**Target Price: SAR37.50/share**
Current Price: SAR23.76/share
Upside: 58% (+Div. Yield: 5.7%)
**Rating: Overweight**

# Theeb Rent a Car Company (Theeb)

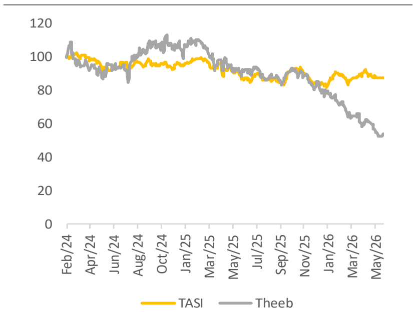
## *Compelling valuation following correction; remain Overweight*

- Revenue to grow at a CAGR of ~11% over 2025-28e, primarily supported by accelerated fleet expansion (~9%) and a marginal improvement in prices.
- Muted 2026e earnings despite strong topline growth and relatively resilient GPM, weighed down by elevated ECL and finance costs; recovery likely to resume in 2027e.
- Post revising our forecasts, we cut TP to SAR37.50/share (vs. SAR58.67/share earlier) but maintain our "Overweight" rating, supported by attractive valuations (6.5x 27e PE).

| Stock data | |
|---|---|
| TASI ticker | 4261 |
| Mcap (SARmn) | 1,567 |
| Avg. Trd. Val (3m) (SARmn) | 21.3 |
| Free float | 72.8% |
| QFI holding | 4.3% |
| TASI FF weight | 0.06% |

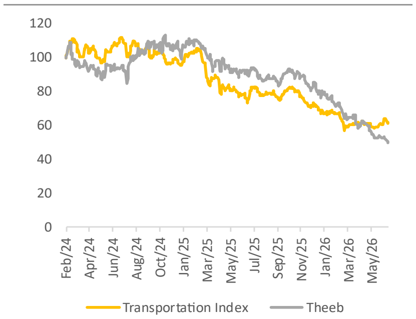
*Source: Bloomberg*

TASI vs Theeb indexed to 100




*Source: Bloomberg*

Transportation sector vs Theeb indexed to 100




*Source: Bloomberg*

**Accelerated fleet expansion boosts the topline outlook…** Since our last update, Theeb has significantly accelerated its expansion strategy, with the average fleet size increasing by ~21% y/y in 2025 and further by ~12% q/q in 1Q26, reaching 42.8k vehicles (total fleet: ~45k units). This effectively brings forward our previous growth expectations by nearly three years, as we had not initially anticipated such scale until 2028e. Growth was primarily driven by the leasing segment, where the average fleet expanded 29% y/y to ~29k vehicles by 1Q26, supported by major contract wins and broader exposure to logistics-related opportunities. Meanwhile, the short-term rental fleet grew a modest 4% y/y to ~13.7k vehicles by 1Q26. Considering the recent expansion spree of fleet size to increase the market share, and continued focus to catch-up with peer, we now forecast the average fleet to increase ~19% y/y to ~45k vehicles in 2026e before normalizing to a mid-single-digit growth trajectory through 2028e, with average total fleet size rising to ~49.5k vehicles (vs. 43k previously), implying a 9% CAGR over 2025-28e, that will likely outpace industry peers. Consequently, it translates to a revenue CAGR of ~11% over 2025-28e, driven by i) an upgraded fleet outlook across segments, ii) solid utilization rates which showed resilience in a challenging market in 1Q26 (68.5%) with a clear upside potential, iii) healthy price realization in core operations, unlocked by efficient pricing policies, and iv) robust backlog of ~SAR1.6bn as of 1Q26 (+4% q/q).

**…and resilient profitability of core business keeps GPM stable despite a pressure on UCS:** Theeb continues to outperform its peers on profitability, maintaining a healthy TTM gross margin of 30.4% (vs peer avg: 27.7%). Importantly, this margin resilience has been sustained despite the rising contribution from the structurally low-margin leasing segment, underscoring the company's cost efficiencies and effective pricing strategy across its core operations.

*Figure 1: Key financial metrics*

| SARmn | 2024a | 2025a | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|
| **Revenue** | **1,303** | **1,497** | **1,714** | **1,885** | **2,026** |
| *Revenue growth* | *15%* | *15%* | *15%* | *10%* | *7%* |
| **Gross Profit** | **418** | **470** | **524** | **572** | **623** |
| *Gross Profit Margin* | *32%* | *31.4%* | *30.5%* | *30.4%* | *30.8%* |
| Op. income | 265 | 281 | 294 | 369 | 407 |
| **Net profit** | **183** | **180** | **174** | **236** | **273** |
| *Net profit margin* | *14.0%* | *12.0%* | *10.1%* | *12.5%* | *13.5%* |
| *Net profit growth* | *28.6%* | *-1.3%* | *-3.5%* | *35.4%* | *15.9%* |
| EPS (SAR) | 2.8 | 2.8 | 2.7 | 3.7 | 4.2 |
| DPS (SAR) | 1.4 | 1.4 | 1.3 | 1.8 | 2.1 |
| P/E | 8.4x | 8.5x | 8.8x | 6.5x | 5.6x |
| EV/EBITDA | 6.0x | 5.2x | 4.7x | 4.1x | 3.8x |

*Source: Company data, GIB Capital. EPS and DPS are adjusted for stock issuance*

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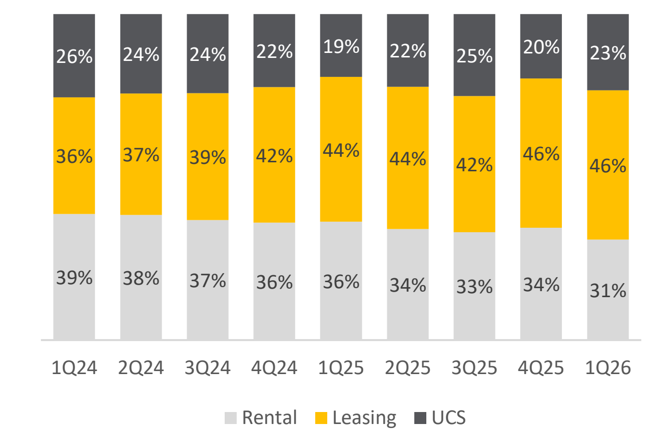
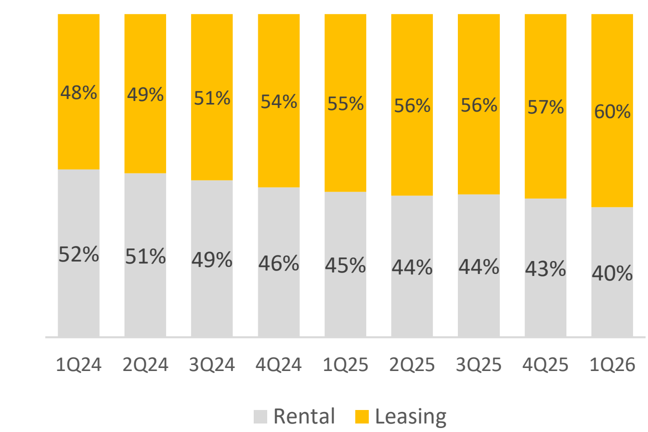
However, persistently weak used-car market conditions have weighed on recovery yields, pushing UCS margins into negative territory in both 4Q25 and 1Q26 and limiting overall GPM expansion. Nevertheless, supported by Theeb's strong track record of maintaining healthy utilization rates and pricing discipline, we remain constructive on the profitability of the core business. Accordingly, we forecast GPM to remain broadly stable at an average of ~30.6% over 2026-28e. While this represents an improvement over recent quarterly pressures, it is below our previous estimate of ~32%, reflecting a more conservative medium-term outlook for UCS profitability.

*Figure 2: Theeb's revenue composition trend*



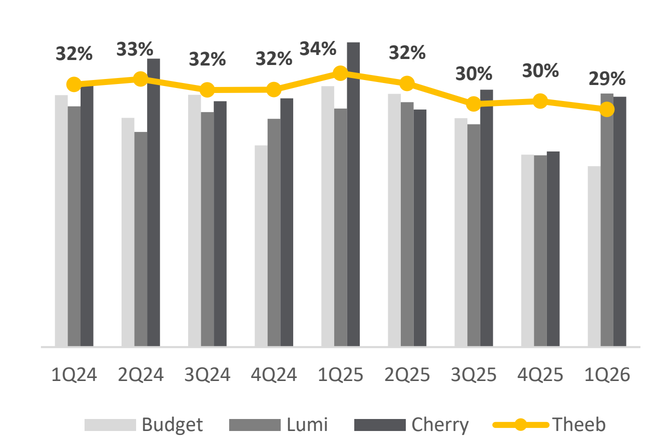

*Source: Company data, GIB Capital*

*Figure 3: Theeb's core revenue composition trend*



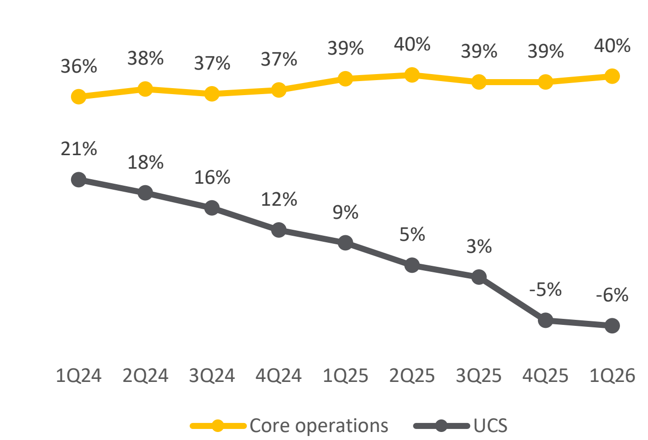

*Source: Company data, GIB Capital*

*Figure 4: Theeb vs peers GPM trend*




*Source: Company data, GIB Capital*

*Figure 5: Theeb's core and UCS margins trend*

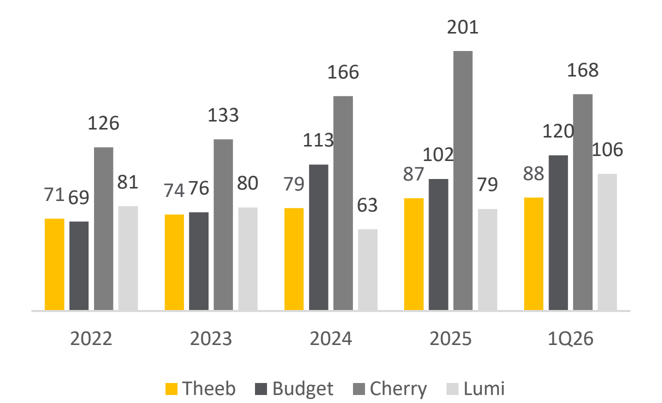



*Source: Company data, GIB Capital*

**Elevated ECL and rising financing costs weigh on earnings in the near-term:** Theeb's earnings are currently facing pressure from elevated credit loss provisioning and higher financing costs. TTM ECL expenses increased to SAR61mn, including ~SAR22mn charge in 1Q26, driven by a larger receivables base, slower collections, and exposure to stressed sectors, particularly logistics within the leasing portfolio amid the current macroeconomic headwinds. Nevertheless, the ECL coverage ratio has remained stable at 36% of gross receivables, highlighting the company's conservative provisioning approach and limiting further downside risks. We expect provisioning pressure to persist through 2Q26 before easing in 2H26, resulting in FY26e ECL charges of SAR77mn (59% y/y). Thereafter, annual provisions are expected to normalize to ~SAR42mn over 2027-28e as broader credit conditions improve.

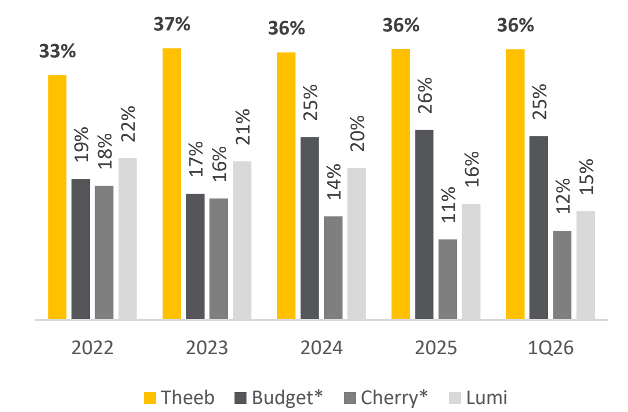
Moreover, Theeb's accelerated fleet expansion is expected to keep annual CAPEX elevated at ~SAR1.2bn over 2026-28e (~SAR990mn previously; in line with 2025). Additionally, a growing shift toward leasing is expected to naturally extend receivable days compared to historical levels (Figure 6), hence relatively tightening working capital. We expect this to keep leverage elevated, with the net D/E ratio averaging ~2.1x over 2026-28e (vs. our previous ~1.6x estimate), driving up finance charges. At the same time, funding costs remain a critical headwind as interest rates stay elevated amid persistent inflationary pressures. Accordingly, we expect finance costs to average ~SAR132mn annually over 2026-28e (~SAR109mn in 2025). As a result, earnings are anticipated to contract 3.5% y/y to SAR174mn in 2026e before recovering meaningfully to SAR273mn by 2028e, supported by healthy revenue growth, operating leverage and easing ECL charges. This implies a CAGR of ~15% in earnings over 2025-28e.

*Figure 6: Accounts receivable days of Theeb vs. peers*




*Source: Company data, GIB Capital*

*Figure 7: ECL allowance % of gross receivable - Theeb vs. peers*




*Source: Company data, GIB Capital. *1Q26 based on GIBC calculations*

**Changes in estimates:** Following a revision to our fleet outlook amid Theeb's strong expansion momentum, we raise our topline forecasts by ~3% for 2026e and ~4% for 2027e. While fleet outlook is stronger than initial estimates, more conservative realized estimates of realized prices in leasing mitigated some benefits. On the other hand, we cut GPM estimates by 1.3pps and 1.5pps for 2026-27e, respectively, as UCS weakness continues to cap the profitability, despite resilient core business margins. Meanwhile, earnings are expected to remain under pressure from both ECL and finance charges, as expansion fuels debt and macro factors drive funding cost and credit risks higher in the market. Accordingly, cut our earnings forecasts by ~29-16% for 2026-27e.

*Figure 8: Revision in estimates*

| SARmn | 2026e | | | 2027e | | |
|---|---|---|---|---|---|---|
| | Current | Earlier | % change | Current | Earlier | % change |
| Revenues | **1,714** | 1,670 | 2.6% | **1,885** | 1,807 | 4.3% |
| Gross profit | **524** | 531 | -1.5% | **572** | 577 | -1.0% |
| GPM % | **30.5%** | 31.8% | | **30.4%** | 31.9% | |
| Operating Profit | **294** | 335 | -12.2% | **369** | 367 | 0.3% |
| OPM % | **17.2%** | 20.1% | | **19.6%** | 20.3% | |
| Finance Expenses | **124** | 91 | 36.0% | **136** | 86 | 57.8% |
| Net profit | **174** | 244 | -28.6% | **236** | 280 | -15.8% |
| NPM % | **10.1%** | 14.6% | | **12.5%** | 15.5% | |
| Debt Level | **2,322** | 1,816 | 27.8% | **2,442** | 1,911 | 27.7% |
| CAPEX | **1,280** | 940 | 36.2% | **1,071** | 985 | 8.8% |

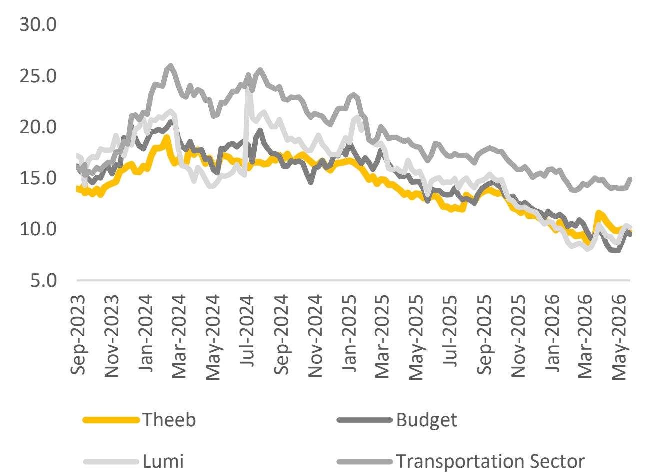
*Source: GIB Capital*

**Valuation and risk:** Following the update to our forecasts and valuation assumptions, we revise our 12-month target price **to SAR37.50/share** (vs. SAR58.67 previously, adjusted for the recent share issuance), based on an equal weighting of our DCF valuation (TP: SAR35/share) and P/E methodology (13x for the forward 12 months EPS; TP: SAR40/share). We maintain our **Overweight** rating, implying an upside potential of 58%. We lowered our justified P/E taking into consideration the general rerating in the market and the partial impact of 2027e EPS.

Following a series of disappointing results, the stock corrected by ~37% YTD and is currently trading near historical trough valuations at 8.8x 2026e P/E and 6.5x 2027e P/E, despite a likely rebound in earnings growth next year. Further, assuming the continuation of its historical ~50% payout ratio, Theeb offers attractive dividend yields of 5.7% and 7.7% for 2026e and 2027e, respectively, reinforcing our view that the recent correction has created an attractive value opportunity.

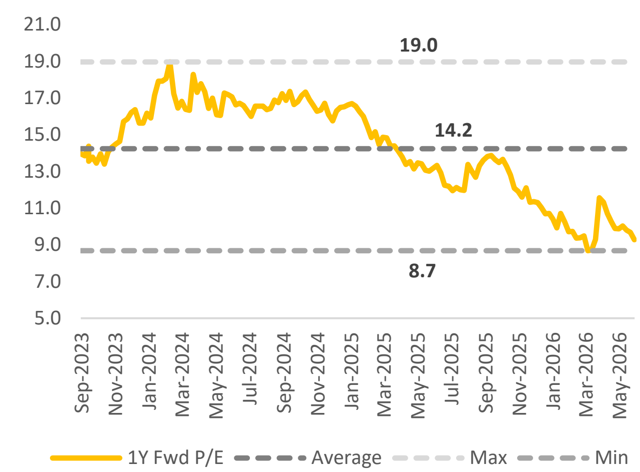
Key downside risks are global recession, lower than expected benefits from Riyadh/Jeddah seasons, cut in VAT, return of the pandemic, increased competition, cost inflation for new vehicles, supply chain issues for automobiles, less than expected cuts in interest rates and cancellation of long-term leasing contracts.

*Figure 9: Theeb's 1Y Fwd P/E vs peers and sector index*



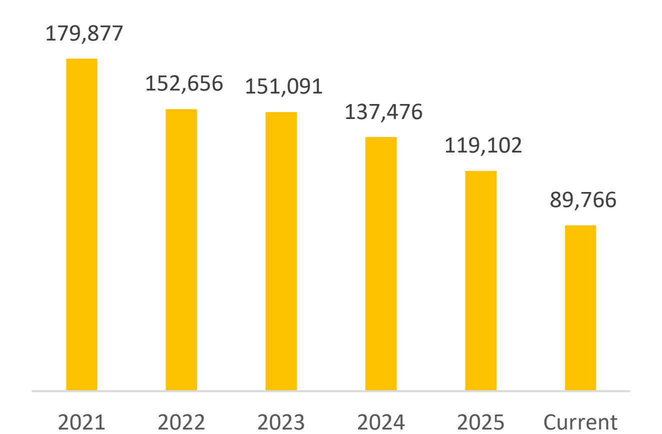

*Source: Bloomberg, GIB Capital.*

*Figure 10: Theeb's 1Y Fwd P/E trend*



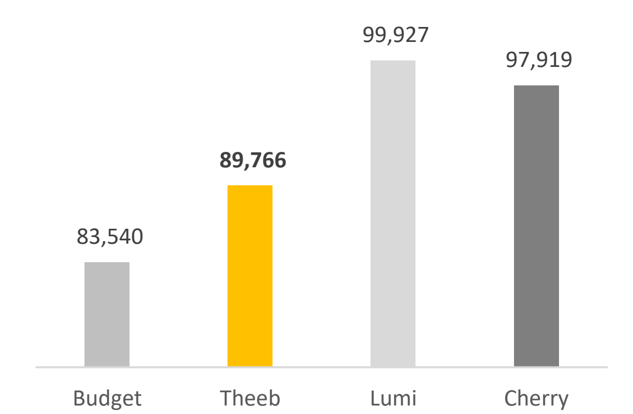

*Source: Bloomberg, GIB Capital*

*Figure 11: Theeb's EV/fleet trend (SAR)**




*Source: Bloomberg, Company data, GIB Capital. *Based on average daily EV and average fleets for historical periods.*

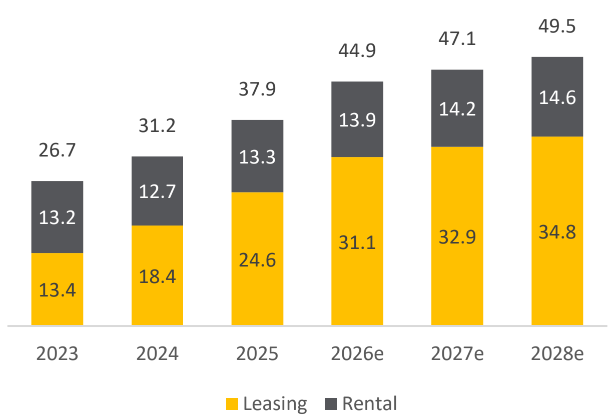
*Figure 12: Theeb's current EV/fleet vs. peers (SAR)*




*Source: Bloomberg, Company data, GIB Capital.*

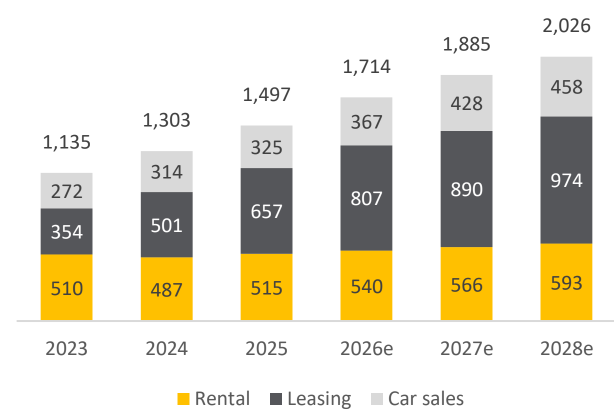
## Financial analysis in charts

*Figure 13: Fleet trend (in thousands) **



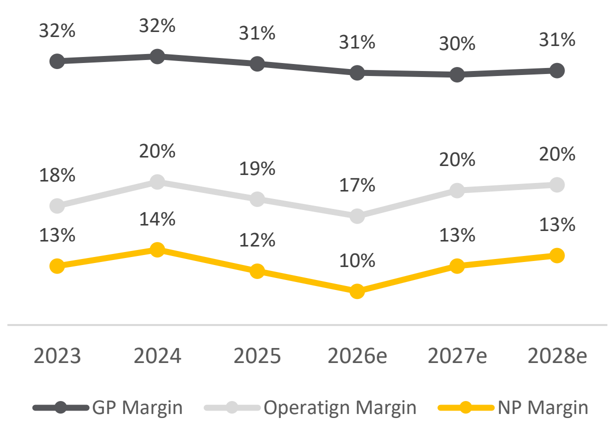

*Source: Company data, GIB Capital. *Average fleet*

*Figure 14: Revenue trend (SARmn)*



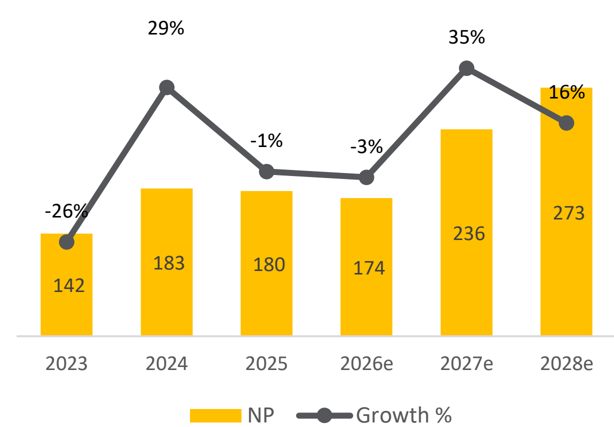

*Source: Company data, GIB Capital*

*Figure 15: Margins trend*



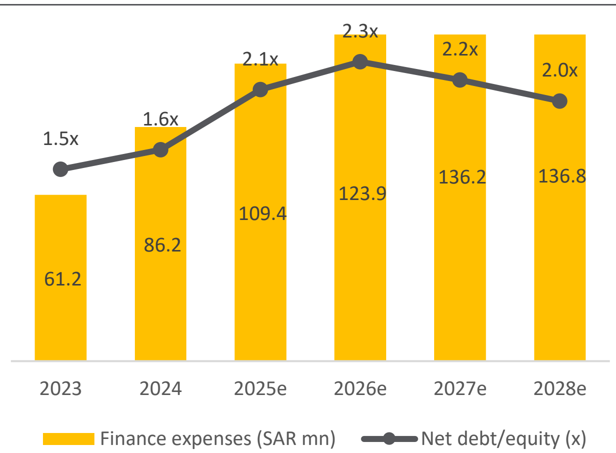

*Source: Company data, GIB Capital*

*Figure 16: Earnings trend*



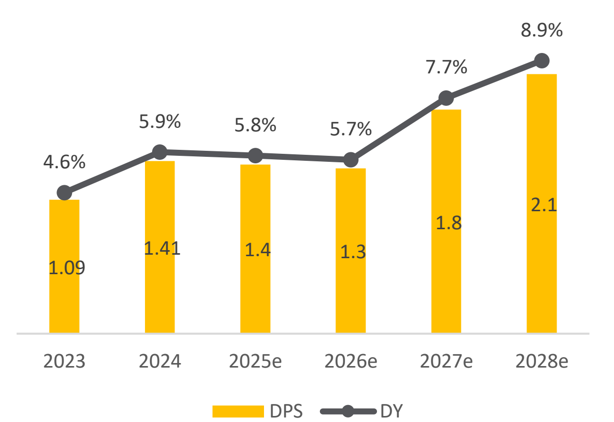

*Source: Company data, GIB Capital*

*Figure 17: Leverage trend*




*Source: Company data, GIB Capital*

*Figure 18: Dividends trend**




*Source: Company data, GIB Capital. *Historical numbers are adjusted for stock issuance.*

## Summarized Financial Statements

*Figure 14: Summarized basic financial statements (SARmn)*

| Income statement | 2024a | 2025a | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|
| **Revenue** | **1,303** | **1,497** | **1,714** | **1,885** | **2,026** |
| *revenue y/y* | *15%* | *15%* | *15%* | *10%* | *7%* |
| COGS | 885 | 1,027 | 1,191 | 1,312 | 1,403 |
| **Gross Profit** | **418** | **470** | **524** | **572** | **623** |
| *Gross Profit margin* | *32.1%* | *31.4%* | *30.5%* | *30.4%* | *30.8%* |
| Selling and Marketing Expense | 67 | 76 | 78 | 83 | 87 |
| G&A Expenses | 61 | 65 | 75 | 80 | 85 |
| Provision For Expected Credit Losses | 24 | 48 | 77 | 41 | 44 |
| **Operating profit** | **265** | **281** | **294** | **369** | **407** |
| *Operating margin* | *20.3%* | *18.7%* | *17.2%* | *19.6%* | *20.1%* |
| Finance costs | 86 | 109 | 124 | 136 | 137 |
| Other income | 8 | 14 | 11 | 12 | 13 |
| **PBT** | **187** | **185** | **181** | **244** | **283** |
| Zakat/tax | 4 | 5 | 7 | 9 | 10 |
| **Net income** | **183** | **180** | **174** | **236** | **273** |
| *Net margin* | *14%* | *12%* | *10%* | *13%* | *13%* |
| *y/y* | *29%* | *-1%* | *-3%* | *35%* | *16%* |
| **EPS** | **2.8** | **2.8** | **2.7** | **3.7** | **4.2** |
| DPS | 1.4 | 1.4 | 1.3 | 1.8 | 2.1 |
| Payout | 50% | 49% | 50% | 50% | 50% |
| **EBITDA** | **610** | **695** | **775** | **877** | **948** |
| Net debt (w/o lease liabilities) | 1,346 | 1,903 | 2,299 | 2,413 | 2,506 |
| Net debt (w/ lease liabilities) | 1,433 | 1,974 | 2,372 | 2,488 | 2,584 |

| Balance Sheet | 2024a | 2025a | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|
| Inventories | 17 | 39 | 47 | 52 | 55 |
| Accounts Receivable, Net | 283 | 358 | 413 | 454 | 488 |
| Contract assets | 6 | 9 | 9 | 9 | 9 |
| Prepayments | 110 | 176 | 205 | 225 | 241 |
| Bank balances and cash | 35 | 28 | 23 | 29 | 21 |
| **Total Current Assets** | **453** | **611** | **697** | **769** | **815** |
| Right-of-use assets | 85 | 67 | 70 | 73 | 76 |
| PP&E | 2,038 | 2,506 | 2,978 | 3,175 | 3,375 |
| **Total Non-Current Assets** | **2,123** | **2,573** | **3,048** | **3,247** | **3,451** |
| **Total Assets** | **2,576** | **3,183** | **3,745** | **4,017** | **4,266** |
| Current Liabilities | 973 | 1,188 | 1,660 | 1,812 | 1,922 |
| Non-current Liabilities | 772 | 1,081 | 1,083 | 1,086 | 1,088 |
| Equity | 830 | 915 | 1,002 | 1,119 | 1,256 |
| **Total Equity and Liabilities** | **2,576** | **3,183** | **3,745** | **4,017** | **4,266** |
| BVPS | 12.9 | 14.2 | 15.5 | 17.4 | 19.5 |

| Cashflow | 2024a | 2025a | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|
| Cashflow from Operations | -39 | -300 | -236 | 84 | 132 |
| Cashflow from Investing | -12 | -11 | -12 | -13 | -14 |
| Cashflow from Financing | 33 | 304 | 242 | -64 | -125 |
| **Total Cashflows** | **-18** | **-7** | **-6** | **6** | **-8** |

*Source: Company, GIB Capital. EPS and DPS are adjusted for stock issuance.*

*Figure 15: Key ratios*

| Key ratios | 2024a | 2025a | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|
| **Profitability ratios** | | | | | |
| RoA | 7% | 6% | 5% | 6% | 6% |
| RoE | 22% | 20% | 17% | 21% | 22% |
| Sales/Assets | 51% | 47% | 46% | 47% | 47% |
| Net margin | 14.0% | 12.0% | 10.1% | 12.5% | 13.5% |
| | | | | | |
| **Liquidity ratios** | | | | | |
| Current Assets/ Current Liabilities | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Debt to Total Equity | 1.8 | 2.2 | 2.4 | 2.2 | 2.1 |
| Receivable Days | 79 | 87 | 88 | 88 | 88 |
| Inventory Days | 7 | 14 | 10 | 10 | 10 |
| Payable days | 46 | 27 | 36 | 37 | 38 |
| Cash conversion cycle | 41 | 75 | 62 | 61 | 60 |
| | | | | | |
| **Debt ratios** | | | | | |
| Net Debt/EBITDA (w/o IFRS liab.) | 2.2x | 2.7x | 3.0x | 2.8x | 2.6x |
| Net Debt/EBITDA (w/ IFRS liab.) | 2.4x | 2.8x | 3.1x | 2.8x | 2.7x |
| Debt/Assets (w/o IFRS liab.) | 0.5x | 0.6x | 0.61x | 0.60x | 0.59x |
| Net Debt/Equity (w/o IFRS liab.) | 1.6x | 2.1x | 2.3x | 2.2x | 2.0x |
| | | | | | |
| **Valuation ratios** | | | | | |
| P/E | 8.4x | 8.5x | 8.8x | 6.5x | 5.6x |
| P/B | 1.8x | 1.7x | 1.5x | 1.4x | 1.2x |
| EV/EBITDA | 6.0x | 5.2x | 4.7x | 4.1x | 3.8x |
| Dividend Yield | 5.9% | 5.8% | 5.7% | 7.7% | 8.9% |

*Source: Company, GIB Capital*

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