August 2019

United International Transportation Co.(BUDGET SAUDI)

Investment Update

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Budget Saudi posted Q2-19 earnings in line with estimates. Revenue growth is expected to be driven by improvement in short-term car rentals and increased focus on pre-owned car sales in the revenue mix. Saudization in car rental offices and increased tourism spending are 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.

Uptick in short-term rental and sale of used cars drive revenues in Q2-19: Budget Saudi posted revenue of SAR 254.5mn in Q2-19, in line with AJC's estimate of SAR 251.2mn. Revenue grew 1.5% Y/Y, majorly driven by a 21.1% Y/Y rise in short-term rentals, which was supported by the holiday season in the Kingdom. Additionally, vehicle sales grew 9.5% Y/Y as the number of buyers doubled on account of increased marketing campaigns and introduction of e-payment services. However, long-term lease revenue continued its downtrend for the third consecutive quarter as it fell 9.3% Y/Y. We expect short-term rental revenue to rise at a CAGR of 10.8% during FY18–24, while long-term lease and gain on sales are estimated to register a CAGR of 4.4% and 4.2%, respectively.

Change in revenue mix to boost margins: The gross profit margin increased on Y/Y basis in Q2-19 to 29.0% from 25.4%, primarily driven by a rise in the sale of pre-owned cars, which accounted for over 70.0% of the company's gross profit. Moreover, operating margins rose to 18.2% in Q2-19 from 17.8% in Q2-18. The decline in the number of branches and optimum fleet utilization over the recent quarters contributed to the increase in margins. The number of cars per branch significantly improved to 335 cars per branch in 2018 from 257 in 2013, directly contributing to the rise in margins. Better fleet management and the decelerating maintenance cost are likely to help improve the margins.

Saudization in car rental offices to bode well for company: The car rental industry is highly fragmented with unorganized operators dominating the market. Localization in the car rental office segment is expected to lead to consolidation in the sector. We forecast short-term rental per car to rise 1.4% Y/Y to SAR 27,975.4 in FY-19 from SAR 27,589.1 in FY-18. Long-term lease is set to increase 1.0% Y/Y in FY19 to SAR 26,184.5 per car from SAR 25,925.3 in FY-18.

Growing foothold in existing market, while opportunities in untapped regions: Saudi Budget is the largest car rental operator in the Kingdom. Given the company's strong network of more than 88 rental offices and a fleet of over 29,000 vehicles it benefits from a strong domestic presence.

The western region, with 48 sites, contributed 45.0% to the company's revenue in 2018, while the central (23 sites) and eastern (17 sites) regions account for 29.0% and 26.0% of revenues, respectively. The western region is anticipated to spur the company's growth with the influx of religious visitors due to the presence of cities such as Mecca and Medina as well as universities and institutions in this region, which also pushes demand for car rental and leasing services. Saudi Budget would seek to increase its revenue share from the central region owing to presence of high commercial and industrial activities in this region. Given the increase in population and commercial activities, the southern and northern regions are predicted to offer expansion opportunities for the company.

Neutral

Target Price (SAR)	**36.4**
Upside / (Downside)*	**6.5%**

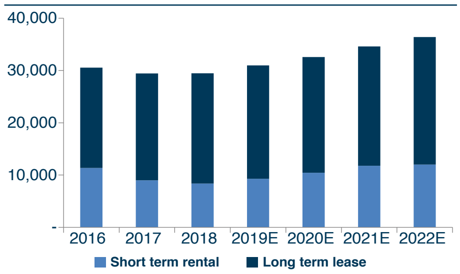
Source: Tadawul *prices as of 6 of August 2019

Key Financials

SARmn (unless specified)	FY17	FY18	FY19E
Revenue	1,173.2	1,041.0	1,055.2
Change(%)	-0.8%	-11.3%	1.4%
Gross Profit	262.6	275.1	309.9
Net Profit	149.5	170.0	188.2
Change(%)	-12.2%	13.8%	10.8%
EPS	2.10	2.39	2.6

Source: Company reports, Aljazira Capital

Fleet size



Source: Bloomberg, AlJazira Capital

Key Ratios

SARmn (unless specified)	FY17	FY18E	FY19E
Gross Margin	22.38%	26.43%	29.37%
Net Margin	12.74%	16.33%	17.84%
P/E	16.2x	14.2x	12.9x
P/B	2.3x	2.1x	2.0x
EV/EBITDA (x)	2.2x	2.6x	3.4x
Dividend Yield	4.3%	4.2%	3.48%

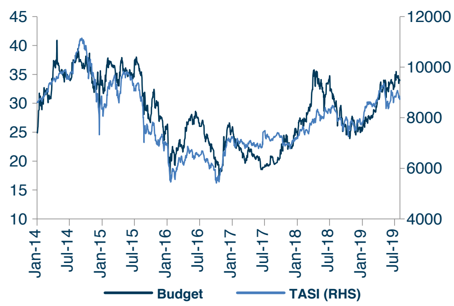
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	2.4
YTD %	29.8%
52 Week (High / Low)	36.0/24.5
Shares Outstanding (mn)	71.17

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Tourism spending to bolster car rental segment: According to a report by Envision Intelligence, the Middle East and Africa's vehicle rental market was valued at USD 81.61bn in 2018 and estimated to reach USD 157.45bn in 2024, registering a CAGR of 16.59%. A recent study by KenResearch estimates the car rental market in Saudi Arabia would expand at a CAGR of nearly 6.1% from 2018 to 2023 fueled by a rise in the number of establishments and increased tourism. Business tourism spending in the Kingdom is set to rise at a CAGR of 8.5% to SAR 27.9bn in 2024 from SAR 17.2bn in 2018, while leisure tourism spending would advance at a CAGR of 6.4% to SAR 143.8bn from SAR 99.4bn during the same period. In view of the rise in tourism spending and the spike in demand due to religious and holiday seasons, rental revenue is likely to witness modest growth in the coming years.

Inclusion of women drivers and rise in personal spending to drive pre-owned car sales: The addition of 3.0million women drivers to the automotive market by 2020 is expected to increase revenue in the car sale segment and car rents. Moreover, the rise in private consumption in recent quarters (2.9% Y/Y growth in Q1-19) augurs well for the new and used car segments.

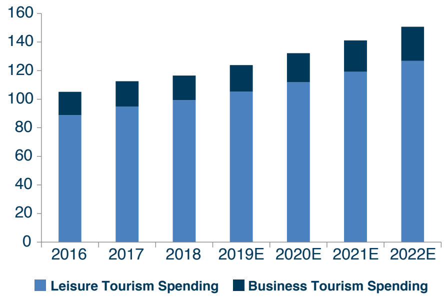
AJC View and Valuation: We believe Saudi Budget's IT platforms should be upgraded for better service experience, flexibility, and security to end users; this would largely contribute to the company's market growth. The key revenue drivers in the long term lease rental for the company could be reduced annual payments, a lower upfront cash outlay and an extensive variety of cars 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 target price of SAR36.4 per share, implying 6.5% upside from current levels. The stock is currently trading at a P/E of 14.2x, against our FY19 forward PE of 12.9x. We maintain "**Neutral**" rating on Budget Saudi.

	FY19F Dec-19	FY20F Dec-20	FY21F Dec-21	FY22F Dec-22	FY23F Dec-23	FY24F Dec-24
NOPLAT	200.0	210.2	219.8	232.7	248.3	258.6
Add: Depreciation & Amortization	481.9	492.8	504.1	516.2	529.0	541.0
Less: Changes in working capital	(29.9)	7.5	(5.3)	(11.1)	5.8	3.4
Less: Capex	(527.6)	(549.1)	(574.0)	(607.8)	(648.7)	(668.9)
Free Cash Flow to Firm (FCFF)	124.4	161.3	144.5	130.0	134.4	134.0
Year Fraction	0.40	1.40	2.40	3.40	4.40	5.40
Discount Factor	0.97	0.90	0.84	0.78	0.72	0.67
PV of FCFE	120.8	145.6	121.3	101.4	97.4	90.3

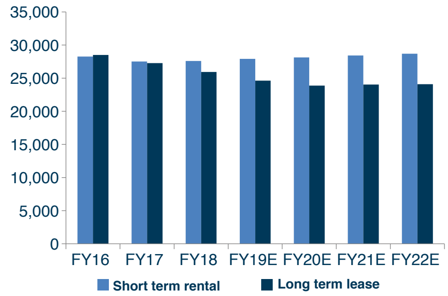
DCF valuation (SAR mn)	
Sum of Present Value	676.7
Terminal value	3,006.6
Present Value of Terminal	2,024.8
Enterprise Value	2,701.5
Less: Debt	(119.6)
Add: Cash	10.2
Equity Value pre-minorities	2,592.1
Less: Minorities	-
Equity Value post minorities	2,592.1
Number of Shares	71.17
Value/Share	36.4
Current Price	34.20
Upside/(Downside)	6.5%

Tourism spending (SAR bn)



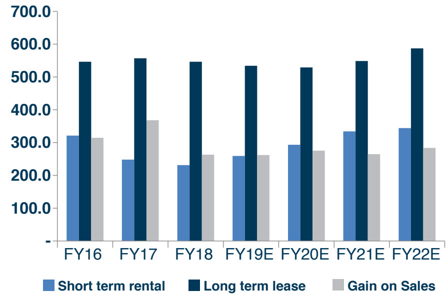
Source: WTCC, Aljazira Capital

Rental revenue per car (SAR)



Source: Company reports, Aljazira Capital

Operational revenue breakup (SAR mn)



Source: Company reports, Aljazira Capital

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Key Financial Data

Amount in SAR mn, unless otherwise specified	2016	2017	2018	2019E	2020E	2021E	2022E
Income statement							
Revenues	1,183	1,173	1,041	1,055	1,098	1,148	1,216
Y/Y growth	*35.1%*	*-0.8%*	*-11.3%*	*1.4%*	*4.1%*	*4.5%*	*5.9%*
Cost of Sales	903	911	766	745	775	810	857
Gross profit	**279**	**263**	**275**	**310**	**324**	**338**	**358**
Selling and distribution expenses	(31)	(31)	(41)	(43)	(45)	(47)	(49)
Administrative expenses	(54)	(53)	(56)	(69)	(71)	(74)	(79)
Other operating income	9	9	4	2	2	3	3
Operating profit	**202**	**187**	**183**	**200**	**210**	**220**	**233**
Y/Y growth	*-2.9%*	*-7.5%*	*-2.1%*	*9.5%*	*5.1%*	*4.6%*	*5.9%*
Financial charges	(16)	(11)	(8)	(5)	(4)	(5)	(6)
Income from Affiliate	(1)	(2)	0	(0)	-	-	-
Other income - net	-	-	-	-	-	-	-
impairment of investment in assocites	(7)	(15)	-	-	-	-	-
Profit before zakat	**178**	**159**	**175**	**195**	**206**	**215**	**227**
Zakat	(7)	(9)	(5)	(7)	(9)	(9)	(10)
Net income	**170**	**149**	**170**	**188**	**197**	**206**	**217**
Y/Y growth	*-9.9%*	*-12.2%*	*13.8%*	*10.8%*	*4.8%*	*4.5%*	*5.4%*
Balance sheet							
Assets							
Cash & bank balance	21	10	14	69	164	291	417
Other current assets	204	200	212	208	205	216	235
Property & Equipment	1,397	1,289	1,208	1,204	1,202	1,200	1,201
Other non-current assets	19	2	2	2	2	2	2
Total assets	**1,640**	**1,501**	**1,436**	**1,484**	**1,573**	**1,710**	**1,855**
Liabilities & owners' equity							
Total current liabilities	514	334	251	203	195	214	248
Total non-current liabilities	131	96	59	75	76	91	94
Paid -up capital	610	712	712	712	712	712	712
Statutory reserves	132	147	164	183	203	223	245
Retained earnings	253	211	250	335	424	517	614
Total owners' equity	995	1,070	1,126	1,230	1,338	1,452	1,571
Total equity & liabilities	**1,640**	**1,501**	**1,436**	**1,508**	**1,609**	**1,757**	**1,913**
Cashflow statement							
Operating activities	262	286	259	640	690	709	712
Investing activities	(2)	(3)	(5)	(476)	(486)	(497)	(509)
Financing activities	(261)	(293)	(250)	(109)	(110)	(85)	(77)
Change in cash	(1)	(11)	5	55	95	127	126
Ending cash balance	**21**	**10**	**14**	**69**	**164**	**291**	**417**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	0.4	0.6	0.9	1.4	1.9	2.4	2.6
Quick ratio (x)	0.4	0.5	0.8	1.2	1.7	2.2	2.4
Profitability ratios							
Gross profit margin	23.6%	22.4%	26.4%	29.4%	29.5%	29.5%	29.5%
Operating margin	17.1%	15.9%	17.5%	19.0%	19.1%	19.1%	19.1%
EBITDA margin	61.1%	57.0%	61.1%	64.4%	63.6%	62.5%	61.0%
Net margin	14.4%	12.7%	16.3%	17.8%	18.0%	18.0%	17.9%
Return on assets	10.2%	9.5%	11.6%	12.8%	12.7%	12.2%	11.8%
Return on equity	17.9%	14.5%	15.5%	16.0%	15.4%	14.8%	14.4%
Market/valuation ratios							
EV/sales (x)	0.8	1.1	1.4	1.6	2.1	2.0	1.9
EV/EBITDA (x)	1.3	1.8	2.2	2.6	3.4	3.3	3.2
EPS (SAR)	2.4	2.1	2.4	2.6	2.8	2.9	3.1
Market price (SAR)*	25.4	25.0	25.2	34.2	34.2	34.2	34.2
Market-Cap (SAR mn)	1,804.9	1,775.7	1,792.1	2,434.0	2,434.0	2,434.0	2,434.0
Dividend yield	4.2%	4.3%	6.0%	3.5%	3.6%	3.8%	4.0%
P/E ratio (x)	14.3	16.3	14.3	12.9	12.3	11.8	11.2
P/BV ratio (x)	2.4	2.3	2.2	2.0	1.8	1.7	1.5

Source: Company financials, AlJazira research

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

Head of Research
Talha Nazar
+966 11 2256250
t.nazar@aljaziracapital.com.sa

Senior Analyst
Jassim Al-Jubran
+966 11 2256248
j.aljabran@aljaziracapital.com.sa

Analyst
Abdulrahman Al-Mashal
+966 11 2256374
A.Almashal@Aljaziracapital.com.sa

BROKERAGE AND INVESTMENT CENTERS DIVISION

General Manager – Brokerage Services & sales
Alaa Al-Yousef
+966 11 2256060
a.yousef@aljaziracapital.com.sa

AGM-Head of international and institutional brokerage
Luay Jawad Al-Motawa
+966 11 2256277
lalmutawa@aljaziracapital.com.sa

AGM-Head of Qassim & Eastern Province
Abdullah Al-Rahit
+966 16 3617547
aalrahit@aljaziracapital.com.sa

AGM-Head of Sales And Investment Centers Central Region, & acting head Western and Southern Region Investment Centers
Sultan Ibrahim AL-Mutawa
+966 11 2256364
s.almutawa@aljaziracapital.com.sa

RESEARCH DIVISION

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