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Theeb
Rent a Car Company

Initiation Report

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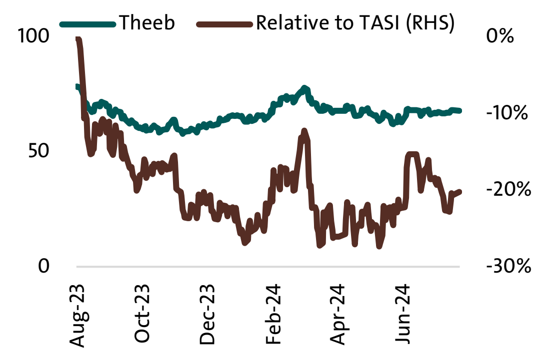
Theeb Rent a Car Company (Theeb) | Initiation Report

Stellar growth on the horizon; Initiate with Buy (TP: SAR87, 29% upside)

Recommendation	BUY
Market Price	67.9
Target Price	87.0
Upside/Downside	29%

Stock Data	
Market Cap Total/FF (USDmn)	778/506
Shares Total/FF (mn)	43/28
52 Week Hi-Low(SAR)	85.5/57.8
3/6/12 M Volume Traded (mnsh)	0.1/0.2/0.35
3/6/12 M Value Traded (USDmn)	6.7/16.6/23.7
3/6/12 M Relative Performance (%)	-13/-6/-7

Theeb Stock Price Performance VS TASI



Source: AIC

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Theeb-Margin Recovery in Sight, Initiative with Buy (TP: SAR85)

Theeb Rent a Car Company (Theeb), the 3rd largest player in vehicle rental & leasing, remains on track to deliver on its growth strategy and rein-in recent cost pressure. Theeb provides a leveraged exposure to our favorite theme on Travel & Tourism. We initiate coverage on Theeb with a Buy rating with a DCF-based Target Price of SAR87/sh, suggesting 29% upside with Dividend Yield of ~3%.

Key Reasons for Our Buy Rating

1-Encouraging industry backdrop: Theeb and its peers are likely to emerge as key beneficiaries of three major themes under the Vision 2030-increased tourism, making Saudi Arabia a regional hub for logistics and attracting regional offices. We see the potential of sustained 7% CAGR in car rental and leasing demand over the medium-term with demand for car rentals likely outpacing demand for leasing.

Theeb making great strides on growth strategy: Geographical expansion and diversification of offering (transportation) will remain key focus areas for future fleet growth for Theeb, in our view. With Theeb's revenue relatively more skewed towards rentals (40%) vs pers (average: 27%), we opine Theeb can outgrow the industry.

3- Strong earnings growth on the horizon: Theeb is poised to deliver a strong 4-year earnings CAGR of 17%, in our view, on the back of solid growth in fleet expansion (4-Yr CAGR of 8%) and margin recovery. We believe Theeb's future earnings profile is yet to gain traction. 2H earnings will likely show a full impact of fleet growth and cost relief.

4- 18% underperformance vs TASI; likely reversal ahead

Theeb's has underperformed TASI by 18% in the past 12-months due to below-par earnings delivery in CY23. On CY25 P/E, EV/EBITDA, EV/CAR, Theeb trades at respective 34%, 43% and 32% discount to its local peers.

Key Risks

(i) Risk of price war in the operating leasing segment, (ii) future regulation to maintain a minimum fleet size of E-Car, and (iii) price of used cars which can reduce purchase price discovery and earnings.

Theeb: Financial Highlights (SARmn)

Year to	CY22	CY23	CY24E	CY25E	CY26E	CY27E
Revenues	968	1135	1379	1557	1640	1720
Growth	28.7%	17.3%	21.4%	12.9%	5.3%	4.9%
PAT	193	142	178	225	242	264
EPS (SAR)	4.5	3.3	4.1	5.2	5.6	6.1
Growth	54%	-26%	26%	26%	7%	9%
DPS	2.2	1.6	2.1	2.6	2.8	3.1
P/E (X)	15.1	20.6	16.4	13.0	12.1	11.1
D/Y (%)	3.2%	2.4%	3.1%	3.8%	4.1%	4.5%
ROE (%)	31.3%	20.4%	23.0%	25.7%	24.4%	23.6%

Source: Theeb, AIC Estimates

Theeb is making great strides on growth strategy

Theeb-Investment Case

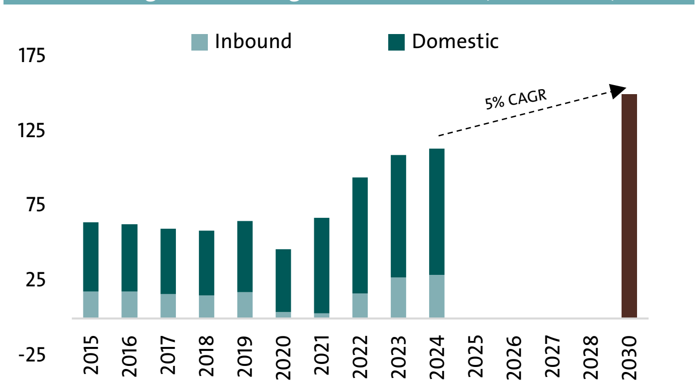
We believe Theeb Rent a Car (Theeb), the third largest player in the car rental and leasing industry, is making great strides on delivering its fleet expansion and customer service excellence. Ongoing expansion, coupled with management initiatives to contain cost pressure, will likely allow the company to deliver margin recovery and stellar earnings growth. We initiate coverage on Theeb with a Buy rating and set 12-mth DCF-based Target Price of SAR87/sh, implying 29% upside to current price. The upside to current price comes with a healthy dividend yield of ~3% (CY24). We initiate our coverage on Theeb with a Buy rating and lay down our investment case on the stock and key risks surrounding our thesis below;

Key Reasons for Our Buy Rating

1- Encouraging industry backdrop

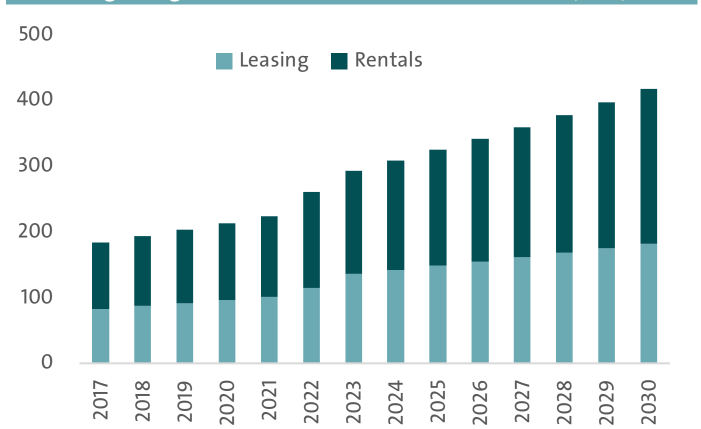
Theeb and its peers are likely to emerge as key beneficiaries of three major themes under the Vision 2030-increased tourism, National Strategy for Transport and Logistic Services and attracting regional offices in Riyad (RHQ Program). We conservatively see the potential for a sustained 5-6% CAGR over the next four years for the car rental and leasing segment. Upcoming major sports, entertainment and trade events in the Kingdom have the potential to throw up positive surprises on demand, in our view. Latest updates on the fleet size by the key players (Theeb: +17% since Dec-23, Budget: Double Digit Growth targeted, LUMI: 6% YTD) give us comfort on future growth in the industry.

Vision 2030 agenda deriving internal tourism (mn tourists)



Source: Ministry of Tourism, AIC

...resulting in higher demand for car lease and rentals (000)



Source: AIC

Rental Segment:

The rentals segment is benefitting from the encouraging backdrop for domestic and inbound tourism and demand from the corporate sector. A 65% YoY growth in total inbound tourist arrival in 2023 is particularly encouraging. Inbound tourist arrival has jumped to an all-time high of 27mn in 2023, driven by all categories, particularly, religious and leisure. Meanwhile, domestic tourism, which was little impacted during COVID-19 period, has reached new all-time high with 5% YoY growth in 2023.The

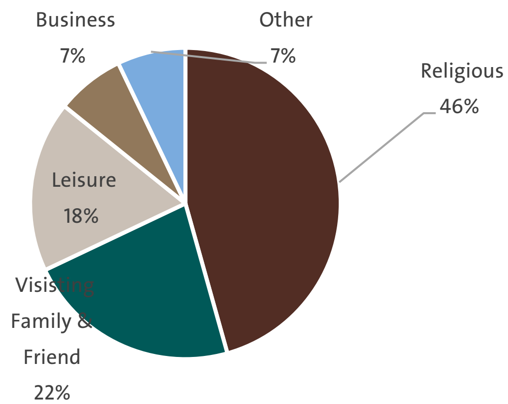
We believe the growth in leasing segment is likely to moderate in the next few years

segment's fleet utilization has improved while average revenue has reverted to pre-COVID levels. With the government's targets of increasing the total tourism (in-bound+ domestic) to 150mn by 2030 (vs 114mn in 2023, implying 5% CAGR over 2023-2030) and positive outlook of rental demand from the corporate sector (on the back of increased business travel, new events), we believe the demand for vehicle rentals has the potential to grow by 7% CAGR by 2030.

Leasing Segment

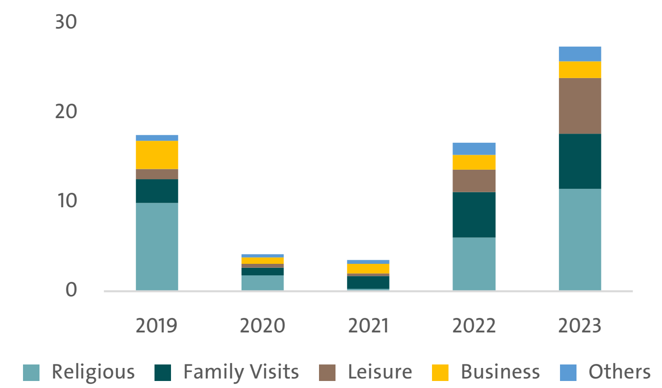
We believe growth in the leasing segment is likely to moderate in the next few years. Broadly speaking, we expect the private sector to remain a major growth driver, a diversion from the trend in the past few years whereby the public sector emerged as a major contributor to demand for leasing vehicles. We expect demand for leasing in the

Profile of Inbound tourist arrival (2023A)



Source: Ministry of Tourism, AIC

Inbound tourism has surpassed pre-COVID levels (mn tourists)



Source: Ministry of Tourism, AIC

private sector to grow by 3-4%, tracking growth in the non-oil GDP. Two key initiatives by the government which will likely support growth in leasing segment by the private sector include:

The authorities target total tourism (in-bound+ domestic) to reach to 150mn by 2030, implying 5% CAGR over 2023-2030)

Project RHQ: Relocation of regional offices to Saudi Arabia is one the major demand drivers in the leasing segment as many of the expats have opted for convenience offered under leasing (maintenance, used car sale at the end of employment term) over ownership. Project RHQ is a joint initiative of the Ministry of Investment and the Royal Commission for Riyad to attract regional headquarters of international companies and benefit from the opportunities in Saudi Arabia, MENA region's largest economy. The initiative has attracted over 200 firms to relocate their regional offices to Saudi Arabia in 2023. More companies are likely to jump on the bandwagon.

National Strategy for Transport and Logistic Services: Increased Road transportation of goods will likely be the primary interest area for Theeb under National Strategy for Transport and Logistic Services which aim to make the Kingdom a regional hub for logistics. The Kingdom has committed an investment SAR613bn by the year 2030 as part of the strategy targeting a comprehensive infrastructure development for transportation and logistics, covering rail & road, sea, and air.

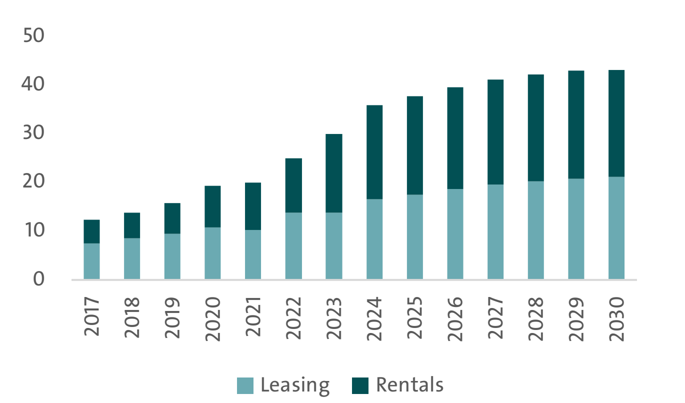
Geographical (via tapping into new cities) expansion and diversification of offering (transportation) will remain key focus areas for future fleet growth for Theeb

For the public sector demand, we eye relatively subdued growth with higher-base and small number of estimated remaining vehicles in the government and semi-govt sector to be transferred to the leasing model. Govt and semi-govt entities have been a major growth driver for the leasing in the past four years and in-fact accounted for 80% addition in leasing fleet. As per our discussion with the leasing operators in the sectors, a total of 15-25k vehicles (12-18% of industry leasing fleet in 2023) are left to be transferred to the leasing model.

2-Theeb making great strides on growth strategy

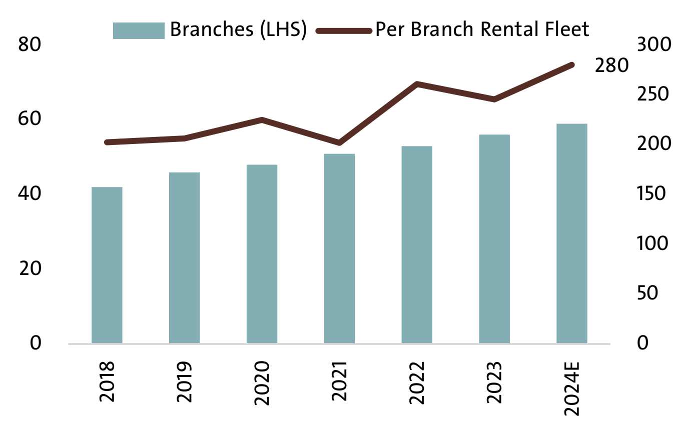
Geographical (via tapping into new cities) expansion and diversification of offering (transportation) will remain key focus areas for future fleet growth for Theeb, in our view. Overall, we believe Theeb can grow its fleet size by 8% CAGR over the next five-years given current capital structure and payout. With significantly higher share of short-term rental segment in revenue and fleet size relative to peers, Theeb provides a leveraged exposure to Tourism theme in our view and for this reason can outgrow industry. Overall, Theeb enjoys 10% market share in the rental segment where margins are robust and risk of price war is relatively low, given the presence of a large number of players.

Theeb's is making significant investment in fleet expansion (000)



Source: AIC, Theeb

...and expanding its branch network (



Source: AIC, Theeb

Extensive branch-network

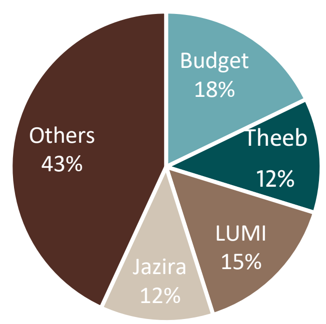
Theeb maintains a wide network of 59 physical branches to serve its extensive rental clients. For future branch expansion, the company is likely to focus beyond first tier cities to 2nd and 3rd tier cities in order to benefit from growing internal mobility and domestic tourism and improving coverage of existing cities, particularly areas with significant potential of tourism. Theeb offers a wide range of consumer choices when it comes to rental cars which range from economy to luxury cars. Theeb became the first company in the rental industry to introduce electric cars in its fleet in 2023.

Leasing Segment

Theeb has positioned itself well to benefit from the new-found growth in the leasing segment, particularly in the government and semi-government sectors. The company has grown its leasing fleet by 158% since 2019. Overall, the segment accounts for 70%

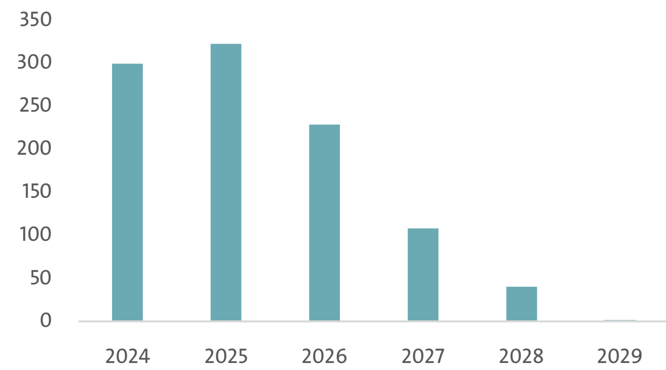
growth in the total fleet size. Concurrently, the revenue backlog in the leasing segment has jumped to SAR1bn or 2.8 times of CY23 leasing revenues-one of the highest in the industry. The current offering in the segment covers passenger cars, trucks and commercial vehicles. Transport, food and construction are the three top sectors in the segment.

Theeb maintains a sizable market share in the leasing segment...



Source: AIC Research

...with revenue backlog sttching upto 2.8 years* (SARmn, Mar-24)



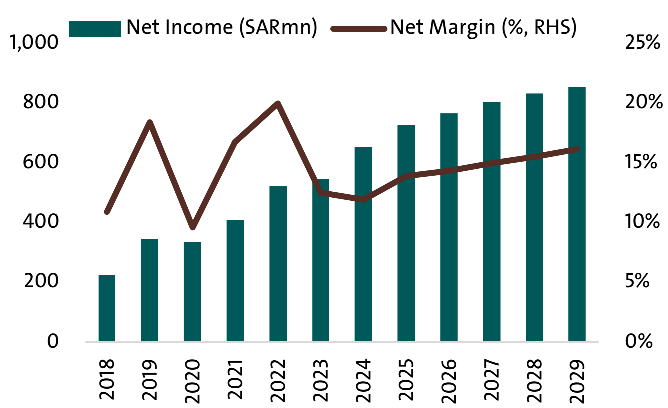
* 1Q24 Source: Theeb, AIC

3-Strong earnings growth on the horizon

Theeb is poised to deliver a strong 5-year earnings CAGR of 17%, in our view, on the back of margin recovery and solid growth in fleet expansion (17% YTD). We believe Theeb's future earnings profile is yet to gain traction. 2H earnings will likely show a full impact of fleet growth and cost relief.

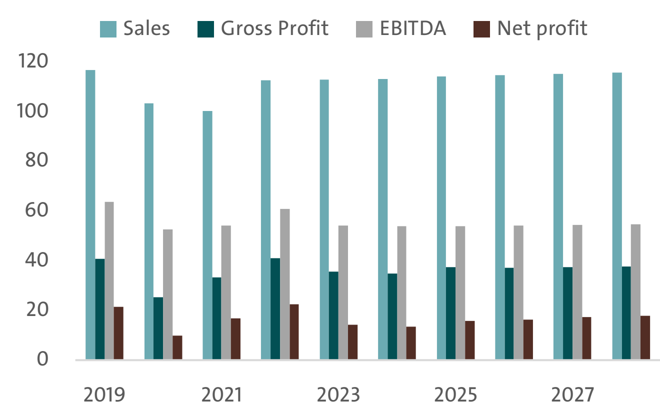
Pressure on the company's margin in CY23, primarily due to higher cost of sales, came as a major surprise for the investors, and in a way eroded confidence in the company's growth profile. The cost pressure stemmed from Theeb's investment in branch network

Theeb looks poised to deliver 4-year earnings CAGR of 17%



Source: AIC Research

...driven by growth in volume and cost optimization (SARmn)



Source: Theeb, AIC

We eye operating margin to improve from 19% in CY23 to 22% by CY28 and net margin to record a 200bps improvement from levels seen in CY23.

& digitalization, higher cost of spare parts and increased financial leverage We see a quick reversal in the trend in CY24 and over the medium-term.

Key drivers of margin recovery

All in all, we eye operating margin to improve from 19% in CY23 to 22% by CY28 and net margin to record a 200bps improvement from levels seen in CY23. We see three major drivers of improvement in company's margin ahead which will likely drive gains at both gross and operating margins.:

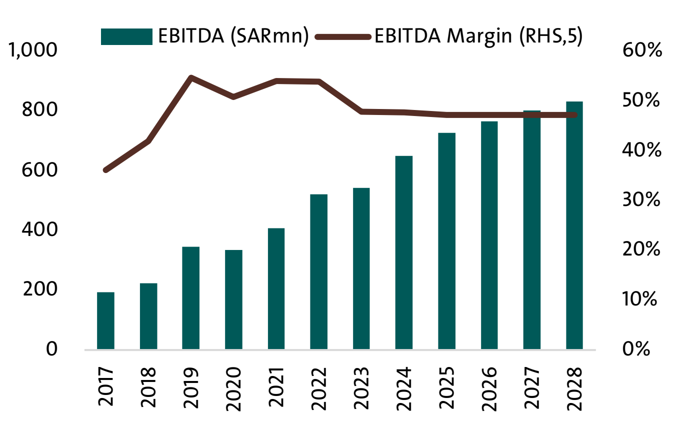
1-Economies of scale: The growing size of the company's branch network and fleet will likely derive benefits of scale in employees, and maintenance cost. Theeb has expanded its branch network from 42 in CY20 to current 59 (out of which 14 are airport branches). Similarly, the company's fleet size has increased from 15.8k vehicles in CY20 to 33k vehicles in 1H24.We expect fleet size to undergo a CAGR of 8% over the next four years.

2-Management initiatives to rein in cost pressure: Two areas where the management is partly working on are maintenance (containing cost increase in spare parts, benefit from better data management, investment in maintenance centers) and insurance cost (better negotiation at the time of renewal of insurance agreement, and better loss management). Maintenance cost per vehicle has jumped ~39% in the past two years Similarly, insurance cost as %age of net fixed asset has jumped from 2.9% to 4.1%, primarily due to industry-wide revision in premium for auto insurance.

3-Burden of Provisioning Cost: Theeb's receivables days (from 187 in CY21 to 236 in CY23) and concurrent provisioning cost under ECL model has eaten away a sizable portion of company's operating income. We opine increase in receivables days is an industry wide phenomenon given the nature of growth in the leasing segment. All in all, we see limited deterioration in the receivables and expect provisioning burden to stabilize.

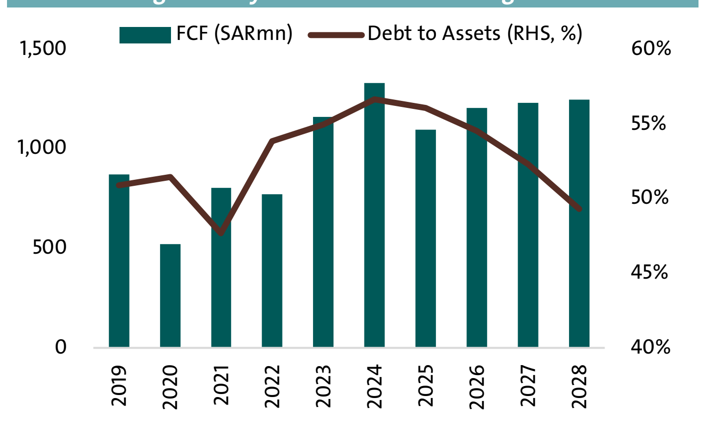
4-Reduced burden of financing cost: In an expected scenario of 7% CAGR in the company's fleet size, and 50% payout ratio, we project Theeb can bring down its leverage (debt/asset) from high of 56% in CY24 to just under 50% by CY28. Low leverage, coupled with likely reduction in the company's borrowing cost due to reversal in

Theeb's EBITDA margin may settle at a new normal



Source: AIC, Theeb

...while leverage is likely to trend down from high in 2024



Source: AIC, Theeb

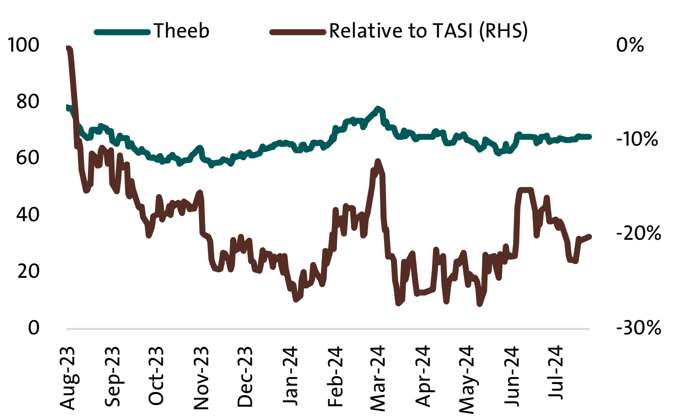
benchmark interest, will reduce the burden of financing cost on the company's earnings. We expect debt servicing cost to reduce from a high of 15% in CY24 to 10% by CY28.

4-18% underperformance vs TASI; likely reversal ahead

Theeb's stock price has underperformed TASI by 18% in the past 12-months

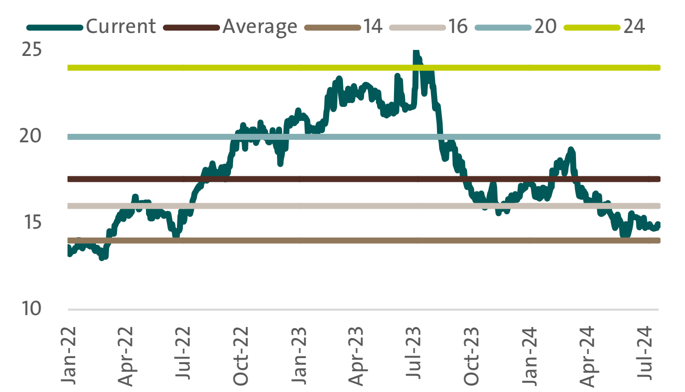
Theeb's stock price has underperformed TASI by 18% in the past 12-months due to below-par earnings delivery. We see the potential for the stock price to make up for the recent underperformance on the back of improved earnings outlook, significant valuation discount (vs peers and its historical valuation) and likely triggers ahead. On CY25 P/E, and EV/EBITDA, Theeb trades at 34% and 43% discount to its locally listed peers. Based on our DCF-based valuation, Theeb offers 29% upside to our Target Price of SAR87/sh alongside a healthy dividend yield of 3% (CY25E).

Theeb has underperformed TASI by 18% in 12-M



Source: Bloomberg, AIC

Theeb's P/E trades a significant discount to historical avg*



*Forward Earnings, Source: AIC

Multiple Catalysts on the Horizon

We see a number of triggers on the horizon which can potentially unlock the valuation discount;

- 2Q24 earnings (announced recently) which is likely to renew investors' interest in company's growth story and substantiate our thesis of subsiding cost pressure
- Update on fleet size and branch expansion strategy. Theeb has announced opening of three new branches year to date while the fleet size has increased by 17% as per the latest filing
- Updates of new lease contracts which can allow Theeb to increase its revenue backlog
- Renewal of insurance contract

Valuation

We value Theeb based on the Discounted Cash Flow (DCF) method. The underlying business dynamics with visibility of cash flows from the revenue/earnings unit allows DCF method to better capture the value of future earnings and cash flows over the forecast period.

Theeb's implied valuation multiples (P/E and EV/EBITDA) on our Target Price are respectively at 12% and 26% discount to its peers' CY25 multiple

1-Discounted Cashflow Method

We have elected to use the Free Cash Flow to Firm (FCF) method for the free cash flow valuation of the company with high leverage due to the nature of business. We arrive at a valuation of SAR87/sh based on FCF by using WACC of 8.2% and terminal growth rate of 2.5%. Theeb's implied valuation multiples (P/E and EV/EBITDA) on our Target Price are respectively at 12% and 26% discount to its peers' CY25 multiple.

Theeb: DCF Valuation

SARmn	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Operating Profits	270	319	334	352	365	371	372
Add: Depreciation & Amort	383	407	426	442	454	464	468
Less: ∆in Working Capital	-3	-66	-17	-20	-18	-14	-15
: Capital expenditures	-771	-529	-555	-547	-530	-524	-492
FCFF	-120	132	189	227	271	296	334
PV of FCFF	-124	126	167	185	205	207	216

Summary of Valuation	
Long term growth rate (g)	2.50%
Terminal value	**6,060**
Present value of terminal value	3,910
Present value of future cash flows	981
Enterprise Value	4,892
Less: Net debt	1,137
Equity value	**3,754**
Shares	43.0
Equity value per share	**87**
Implied P/E (2027E)	16.7
Implied EV/EBITDA (2027E)	5.8

Source: AIC Estimates

Theeb: Basic Valuation Assumptions

Risk Free rate	4.5%
Market Risk Premium	5.0%
Adjusted Beta (x)	1.0
Cost of Equity	**9.5%**
Share of Equity	55%
Cost of Debt	**7%**

Source: AIC

Sensitivity Analysis on terminal growth and Cost of Equity

The following table presents the sensitivity of Theeb's FCFF valuation based on changes in terminal growth and Cost of Capital. Based on the sensitivity, we obtain a valuation range of SAR59-148/sh assuming ranges of terminal growth of 1.5-3.5% and WACC of 7.1-9.1% respectively. On an average basis, Theeb's FCF valuation moves by 11% for every

50bps change in terminal growth rate (6% relative to base WACC) and by 14% for 50bps change in WACC respectively.

Sensitivity of DCF valuation to terminal growth and Cost of Capital

		Terminal Growth				
		1.5%	2.0%	2.5%	3.0%	3.5%
Cos of Capital	7.2%	92	102	114	129	148
	7.7%	82	90	100	111	126
	8.2%	73	80	87	97	109
	8.7%	66	71	78	85	95
	9.2%	59	64	69	76	83

Source: AIC Estimates

3-Relative Valuation

Theeb's 2025E P/E and P/BV valuation multiples are ahead of peers' average. However, stock's EV/EBITDA is at 11% discount to its peers.

We have drawn a sample of ten companies to assess Theeb's relative valuation with its peers. Our sample includes locally listed companies with direct exposure travel and tourism theme in Saudi Arabia and international companies with similar business model. We make following observations on Theeb's relative valuation vis a vis selected listed peers;

I. Theeb's 2025E P/E and P/BV valuation multiples are ahead of peers' average. However, the stock's EV/EBITDA is at 11% discount to its peers. We believe the disparity in valuation multiples is due to the company's leverage balance sheet and relatively higher pay-out. EV/EBITDA valuation provides a more comprehensive picture of the company's earnings capacity.

II. In comparison to valuations multiples of the local peers, Theebs' 2025E P/E and EV/EBITDA is at significant discount. Fleet expansion, coupled with margin recovery, has set an encouraging earnings backdrop for Theeb in our view, which leaves room for further expansion in the company's P/E and P/BV valuation multiples.

III. While Theeb's P/BV is ahead of peers' average, interestingly, Theeb's ROE of 26% is one of the highest among its peers and well ahead of sample average.

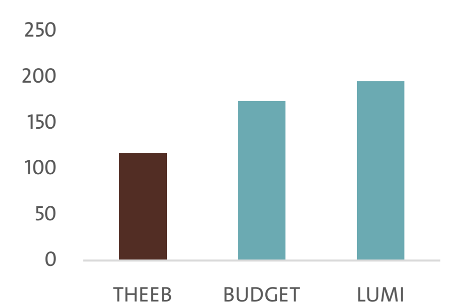
IV. Similarly, Theeb's D/Y of 3.8% in 2025% is ahead of peer's average D/Y of 3.2%.

Theeb's Relative Valuation

Stock name	Country	Market Cap	Price	P/E		P/BV		D/Y		EV/EBITDA		ROE	
		USDm	Local	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Localiza	BRA	9,333	49.0	16.4	12.3	1.9	1.7	2.3%	3.3%	7.1	6.0	12%	14%
Ryders	USA	5,762	133.1	11.0	9.6	1.7	1.5	2.2%	2.1%	4.5	4.2	16%	16%
MOVID	BRA	402	6.3	7.8	5.2	0.9	0.9	2.5%	3.6%	3.6	3.2	11%	18%
hertz	USA	1,107	3.6			0.5	0.6				12.0		
Sixt2	GM	2,914	61.8	10.4	8.3	1.4	1.4	6.2%	6.2%	4.3	4.2	14%	16%
AYVENS	FR	5,123	5.9	5.2	4.3	0.5	0.4	6.3%	10.5%	43.9	31.9	9%	10%
Budget	KSA	1,886	90.6	22.8	16.2	2.7	2.4	1.8%	2.5%	9.7	7.3	12%	15%
LUMI	KSA	1,193	81.5	27.2	19.6	3.8	1.1			12.4	11.5	14%	16%
SGS	KSA	2,339	46.7	27.7	22.8	3.3	3.2	1.8%	2.9%	16.3	14.0	12%	14%
Catrion	KSA	2,358	107.6	25.2	21.8	6.2	5.6	2.6%	3.0%	17.3	15.0	25%	26%
SEERA	KSA	1,817	22.7	24.4	14.9	1.0	0.9		2.4%	8.7	6.9	4%	6%
Mean-Total				**13.0**	**10.0**	**1.2**	**1.1**	**2.6%**	**3.2%**	**7.6**	**7.0**	**11%**	**13%**
Mean-Domest.	**KSA**			**25.3**	**18.6**	**2.4**	**1.7**	**2.0%**	**2.7%**	**12.0**	**9.9**	**9%**	**12%**
Theeb	**KSA**	**757**	**67.9**	**16.8**	**13.4**	**4.1**	**3.7**	**3.0%**	**3.7%**	**6.8**	**6.3**	**23%**	**26%**

Source: Bloomberg, AIC

EV/CAR -Theeb is at 32% discount



SAR'000, Source: AIC

V. We have also drawn a valuation comparison for Theeb on EV/Car (SAR'000) for its local peers. Based on available data on the fleet size, and 1Q24 accounts, we estimate the stock trades 32% discount to its peers on EV/Car comparison, reflecting a steep underperformance in the stock price and continued delivery on the company's expansion strategy.

Key Risks to Our Investment Case

Following are key downside risks to our investment case for Theeb;

I-Risk of Price War in the Operating Lease Segment

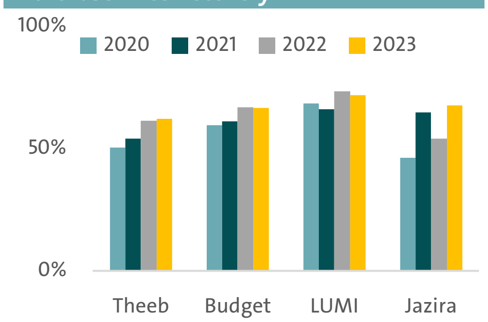
The operating lease segment is relatively more prone to risk of price competition given the nature of the business (long-term, stable, margin) and limited number of players. Following the acquisition of Auto World by United International Transportation Co (Budget Saudi), top three players in the operating lease segment command over 50% market share. In the past few years, Govt and Semi Govt entities were the largest contributors to the growth of the leasing segment via 3-5 year leasing contracts. Many of such contracts will come for first time renewal in the next few months and may see price-based competition among big players. That being said, relatively high leverage across the listed companies effectively dilutes the risk of aggressive price competition, in our view. For Theeb, the operating lease segment accounts for 54% of total fleet size and 31% of revenues. We estimate for every 5% change in operating lease rate, Theeb's earnings will be impacted by 12% on average in our forecast period.

For Theeb, every 5% change in PPR implies 11% impact on our estimates for the company's earnings

II-Future Regulations on maintaining minimum size of E-Car

The authorities are targeting electric vehicles to contribute up to 30% of the population of total vehicles in Riyad by the year 2030. The target was set in view of the Kingdom's commitment to reduce carbon emission and promote sustainability under the Saudi Green Initiative (SGI). There is a possibility that authorities may set a minimum size of the fleet of E-cars relative to total fleet of the operator, either for Riyad or country-wide targets, in future. Theeb is the first company to introduce E-cars in its fleet. However, the broader adoption of EV cars in the fleets for either rental of operating cars comes with unknown challenges of operating and maintenance regime and resale value and may negatively impact the total returns from the leasing contract or car renting.

Purchase Price Recovery



Source: Theeb, AIC

III-Prices of Used Car

The Purchase Price Recovery (PPR) via disposal of cars is an important step in the realization of projected returns from either operating leasing or short-term rent. The higher Purchase Price Recovery results in higher earnings, returns and cash proceeds for future capex. The size of available stock of used car for disposal is likely to grow with significant growth in the fleet size in the past two to three years, given the life of used car range 2.5-3.5 years. The competition among players to dispose of used cars may negatively impact the return of the operators in future. For Theeb, every 5% change in PPR implies 11% impact on our estimates for the company's earnings.

2Q24 Earnings-Positively riding the seasonality

Theeb has posted earnings of SAR45mn for the 2Q24 (+49% YoY, up 10% QoQ). 2Q earnings are 18% ahead of consensus expectations.

- Theeb has posted earnings of SAR45mn for the 2Q24 (+49% YoY, up 10% QoQ) translating into 1H earnings of SAR85mn (SAR2.0/sh). 2Q earnings are 18% ahead of consensus expectations.
- Theeb has also announced a cash dividend of SAR21.9mn for the 2Q (47% pay-out), taking 1H dividend to SAR42mn (49% pay-out, in-line with historical trend).
- Theeb has weathered the usual seasonality in rental segment in 2Q with improved YoY utilization of rental fleet. 1H24 earnings highlighted the broader trends of subsiding cost pressure and recovery in margins, in our view.
- Overall, the company's gross margins and EBITDA margin clocked in at 33% (+400bps YoY) and 42% (almost flat YoY) respectively in 2Q24.
- The pressure on cost has further subsided in 2Q with fleet expansion and optimization of other cost heads.
- Theeb has continued its fleet expansion in 1H and investment in its infrastructure. As per latest filing of the company, the size of the fleet has increased to 33k vehicles. During 1H, the company has opened three new branches which is in addition to continued refurbishment of the existing branch network of the company. Growing fleet size and the investment in the branch network will likely reflect in 2H earnings.
- The leverage on company's balance sheet is likely to remain elevated in view of investment in fleet.

Theeb 1H24 Results

SARmn	1Q24	2Q24	QoQ	1H23	1H24	YoY
Sales	307	322	5%	546	628	15%
Gross Profit	99	106	7%	170	205	20%
Operating Profit	126	136	8%	246	262	7%
EBITDA	126	136	8%	246	262	7%
Profit Before Zakat	44	47	7%	80	90	13%
Net Profit	40	45	10%	72	85	18%
EPS	0.94	1.04	10%	1.7	2.0	18%
Margin						
Gross Margin	32%	33%	64bps	31%	33%	141 bps
EBITDA Margin	41%	42%	128 bps	45%	42%	-323 bps
Net Margin	13%	14%	65 bps	13%	14%	32 bps

Source: Theeb, AIC

Overview of the Company

About the Company

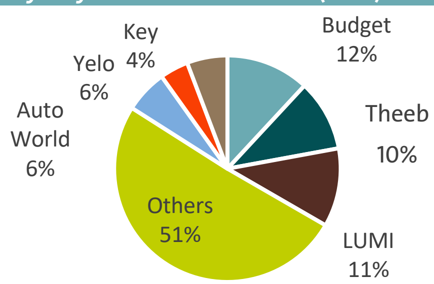
In terms of fleet size, Theeb is the 3rd largest operator with a fleet size exceeding 33000

Theeb Rent a Car Company (Theeb) is one the oldest operators in the car rental and leasing industry in the Kingdom. The company started its operations in 1991 in the rental segment. In 2012, Theeb decided to enter the car leasing business. From a single branch operation, the company has now expanded its footprint in all major cities and airports to become a major player in the passenger mobility and logistics. In terms of fleet size, Theeb is the 3rd largest operator with a fleet size exceeding 33000. Theeb maintains 10 vehicle maintenance center and provides mobile workshop for road assistance for its rental and leased clients.

Key Segments

Rental

Key Players and Market Share (2023)



Source: AIC

Theeb has been a major player in the car rental segment since its inception and maintains a fleet 14k cars (2023). The company has invested heavily in the requisite infrastructure, digitization and fleet modernization in order to offer differentiated services to its clients. The current branch network comprises over 59 branches, out of which 14 are airport branches. has added many value -added services in its offering to better serve its clients. Based on the company's fleet size, Theeb's market share in the rental segment is estimated at 10%, making it the 2nd largest listed player in the segment.

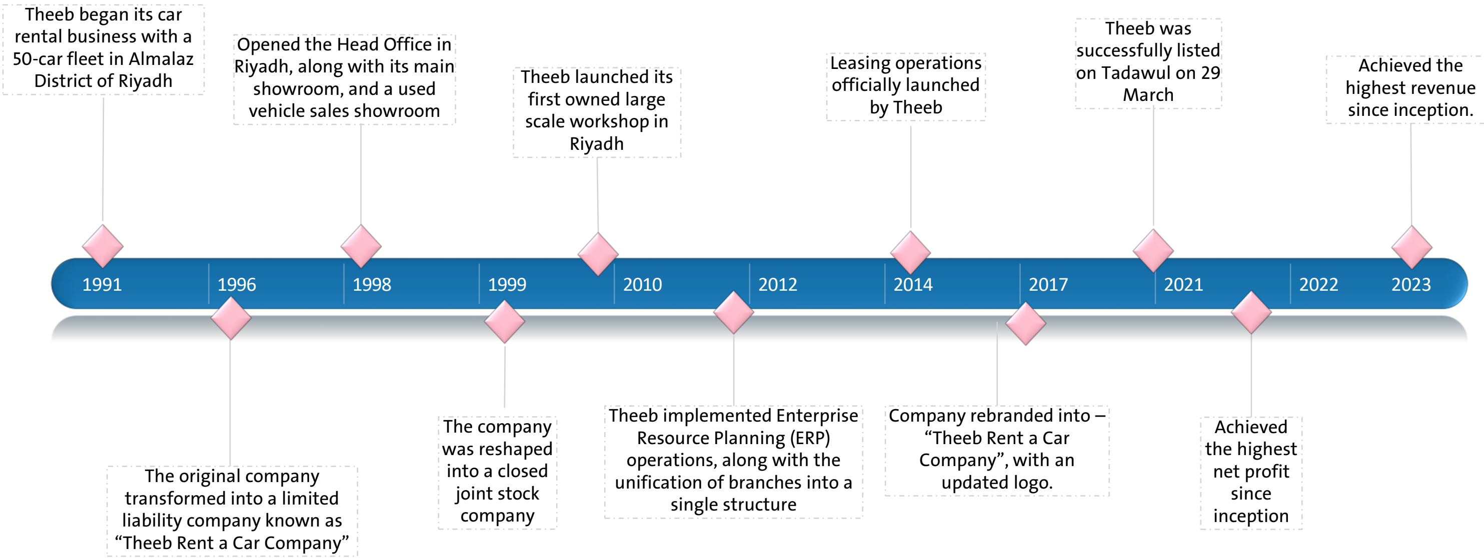
Leasing

While the leasing segment is a relatively new business line for Theeb, it has become the largest contributor to the company's fleet by 2023 due to management initiatives to capture the opportunities in the segment. Currently, Theeb maintains a fleet of 16k vehicles (cars+ commercial vehicles and trucks) and serves a diversified client base of 500 in the segment. Leasing segment accounts for over 70% of fleet expansion for Theeb since 2019.

Car Sale

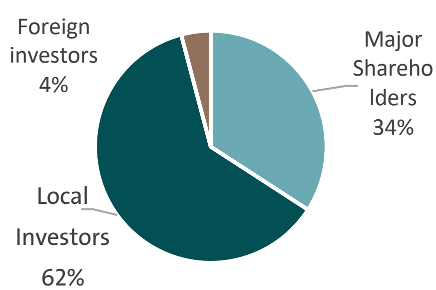
De-fleeting or selling of used cars is an important step in the overall rental and leasing operations. Timely disposal of cars allows the company to maintain a modern fleet and realize the expected return. Theeb maintains four different channels for car sale which include direct, private auction, public auction and online sale. Theeb currently operates two showrooms for its car sale segment. The number of cars available for disposal has increased from ~3000 in 2019 to +6500 in 2023, highlighting the importance of the segment.

Theeb: Major events in company's history



Source: Company Reports

Theeb Shareholding: (July-24)



Source: TASI

Shareholding Details

The company was listed on Tadawul in 2021 via divestment of 30% stake by Theeb's shareholders. The selling shareholders-family member, private company, Growth Opportunities Trading Co- proportionately reduced their stakes. The enlisting of the company enhanced Theeb's profile and gave an opportunity to some of the shareholders to better manage their ownership. Subsequent to the company listing, Growth Opportunities Trading Co, sold its remaining 21% stake in the company in the market. Current foreign ownership in the company stands at ~4% (16% of free float).

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Theeb-SWOT Analysis

Strengths	Opportunities
▪ One of the oldest operators in the car rental and leasing segment with strong brand equity. 80% of customers served in the rental segments are citizens ▪ Extensive branch network covering all major cities and touchpoints for the domestic and international tourism ▪ Company's long-standing relationship with major dealers of vehicles ▪ Strong backlog of revenues in the leasing segment (2.8 years based on CY23 leasing revenues) with Diversified client base	▪ Growth opportunity in the logistics, freight forwarding and transportation ▪ Opening of new sectors for foreign investment (mining in particular), which can open up new areas of demand ▪ Authorities' focus on attracting regional headquarters of major business to Saudi Arabia ▪ Growing tourist arrivals for both business, leisure and religious reasons and increasing domestic mobility
Weakness	**Threats**
▪ High leverage on company's balance sheet which can potential hinder company's ambitions to growth without any change in pay-out ▪ Extended terms for the receivables. ECL related provisioning accounted for 19% of operating profit in CY23. ▪ High insurance cost per vehicle	▪ Potential regulation to mandate operators to own minimum size of E-Car which can emerge as a new challenge given little history of E-cars' suitability for the car rent and leasing business ▪ Future improved micro connectivity in the metropolitan cities which can reduce the demand for car rentals ▪ Lower realized prices in the used-car sale

Source: AIC

Key Financials

Income Statement						
SARmn	**2022**	**2023**	**2024E**	**2025E**	**2026E**	**2027E**
Revenue	968	1,135	1,379	1,557	1,640	1,720
Cost of Revenue	-616	-777	-937	-1,037	-1,093	-1,145
Gross Profit	**352**	**359**	**441**	**520**	**546**	**574**
Selling and dist. expenses	-49	-58	-67	-75	-77	-79
G&A Expenses	-44	-54	-63	-69	-70	-71
EBIT	**236**	**213**	**280**	**332**	**351**	**373**
Finance income	0	0	0	0	0	0
Financial costs	-33	-61	-95	-98	-97	-93
Zakat	-11	-9	-6	-9	-12	-16
Profit after Tax	**193**	**142**	**178**	**225**	**242**	**264**
EPS	4.5	3.3	4.1	5.2	5.6	6.1
DPS	2.2	1.6	2.1	2.6	2.8	3.1

Source: Theeb, AIC Estimates

Balance Sheet						
SARmn	**2022**	**2023**	**2024E**	**2025E**	**2026E**	**2027E**
Assets	**1,866**	**2,239**	**2,666**	**2,826**	**2,999**	**3,128**
Non-Current Assets	**978**	**1,300**	**1,647**	**1,731**	**1,816**	**1,895**
PPE	1,320	1,673	2,057	2,175	2,301	2,401
Current Assets	**444**	**470**	**510**	**548**	**591**	**616**
Cash and cash equivalents	100	52	31	31	56	63
Trade receivables	189	229	291	328	346	363
Inventories	5	7	6	6	6	6
Short-term deposit	150	182	182	183	184	184
Equity	**665**	**730**	**819**	**931**	**1,052**	**1,184**
Share capital	430	430	430	430	430	430
Retained earnings	235	300	389	501	622	754
Liabilities	**1,201**	**1,509**	**1,847**	**1,895**	**1,946**	**1,944**
Non-Current Liabilities	**544**	**649**	**649**	**649**	**649**	**649**
Long-term borrowings	455	569	569	569	569	569
Lease liabilities	35	39	39	39	39	39
Current Liabilities	**658**	**860**	**1,198**	**1,246**	**1,297**	**1,294**
Trade payables	30	45	46	47	48	49
Accrued expenses & Others	132	194	252	224	224	220
Current portion of LT liabilities	496	620	900	975	1,025	1,025

Source: Theeb, AIC Estimates

Summary of Cash Flows

SARmn	2022	2023	2024E	2025E	2026E	2027E
Operating Activities	310	481	559	566	651	686
Investing Activities	(463)	(678)	(771)	(529)	(555)	(547)
Financing Activities	197	155	190	-37	-71	-132

Source: Theeb, AIC Estimates

Key Ratios

Liquidity Ratios	Units	2022	2023	2024F	2025F	2026F	2027F
Current Ratio	X	0.68	0.55	0.43	0.44	0.46	0.48
Quick Ratio	X	0.67	0.54	0.42	0.44	0.45	0.47
Cash Ratio	X	0.38	0.27	0.18	0.17	0.18	0.19
Turnover Ratios							
Total Asset Turnover		0.57	0.55	0.56	0.57	0.56	0.56
Inventory Turnover		12.2	14.9	33.3	50.5	37.7	28.8
AR Turnover		5.9	5.4	5.3	5.0	4.9	4.9
AP Turnover		8.8	10.7	9.4	9.9	11.0	11.2
DIO	Days	30	24	11	7	10	13
DSO	Days	62	67	69	73	75	75
DPO	Days	42	34	39	37	33	33
CCC	**Days**	**50**	**58**	**41**	**43**	**52**	**55**
Capital Structure Ratios							
Debt to Equity	X	151%	169%	184%	170%	155%	138%
Debt to Assets	%	54%	55%	57%	56%	55%	52%
Debt Coverage	x	1.73	2.17	2.23	2.10	2.03	1.93
Profitability Ratios							
GP Margin	%	36%	32%	32%	33%	33%	33%
Operating Margin	%	24%	19%	20%	21%	21%	22%
NP Margin	%	20%	13%	13%	14%	15%	15%
ROE	%	31%	20%	23%	26%	24%	24%
ROA	%	13%	10%	11%	12%	11%	11%
Market Ratios							
Market Price	SAR/sh	67.9	67.9	67.9	67.9	67.9	67.9
PE	X	15.1	20.6	16.4	13.0	12.1	11.1
Dividend Yield	%	3.24%	2.41%	3.05%	3.84%	4.13%	4.51%
Pay-out Ratio	%	49%	50%	50%	50%	50%	50%
BVPS	SAR/sh	13.2	15.5	17.0	19.0	21.7	24.5
PBV	X	5.15	4.40	4.01	3.57	3.14	2.78
EV/EBITDA	X	7.3	7.5	6.6	6.1	5.8	5.5

Source: Theeb, AIC Estimates

Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA, Abdulrahman Yusef Alnafia**, the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

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Alinma Investment Company (AIC) follow a four-tier rating system based on total return methodology as per following details

>+15% Total Return: Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

5-15%: Stocks with total return between 5-15% can be classified as Buy or Neutral.

>-5%<+5% total return: Stocks with total return between -5+5% can be classified as Neutral or Underperform

Underperform-Stocks which are expected to have <-5% total return

Not Covered: AIC has not assigned any rating on the stock

Coverage Suspended: AIC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Stock price data is based on 08 Aug 2024

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Theeb
Rent a Car Company

Initiation Report