

Budget reported Q4-2017 earnings below AJC estimates and consensus. Net income came at SAR21.6mn (SAR0.30 EPS) against our estimates of SAR39.3mn. The deviation is mainly due to provisions of SAR 14.9mn from affiliate along with slower demand from rental revenue. However, we expect lease revenue to continue partly compensating rental revenue downturn. Expansions in untapped region on the back of a higher utilization rate is the key catalyst going forward. We maintain our "Neutral" recommendation with a revised PT of SAR26.7.

- Budget reported lower than expected net income for the quarter, 6.9% below AJC estimates (normalized earnings of SAR 36.5mn). Net income came at SAR21.6mn (SAR0.30EPS), posting a decline of 32.9%YoY. The impact is mainly due to SAR14.9mn provisions to hedge against impairment in its Indian affiliate "TranzLease". Notably, the 9.0%YoY increase in direct cost at SAR242.0mn compared to SAR222.0mn in 4Q2016 resulted in slower growth for gross profit at 1.2%YoY, relative to the growth in revenue at 7.2%YoY. Earnings for FY2018 are estimated to slightly increase by 2.0% (compared to normalize earnings for 2017) on the back of higher utilization rate resulting from a stronger demand attributed to expansions in untapped regions (Northern and Southern regions).
- Revenue for the quarter stood at SAR309.8mn compared to SAR289.0mn for the same quarter last year; 7.2%YoY increase and 9.5%QoQ. On an annual basis, Budget recorded a 0.9%YoY decline in revenue which can be attributed to lower demand for rental revenue. Rental revenue declined 25.3%YoY, which was partly offset by 7.3%YoY increase from lease revenue along with 17.0%YoY increase in others segment. Revised FY2018 revenues are estimated at SAR 1,196.6mn (2.0%YoY).
- Gross profit stood at SAR 67.8mn, depicting 1.2%YoY increase, supported by 7.2% increase in topline revenue, although COGS increased by 9.0%YoY. Gross margin for the quarter stood at 21.9% down from 23.2% in the same period last year. The annual revenue downfall of 0.9%YoY combined with provisions occurred during 4Q2017 contributed to contracting margins on all income lines. FY2018, gross margin is estimated to stand at 22.5%.

AJC view: Lease revenue is expected to continue 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 to drive would revive the market and boost the demand for rental services in the long term. Revised FY2018 EPS is estimated to stand at SAR2.37 per share at an estimated forward PE and PB multiple of 12.2x and 1.8x respectively. We maintain our "Neutral" recommendation with a revised PT of SAR26.7 Per share.

Results Summary

SARmn (unless specified)	Q4-2016	Q3-2017	Q4-2017	Change YoY	Change QoQ	Deviation from AJC Estimates
Sales	289.0	282.9	309.8	7.2%	9.5%	12.9%
Gross Profit	67.0	64.8	67.8	1.2%	4.6%	10.2%
Gross Margin	23.2%	22.9%	21.9%	-	-	-
EBIT	41.4	45.5	41.5	0.24%	-8.8%	-
Net Profit	32.2	42.8	21.6	-32.9%	-49.5%	-45.0%
EPS	0.45	0.60	0.30			

Source: Company reports, Aljazira Capital

Recommendation	'Neutral'
Current Price* (SAR)	28.8
Target Price (SAR)	26.7
Upside / (Downside)	-7.5%

Source: Tadawul *prices as of 6th of February 2018

Key Financials

SARmn (unless specified)	FY16	FY17	FY18E
Revenue	1,182.5	1,173.2	1,196.6
Gross Profit	-1.0%	-0.9%	2.0%
Net Profit	170.1	149.5	168.7
EPS	2.39	2.10	2.37

Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (mn)	2,081.72
YTD %	4.41 %
Shares Outstanding (mn)	71.17
52 Week (High)	30.20
52 Week (Low)	20.04

Source: Company reports, Aljazira Capital , Bloomberg

Key Ratios

SARmn (unless specified)	FY16	FY17	FY18E
Gross Margin	23.5%	22.4%	22.5%
Net Margin	14.3%	12.9%	14.1%
P/E	11.8x	13.0x	12.2x
P/B	2.1x	1.8x	1.8x
Dividend Yield	3.7%	5.5%	4.3%

Source: Company reports, Aljazira Capital , Blomberg * Adjusted price

Price Performance



Source: Bloomberg, Aljazira Capital

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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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