



United International Transportation Co. (Budget Saudi) reported a net profit of SAR 64.2mn (+28.0Y/Y) in Q3-22, in-line with our estimate of SAR 63.7mn. Revenue for the quarter posted at SAR 295.4mn (+17.8 Y/Y), driven by higher vehicle sales and an improved utilization rate for leasing and rental contracts. Despite the improved utilization, gross margin contracted to 31.8% in Q3-22 from 32.7% in Q3-21. Hence, we believe there was a significantly high contribution to the revenue from sale of used vehicles, which reflected in the higher cost of sales (+19.4 Y/Y), as cost of vehicle sold is higher as per new accounting methodology. We maintain our “Overweight” recommendation on the stock with a TP of SAR 52.0/share

- Budget Saudi's net income stood at SAR 64.2mn in Q3-22, in-line with our estimate of SAR 63.7mn. The Y/Y increase of 28.0% is mainly attributed to the increase in revenues and decrease in OPEX. However, net profit was up 2.7% Q/Q mainly due to higher revenues supported by higher sales of vehicles and better short- and long-term rental revenue as the result of improving utilization.
- Revenue edged up 17.8% Y/Y to SAR 295.4mn in Q3-22, above our estimate of SAR 245.6mn. Increased revenues from used car sales, as well as better rental revenues in the short and long term, supported the top-line.
- Gross profit stood at SAR 94.1mn in Q3-22, in-line with our estimate of SAR 94.7mn, as higher revenue was offset by lower gross margin. The cost of sales showed increase of 19.4% Y/Y, which we believe was due to higher cost of sales for vehicles sold as per new accounting methodology. Thus, gross margin contracted to 31.8% from 32.7% in Q3-21.
- Operating profit increased 31.2% Y/Y to SAR 69.7mn in Q3-22, above our estimate of SAR 67.9mn. The operating expenses decreased 16.0% Y/Y, leading to operating margin expansion to 23.6% from 21.2% a year earlier.

AJC View: Budget Saudi's result in Q3-22 showed a growth in its long-term leasing business and improved utilization in short-term rentals. However, we believe that the significant growth in revenue was also supported by the sale of used vehicles. We expect the company will benefit from ongoing activities in travel and higher number visitors anticipated. Additionally, improved operating efficiency is a positive for the company. The company's board of directors believes that the share price is under-valued. Therefore, they recommended the repurchase of market shares to retain them as treasury shares. The stock is currently trading at P/E of 13.7x and forward P/E of 11.6x based on our FY23 estimates. It provides dividend yield of 4.4% based on our FY23 estimates. We maintain our recommendation of “Overweight” with a TP on Budget Saudi at **SAR 52.0/share**.

Results Summary

SARmn	Q3-21	Q2-22	Q3-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	250.8	231.2	295.4	17.8%	27.8%	20.3%
Gross Profit	82.1	91.6	94.1	14.5%	2.7%	-0.6%
<i>Gross Margin</i>	<i>32.7%</i>	<i>39.6%</i>	<i>31.8%</i>			
EBIT	53.2	66.9	69.7	31.2%	4.3%	2.7%
Net Profit	50.1	62.5	64.2	28.0%	2.7%	0.7%
EPS	0.70	0.88	0.90			

Source: Company reports, Aljazeera Capital

Recommendation	Overweight
Target Price (SAR)	52.0
Upside / (Downside)*	14.0%

Source: Tadawul *prices as of 30th of October 2022

Key Financials

SARmn (unless specified)	FY21*	FY22E	FY23E
Revenues	988.1	1016.1	1023.5
Growth %	2.41%	2.83%	0.72%
Gross Profit	333.5	371.3	385.3
Net Profit	219.9	264.3	278.8
EPS	3.1	3.7	3.9

Source: Company reports, Aljazeera Capital

*As reported in FY21 annual report before accounting adjustments

Key Ratios

	FY21*	FY22E	FY23E
Gross Margin	33.8%	36.5%	37.6%
Net Margin	22.3%	26.0%	27.2%
P/E (x)	15.1	12.3	11.6
P/B (x)	2.0	1.9	1.7
EV/EBITDA (x)	7.3	7.7	7.4
Dividend Yield	4.1%	4.2%	4.4%

Source: Company reports, Aljazeera Capital

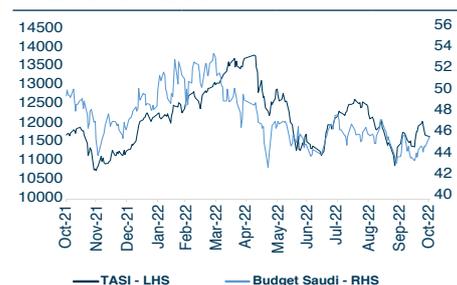
*As reported in FY21 annual report before accounting adjustments

Key Market Data

Market Cap (bn)	3.2
YTD %	-3.44%
52 Week High/ Low	54.5/43.0
Shares Outstanding (mn)	71.2

Source: Company reports, Aljazeera Capital

Price Performance



Source: Tadawul, Aljazeera Capital

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RESEARCH DIVISION

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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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