

# United International Transportation Co.

06 May 2021

## Struggling top-line, yet Budget's resilient business model pays off

**Budget reported 20.6% Y-o-Y net income growth, despite lower revenues, thanks to higher margins on used vehicles sales. Profits fell from a high base in Q4 2020, however, due to lower vehicle sales (a high margin segment for Budget). We raise our target price for Budget due to higher-than-expected profit margins but remain Neutral on the company in light of persistent medium-term risks.**

**We maintain our Neutral recommendation for Budget with a 52-week target price of SAR41.9/share.**

Budget's revenues dropped by 12.7% Y-o-Y and 15.4% Q-o-Q to SAR241mn as short-term rental revenues remained pressured by travel restrictions, falling by 29.9% Y-o-Y and 4.8% Q-o-Q. Long term lease revenues continued to struggle, falling by 7.6% Y-o-Y but recovered by 0.8% Q-o-Q. Used vehicles sales dropped by 6.9% Y-o-Y and 34.6% Q-o-Q. Compared to Q4 2020, lower vehicles sales contributed the most to revenue drop.

Budget's gross profit continued to benefit from higher gains on the sale of used vehicles during Q1 2021. Gross profit grew by 3.6% Y-o-Y to SAR85mn, despite the drop in revenues, thanks to higher gains from sale of vehicles compared to Q1 2020. Gross margins expanded to 35.1% vs 29.5% in Q1 2020 but tightened from 37.2% in Q4 2020 as a result of lower contribution of profit from sale of vehicles (its highest margin segment).

EBIT jumped by 18.4% Y-o-Y and fell by 31.5% Q-o-Q to SAR57mn as SG&A dropped by 17.4% Y-o-Y, mainly thanks to lower impairments of accounts receivables, while cash operating expenses remained relatively stable. EBIT margins improved to 23.5% vs 17.3% in Q1 2020. Net income hiked by 20.6% Y-o-Y to SAR55mn but dropped by 30.9% Q-o-Q from a high of SAR79mn in Q4 2020. Net margin improved to 22.7% vs 16.4% in Q1 2020.

Budget's resilient business model and diversified fleet enabled it to report higher profits (compared to Q1 2020), despite lower revenues, as it continues to benefit from the sale of used vehicles at high margins, which are currently in high demand amid economic slowdown and shifting trends in Saudi towards used vehicles. High contribution of long-term lease, which was less impacted by COVID measures compared to short term rentals, also supported Budget's revenues and cash generation over the past quarters.

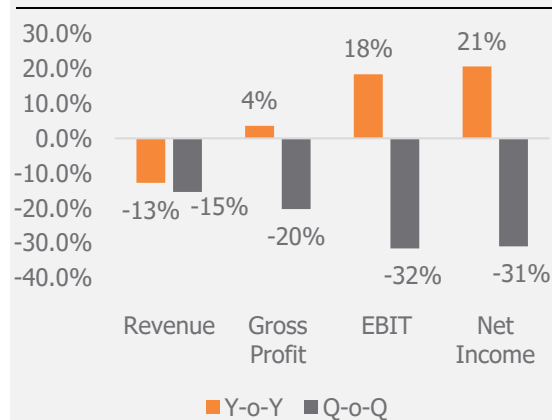
Key short-term catalyst is represented in partial short-term rental recovery in H2 2021. Budget is expected to start witnessing some recovery in its short-term rental revenues starting the second half of Q2 2021 as Saudi re-opens its borders in mid-May, yet the impact should fully reflect in Q3 2021 results. Recovery is likely to be slow, though, given continued restrictions on eligibility of entrance and exit from the country and continued travel ban from some countries. Key downside risks, however, lie in long-term leasing business (nearly 50% of revenues) weakness which continues to struggle amid market share losses and lower demand from corporates. We raise our target price for Budget due to higher-than-expected profit margins but remain Neutral on the company in light of persistent medium-term risks.

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (05-05-2021)	SAR41.5
Target Price (52 Weeks)	<b>SAR41.9</b>
Upside/ (Downside)	1.2%
Shariah Compliance	Pass

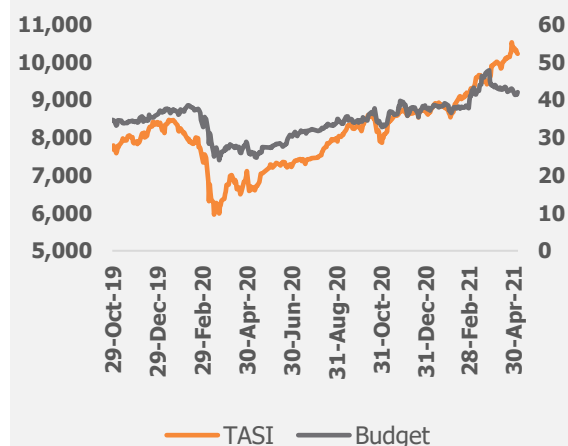
### Key Financial Ratios

Ratio	Q1 2021	Q4 2020	Q1 2020
Revenue Growth	-15.4%	25.3%	21.3%
Gross Margin	35.1%	37.2%	29.5%
EBIT Margin	23.5%	29.1%	17.3%
Net Margin	22.7%	27.8%	16.4%

### Key Financial Results (Q1 2021)



### Share Price Performance



# Guide to Ratings and Disclaimer

## Guide to Ratings

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

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