



Budget Saudi posted net income of SAR 45.2mn (SAR 0.64 EPS), in absolute line with our estimate of SAR 45.2mn. The increase in net profit is driven by better utilization of short term car rentals coupled with increase in the net car sale gain as a result of the improved mode of sales to individual and bulk buyers. Increased tourism spending is anticipated to boost rental revenues, while introduction of e-payments and aggressive marketing operations are likely to add buyers in the pre-owned car sales segment. We maintain our **"Neutral"** rating on the stock with a TP of **SAR 36.4/share**.

- Budget Saudi recorded a net income of SAR 45.2mn in Q3-19 (EPS of SAR 0.64); up 4.8% Y/Y and 4.1% Q/Q. Net profit for Q3-19 was in-line with our estimate of SAR 45.2mn. The Y/Y increase was mainly due to optimum utilization of short term car rentals and increase in margins in pre-owned car sales segment. The rise in margins in pre-owned car segment has resulted from consistent better conditions and mix of the vehicles, in addition, to an improved mode of sales to individual and bulk buyers.
- The company's revenue totaled SAR 255.6mn in Q3-19, down 2.4% Y/Y; while rising 0.5% Q/Q; it was below our estimate of SAR 265.4mn. Decline in the top-line is attributed to long term car rental segment as it continues to drag, dropping 6.2% Y/Y. Moreover, vehicle sales segment also declined 13.0% Y/Y. However, short term rental continue to rise as increase in tourism and seasonality factor contributed to a 19.7% Y/Y rise in the segment.
- Gross profit stood at SAR 77.2mn, up 8.5% Y/Y and 4.8% Q/Q; it was in-line with our estimate of SAR 77.0mn. However, the GP Margin surged to 30.2% in Q3-19 from 27.2% in Q3-18, coming in above our estimate of 29.0%.
- Operating profit stood at SAR 48.6mn, up 3.1% Y/Y and 5.2% Q/Q. OPEX rose 19.0% Y/Y to SAR 28.6mn from SAR 24.0mn in Q3-18, coming in line with our estimate of SAR 28.6mn. It increased due to higher administrative expenses which rose by 40.8% Y/Y.

AJC view: In Q3-19, Budget Saudi managed to increase its net income despite a decline in its top-line, mainly due to escalation in margins in the short term rental and vehicle sales segment. The long term rental segment continues to adversely affect the top-line and this may continue in the next couple of quarters. The key revenue drivers in the long term lease rental could be reduced annual payments, a lower upfront cash outlay and an extensive variety of car selection that increase the customer base and market share of Budget Saudi. Margin improvements can be realized from trivial maintenance costs and better fleet management.

We value Budget on DCF (3.0% terminal growth and 7.6% WACC), yielding the TP of SAR 36.4 per share, implying 5.4% upside from current levels. The stock is currently trading at a P/E of 13.4x, based on our FY19 EPS estimate. We maintain our **"Neutral"** rating on Budget Saudi with a TP of **SAR 36.4/share**.

| SARmn | Q3-18 | Q2-19 | Q3-19 | Change Y/Y | Change Q/Q | Deviation from AJC Estimates |
|---------------------|---------------|---------------|---------------|-------------|-------------|------------------------------|
| Revenue | 262.0 | 254.5 | 255.6 | -2.4% | 0.5% | -3.7% |
| Gross Profit | 71.2 | 73.7 | 77.2 | 8.5% | 4.8% | 0.3% |
| <i>Gross Margin</i> | <i>27.18%</i> | <i>28.96%</i> | <i>30.20%</i> | - | - | - |
| EBIT | 47.2 | 46.3 | 48.6 | 3.1% | 5.2% | 0.4% |
| Net Profit | 43.2 | 43.5 | 45.2 | 4.8% | 4.1% | 0.0% |
| EPS | 0.61 | 0.61 | 0.64 | - | - | - |

Source: Company Reports, Aljazeera Capital

Neutral

| | |
|----------------------|------|
| Target Price (SAR) | 36.4 |
| Upside / (Downside)* | 5.4% |

Source: Tadawul *prices as of 29th of October 2019

Key Financials

| SARmn (unless specified) | FY17 | FY18 | FY19E |
|--------------------------|---------|---------|---------|
| Revenues | 1,173.2 | 1,041.0 | 1,055.2 |
| Growth % | -0.8% | -11.3% | 1.4% |
| Net Income | 149.5 | 170.0 | 185.0 |
| Growth % | -12.1% | 13.7% | 8.8% |
| EPS | 2.10 | 2.39 | 2.60 |

Source: Company reports, Aljazeera Capital

Key Ratios

| | FY17 | FY18 | FY19E |
|----------------|-------|-------|-------|
| Gross Margin | 22.4% | 26.4% | 29.4% |
| Net Margin | 12.7% | 16.3% | 17.5% |
| P/E | 16.5x | 14.5x | 13.4x |
| P/B | 2.3x | 2.2x | 2.0x |
| EV/EBITDA (x) | 2.2x | 2.6x | 3.5x |
| Dividend Yield | 4.3% | 6.0% | 3.4% |

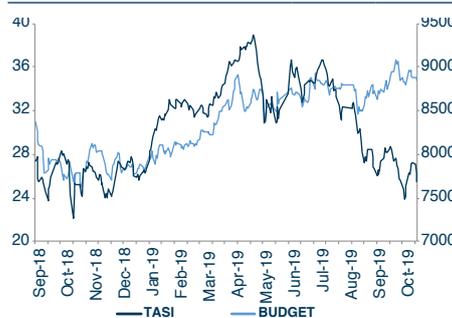
Source: Company reports, Aljazeera Capital

Key Market Data

| | |
|-------------------------|-------------|
| Market Cap (bn) | 2.47 |
| YTD % | +31.9% |
| 52 Week High/ Low | 36.95/25.30 |
| Shares Outstanding (mn) | 71.17 |

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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