United International Transportation Co. (Budget Saudi)

Investment Update

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Budget reported a strong set of Q4-18 earnings, significantly above AJC estimates and consensus. Net income came at SAR 46.5mn (SAR 0.65 EPS) against our estimates and consensus of SAR 39.1mn and SAR 40.9mn respectively. Improved operational efficiency and cost optimization plans, leading to a higher GP margins. We note that upcoming FY19 earnings are expected to exhibit similar margin expansion to FY18 earnings, resulting from an improved utilization rate. Continued decline from rental revenue is a source of concern. We update our recommendation to "**Overweight**" on the company with a revised TP of SAR 32.5 per share.

- Budget in Q4-18 reported net income of SAR46.5mn (SAR0.65 EPS) compared to SAR21.6mn for the same quarter last year (115.3%Y/Y, 7.9%Q/Q). It is worth mentioning that 4Q17 included an impairment of associate of SAR14.9mn, lowering the comparison base (as normalized earnings was at SAR36.5mn. Higher earnings was supported by improved business efficiency resulting from improved fleet utilization rate. Earnings for FY19 are estimated to slightly increase by 4.5%Y/Y on the back of higher utilization rate resulting from stronger demand attributed to expansion in untapped regions (northern and southern regions).
- Revenue for the quarter stood at SAR258.1mn compared to SAR309.8mn for the same quarter last year (16.7%Y/Y and 1.5%Q/Q decline), indicating a continued decline from rental and lease revenue which remains a concern for the company. Revised FY19 revenue are estimated to at SAR1,093.0mn (5.0%Y/Y increase).
- COGS stood at SAR182.8mn compared to SAR242.0mn (24.5%Y/Y decrease), indicating cost optimization plans which led to margin expansions. Gross profit increased 11.1%Y/Y to SAR75.3mn. Gross margins stood at 29.2% up from 27.2% from previous quarter and 21.9% for the same quarter last year. OPEX stood at SAR28.2mn compared to SAR26.2mn. FY19, gross margin is estimated to stand at 26.0%.

AJC View: Lease revenue is expected to partly offset the downfall in rental revenue. However, expansions in untapped regions (Northern and southern regions) on the back of a higher utilization rate is the key catalyst going forward. According to budget, the impact of Saudi women driving would revive the market and boost the demand for rental services in the long term. Revised FY19 EPS is estimated to stand at SAR2.50 per share at an estimated forward PE and PB multiples of 11.2x and 1.8x respectively. We update our recommendation to "**Overweight**" with a revised TP of **SAR32.5 per share**.

Results Summary

SARmn (unless specified)	Q4-17	Q3-18	Q4-18	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	**309.8**	**262.0**	**258.1**	-16.7%	-1.5%	-18.3%
Gross Profit	67.8	71.2	75.3	11.1%	5.7%	3.6%
Gross Margin	*21.9%*	*27.2%*	*29.2%*	-	-	-
EBIT	50.2	46.5	50.8	1.2%	9.2%	10.4%
Net Profit	21.6	43.1	46.5	115.3%	7.9%	18.9%
EPS	0.30	0.61	0.65	116.7%	6.6%	18.2%

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Overweight

Target Price (SAR)	**32.5**
Upside / (Downside)*	**15.6%**

Source: Tadawul *prices as of 31st of January 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	1,173.2	1,041.0	1,093.0
Gross Profit	262.6	275.1	284.2
Net Profit	149.5	170.0	177.7
EPS	2.10	2.39	2.50

Source: Company reports, Aljazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18	FY19E
Gross Margin	22.4%	26.4%	26.0%
Net Margin	12.9%	16.3%	16.2%
P/E	13.0x	11.0x	11.2x
P/B	1.8x	1.7x	1.8x
Dividend Yield	5.5%	5.7%	5.3%

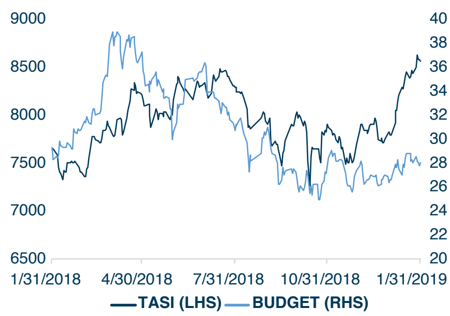
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	2,085.3
YTD %	6.64%
Shares Outstanding (mn)	71.17
52 Week High/ Low	40.3/24.5

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

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.

Disclaimer