to 12.6%, despite a decline of 18.9% in OPEX, due to substantially less utilization of the company's fleet size.

AJC View: The adverse impact of the pandemic, the subsequent lockdown, and lack of commercial activities at airports undermined Budget Saudi's Q2-20 performance. We expect the short-term rental business (~26% of FY19 revenue and 35% of fleet size) to remain under pressure, despite a lifting of the lockdown, as it will take time for commercial activities to resume. Meanwhile, the relatively less affected long-term leasing business (~49% of FY19 revenue and 65% of fleet size) is also likely to be hit because of a loss of trade receivables; thus, a provision against these losses might impact earnings in the next few quarters. Overall, we believe Budget Saudi's earnings would remain under pressure in Q3-20 as well, while there might be some recovery in business in Q4-20. We maintain our recommendation on Budget Saudi at "Neutral" and TP at SAR 30.0/share.

Results Summary

SARmn (unless specified)	Q2-19	Q1-20	Q2-20	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	254	277	188	-26.3%	-32.2%	34.6%
Gross Profit	74	82	46	-37.8%	-43.9%	21.9%
<i>Gross Margin</i>	<i>29.0%</i>	<i>29.5%</i>	<i>24.4%</i>	-	-	-
EBIT	46	48	24	-49.1%	-50.9%	5.1%
Net Profit	43	45	23	-48.1%	-50.3%	10.6%

Source: Company reports, Aljazeera Capital

Neutral

Target Price (SAR) 30.0

Upside / (Downside)* -6.4%

Source: Tadawul *prices as of 26th of July 2020

Key Financials

SARmn (unless specified)	FY18	FY19	FY20E
Revenues	1,041.0	1,043.5	714.8
Growth %	-11.3%	0.2%	-31.5%
Net Income	170.0	178.6	113.7
Growth %	13.7%	5.1%	-36.3%
EPS	2.39	2.51	1.60

Source: Company reports, Aljazeera Capital

Key Ratios

	FY18	FY19	FY20E
Gross Margin	26.4%	28.5%	28.0%
Net Margin	16.3%	17.1%	15.9%
P/E	11.0x	14.5x	17.7x
P/B	1.7x	2.2x	1.7x
EV/EBITDA	2.5x	2.7x	3.9x

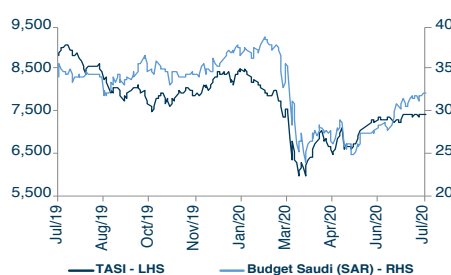
Source: Company reports, Aljazeera Capital

Key Market Data

Market Cap (bn)	2.3
YTD %	-12.2%
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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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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