



United International Transportation Co.

29 Oct 2020

Earnings beat expectations on higher margins

Budget reported relatively robust earnings (-10.6% Y-o-Y) thanks to the diversification of the use of its fleet; as the increased demand for used vehicles (following VAT hike) and relatively stable performance of long term lease partially offset the drop in short term lease segment. Increased demand for used vehicle sales, and consequently higher margins from the sale, aided in Budget's fast recovery during the quarter. We maintain our Neutral recommendation for Budget but raise our target price to SAR36.5/share.

Budget reported revenues of SAR228mn (-10.9% Y-o-Y) due to the continued pressure on short term lease business given continued travel restrictions and umrah suspension during Q3 2020. The resilience of Budget's long-term lease business and increased demand for used car sales helped mitigate revenue drop during the quarter. The company witnessed a rebound in revenues Q-o-Q by 21.3% thanks to the recovery in short term rental and used car sales.

Short-term and long-term lease dropped by 37.7% and 3.6%, respectively, while vehicle sales increased by 3.6% Y-o-Y during Q3 2020 despite VAT hike during the quarter. In fact, VAT hike seem to represent a short-term opportunity for Budget as consumers are downtrading to used cars instead of new car purchases. Long term lease business is expected to continue to be relatively resilient, though weaker economic conditions should have some impact on revenue generation as demand from business slow down.

Budget reported gross profit of SAR65mn (-16.3% Y-o-Y) whereas gross profit margin contracted by only 1.8% Y-o-Y to 28.4%, which is quite resilient as used vehicle sales margins (unexpectedly) remained intact due to the increased demand. EBIT fell by 12.8% to SAR42mn yet EBIT margin lost only 0.4% during Q3 2020 as SG&A dropped by 17.4%. Net income fell by 10.6% Y-o-Y yet recovered by 79.1% Q-o-Q recording SAR40mn. Impressively, net margin widened 40 basis point compared to Q3 2019 to 17.8% during Q3 2020.

Budget reported a good set of results given the current circumstances, driven by its long-term lease and used vehicles sales which helped partially offset the significant drop-in short-term lease. Budget's earnings beat our expectations, mainly due to higher than expected demand and margins for used vehicles segment. The company declared a dividend of SAR0.5/share for H1 2020 despite 20% profit drop in H1. Budget is well positioned to survive a second wave of COVID-19 with its strong balance sheet, almost zero debt, and a resilient business model. The current situation in KSA is comforting, though, with daily cases falling below 400 which does not call for a curfew. We expect gradual Q-o-Q recovery for short term rental in Q4 2020, which should be supported by umrah resumption and less travel restrictions compared to Q3. Budget is currently trading at TTM P/E of 15.6x.

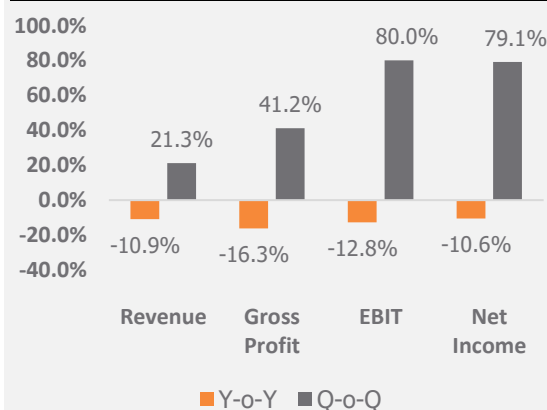
We maintain our Neutral recommendation for Budget but raise our target price to SAR36.5/share.

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (28-10-2020)	SAR34.5
Target Price (52 Weeks)	SAR36.5
Upside/ (Downside)	6.0%
Shariah Compliance	Pass

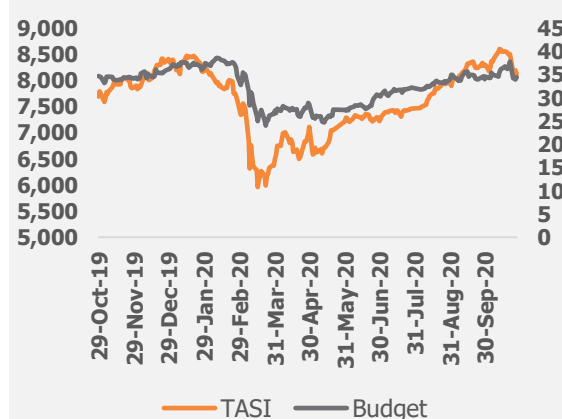
Key Financial Ratios

Ratio	Q3 2020	Q2 2020	Q3 2019
Gross Margin	28.4%	24.4%	30.2%
EBIT Margin	18.6%	12.6%	19.0%
Net Margin	17.8%	12.0%	17.7%

Key Financial Results (Q3 2020)



Share Price Performance



Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

Itqan Capital

Al Zahraa District, Al Zahraa Commercial Center,
PO Box 8021, Jeddah 21482,
Kingdom of Saudi Arabia

Tel: 966 12 263 8787

Fax: 966 12 263 8789

info@itqancapital.com

www.itqancapital.com

Disclaimer

This research document has been prepared by Itqan Capital Company ("Itqan Capital"), Saudi Arabia. It has been prepared for the general use of Itqan Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Itqan Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Itqan Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. Itqan Capital makes no representations or warranties (express or implied) regarding the data and information provided and Itqan Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Itqan Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Itqan Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Itqan Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document. This research document and any recommendations contained are subject to change without prior notice. Itqan Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Itqan Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Itqan Capital is licensed by the Saudi Arabian Capital Market Authority, License No.07058-37 and CR No.4030167335