alinma capital

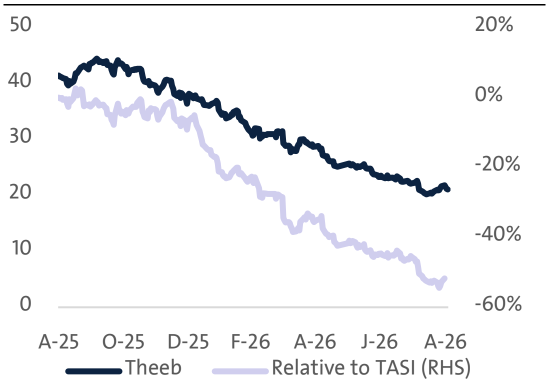
Worst of earnings period is behind us; Reiterate Buy (TP: SAR37)

Recommendation	BUY
Market Price	21.07
Target Price	37.0
Upside/Downside	76%

Stock Data

Market Cap Total/FF (SARmn)	1,390/1,010
Shares Total/FF (mn)	66/48
52 Week Hi-Low(SAR)	44.4/20.2
3/6/12 M Volume Traded (mnsh)	0.13/0.18/0.45
3/6/12 M Value Traded (USDmn)	1.5/1.8/3.3
3/6/12 M Relative Performance (%)	-15/-30/-49%

Theeb Stock Price Performance VS TASI



Source: AIC

Muhammad Fawad Khan, CFA
Head of Research
mfkqadri@alinmacapital.com

Alinma Capital Company
Al Anoud Tower 2, King Fahad Road,
Riyadh 11544, Kingdom of Saudi
Phone: 011 494 8899
Website: www.alinmacapital.com

Theeb: Is the worst behind us? We reckon so

We strongly believe the worst of the earnings period for Theeb Rent a Car Company (Theeb) is behind us and eye a sharp recovery in earnings starting 3Q26. Theeb faced an unusually challenging earnings environment in 1H26, dictated by geopolitical risks, changes in the company's ECL criteria, and losses in the used car sales segment. These factors are further compounded by typical seasonality in rental demand. We expect the earnings environment to improve from the lows seen in 1H26. We have adjusted our earnings estimates by -42/1/8/2 for 2026/27/28/29 respectively and have cut our TP to SAR37 (-5%). Reiterate Buy on Theeb.

Key positive takeaways beyond the negative earnings surprise

Beyond the negative earnings surprise in 1H26, we believe there are a number of positive takeaways from the company's 1H26 results: (i) Theeb has expanded its fleet size by 12% since Dec-25,(ii) revenue backlog in the leasing segment is up 11% since Dec-25 (35% including 1H26 lease revenues), (iii) continued investment in branch network in key demand centers across the Kingdom and opened its first overseas branch, (iv) EBITDA adjusted for ECL charges remains healthy and came in at SAR369mn in 1H26 (+3%).

Receivables build-up and slow recoveries portend elevated ECL charges in 2H

Theeb's elevated ECL charge in 1H26 stems from a higher receivables balance, aging of credit balance to buckets with higher ECL charge due to slow recoveries, and tweaking of the company's ECL criteria. Management has highlighted the possibility of two more quarters of unusually high ECL charges. Our new estimates build in average of 17% ECL charges vs 16% before.

Valuations are undemanding and factor in current soft industry dynamics

Theeb's valuation is undemanding following a 47% underperformance in 12-months vs TASI index (36% against its peers). Theeb trades at 7.1x 2027E P/E and 4.3x EV/EBITDA, an 11% and 3% discount to peers' respective multiples. We continue to see the possibility of resumption of cash dividends with the announcement of 4Q26 results.

1H26 Highlights: ECL charges account for 32% of operating profit

Theeb's 1H26 earnings dropped by 45% YoY due to: (i) lower utilization in rental segment, (ii) negative margin in car sales, and (iii) significant uptick in ECL (150%).

Theeb: Financial Highlights (SARmn)

Year to Dec	CY24	CY25	CY26E	CY27E	CY28E	CY29E
Revenues	1303	1497	1696	1886	1971	2026
Growth	14.7%	14.9%	13.3%	11.2%	4.5%	2.8%
PAT	183	180	101	196	215	225
EPS (SAR)	2.8	2.7	1.5	3.0	3.3	3.4
Growth	29%	-1%	-44%	95%	10%	4%
DPS (SAR)	1.4	1.3	0.0	1.5	1.6	1.7
P/E (X)	7.6	7.7	13.8	7.1	6.5	6.2
D/Y (%)	6.5%	6.4%	0.0%	7.0%	7.7%	8.1%
P/BV	1.2	1.7	1.5	1.4	1.3	1.1

Source: Theeb, AIC Estimates

We have revised our earnings estimates for Theeb based on the latest 1H26 results and management feedback on the company's performance.

Summary of Estimate Changes

We have revised our earnings estimates for Theeb based on the latest 1H26 results and management feedback on the company's performance. The following factors have largely impacted our earnings estimates:

Theeb: Summary of estimate changes

	2026E	2027	2028	2029	TP
New	100.5	196.1	215.2	224.8	36.9
Old	172.0	194.0	199.0	220.0	39.0
%	-42%	1%	8%	2%	-5%

Source: AIC Estimates

- Theeb's elevated ECL charge in 1H26 stems from higher receivables balance, aging of credit balance into buckets with higher ECL charges due to slow recoveries and tweaking of the company's ECL criteria. Management has highlighted the possibility of two more quarters of unusually high ECL charge. Our new estimates build in an average 17% ECL charge now vs 16% earlier. We have increased the receivables days for the company from 105 days to 110 days.
- Theeb's ECL charge on credit balances overdue by over 360-days was 71%, vs 33% for Budget and 26% for Lumi. ECL provisioning for both Budget and Lumi jumped 126% and 120% YoY in 1H26 vs 155% for Theeb's.
- We have accounted for the 12% expansion in the company's fleet size in 1H26, particularly driven by the leasing segment.
- We have updated our estimates for the actual losses in the car sale segment in 1H26. Theeb's losses in 2Q26 in car sale segment exceeded our estimates.

Key highlights of 1H2026 results

- Revenues jumped 19%: Theeb's headline revenues grew by 19% YoY in 1H26, driven by leasing (+24%) and car sales (+38%) segments. The performance of the short-term segment was dragged down by a weak demand backdrop due to geopolitical risks. Theeb's has maintained its growth momentum in fleet size and expanded its fleet by 12% in 1H26, taking growth in fleet size to 108% since 2022.
- The average fleet size in the leasing segment recorded a remarkable 26% YoY growth in 1H26. Average rates on both leasing and rental remained healthy based on average vehicles leased or rented. However, margins on car sales have faced significant headwinds in 1H26.
- The details on the company's backlog growth are encouraging. Theeb has grown its backlog by net SAR566mn, implying revenue coverage of 2.3 years. Transport delivery (App) accounted for 19% of total backlog, up from 10% in Dec-25.
- The cost of revenue (adjusted for depreciation and the cost of used car sales) is up 16%, which is in line with the growth in fleet size

- While G&A and Selling expenses are stable YoY at 3% in 1H26, the quarterly trend exhibited significant growth (17% QoQ), which we believe is associated with branch expansion and consultancy fees.
- ECL charge has increased to SAR49mn in 1H26, up 150% YoY, and has eaten away 32% of the company's operating profitability before ECL charges.
- Theeb's EBITDA, which also accounts for ECL charge, is down 4% YoY in 1H26. Adjusted for ECL charge, EBITDA has recorded healthy growth of 5% YoY.
- Theeb's earnings have dropped by 45% YoY in 1H26. 1H26 earnings constitute 46% of the revised 2026 earnings estimate.

Theeb: 1H2026 Result Review

SARmn	1Q26	2Q26	QoQ	1H25	1H26	YoY
Revenues	410	425	4%	702	834	19%
-Short-term rentals	126	123	-2%	246	249	2%
-Long-term lease	188	196	5%	309	383	24%
-Used Car Sale	96	105	10%	146	201	38%
Cost of Revenue-adjusted	78	83	6%	139	161	16%
Gross Profit	119	110	-8%	231	229	-1%
ECL	22	27	26%	20	49	150%
G&A & Selling	33	39	17%	71	73	3%
Operating Profit	62	43	-30%	144	105	-28%
EBITDA	171	156	-9%	340	327	-4%
Net Profit	34	16	-52%	93	51	-45%
Margin						
Gross Margin	29%	26%	-3%	33%	28%	-5%
EBITDA Margin	42%	37%	-5%	48%	39%	-9%
Net Margin	8%	4%	-5%	13%	6%	-7%
Rental						
Rate (SAR/Day)	149	149	0%	147	149	2%
Rented Fleet (x)	9,414	9,166	-3%	9,308	9,290	0%
Utilization	69%	66%	-3%	71%	67%	-4%
Lease						
Rate (SAR/Day)	72	72	0%	73	72	-2%
Average Fleet (x)	29,046	30,338	4%	23,505	29,692	26%
Utilization	96%	95%	-1%	98%	96%	-2%
Car Sale						
Vehicle sold	2,677	2,821	5%	2,034	2,749	35%
Margin	-7%	-13%		7%	-10%	

Source: Theeb, AIC

Theeb-Investment Thesis and Risks

Our Buy rating is predicated on: (i) Theeb's actual average fleet size is up 12% YoY in 1H26 and should provide significant lift to EBITDA in 2026/2027, (ii) Theeb's extensive branch network and the company's sales profile in rental segment, (iii) the backdrop for growth in the car leasing and rental segments remain positive despite near-term impact from the ongoing geopolitical issues, and (iv) significant valuation discount under our revised assumptions on ECL (40% discount to average P/BV since listing) and recent stock price performance.

Key risks to our investment thesis stem from: (i) worsening of current geopolitical risks, (ii) competition in rental segment, and (iii) ECL charge above our expected range.

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA** the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

Rating Methodology

Alinma Capital Company (ACC) follow a four-tier rating system based on total return methodology as per following details

>+15% Total Return: Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

5-15%: Stocks with total return between 5-15% can be classified as Buy or Neutral.

>-5%<+5% total return: Stocks with total return between -5+5% can be classified as Neutral or Underperform

Underperform-Stocks which are expected to have <-5% total return

Not Covered: AIC has not assigned any rating on the stock

Coverage Suspended: AIC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Price data for the listed securities is based on 02 September, 2026.

Disclaimer

The published reports are for general information purposes to present a view on the company/economic sector/economic subject under research, and should not be considered a recommendation to buy/sell/hold for any security or any other assets. This report does not take into consideration the specific financial position of every investor and/or his/her risk appetite in relation to investing in the security or any other assets, and hence, may not be suitable for all clients depending on their financial position and their ability and willingness to undertake risks. It is advised that every potential investor seek professional advice from several sources concerning investment decision and should study the impact of such decisions on his/her financial/legal/tax position and other concerns before getting into such investments or liquidate them partially or fully. The market of securities, macroeconomic or microeconomic variables are of a volatile nature and could witness sudden changes, therefore, the investor in securities or other assets might face some unexpected risks and fluctuations. All the information, views and expectations and fair values or target prices contained in this report have been compiled or arrived at by Alinma Capital company from sources believed to be reliable, but Alinma Capital company has not independently verified the contents obtained from these sources and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. Alinma Capital company shall not be liable for any loss as that may arise from the use of this report or its contents or otherwise arising in connection therewith. The past performance of any investment is not an indicator of future performance. Any financial projections, fair value estimates or price targets and statements regarding future prospects contained in this document may not be realized. The value of the security or any other assets or the return from them might increase or decrease. Any change in currency rates may have a positive or negative impact on the value/return on the securities mentioned in the report. The investor might get an amount less than the amount invested in some cases. Some securities maybe, by nature, of low volume/trades or may become like that unexpectedly in special circumstances and this might increase the risk on the investor. Some fees might be levied on some investments in securities. This report has been written by professional employees in Alinma Capital company, and they might be holding positions directly in any securities and mutual funds contained in this report during the time of publication of this report, This report has been produced independently and separately by the Research Division at Alinma Capital company and no party (in-house or outside) who might have interest whether direct or indirect have seen the contents of this report before its publishing, except for those whom corporate positions allow them to do so, and/or third-party persons/institutions who signed a non-disclosure agreement with Alinma Capital company. Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document. Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document or its subsidiaries may own securities in one or more of the aforementioned companies, and/or indirectly through funds managed by third parties. The Investment Banking division of Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document maybe in the process of soliciting or executing fee earning mandates for companies that is either the subject of this document or is mentioned in this document. One or more of Funds managed by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document board members or executive managers could be also a board member or member of the executive management at the company or companies mentioned in this report, or their associated companies. No part of this report may be reproduced whether inside or outside the Kingdom of Saudi Arabia without the written permission by Alinma Capital company and its subsidiaries for third parties may own the securities that are the subject of this document.

Alinma Capital, a Saudi closed joint stock company under CR No. 1010269764 and the Capital Market Authority License No.37-09134.