Equity Research report
THEEB AB Equity
3 July 2024

Target Price: SAR75/share
Current Price: SAR67/share
Upside: ~12% (+Div. Yield: 3%)
Rating: Overweight

Theeb Rent a Car Company (Theeb)

Robust leasing backlog to ensure healthy earnings growth

- Healthy top-line growth, backed by strong fleet expansion (likely to be a high-single digit in the medium term) amid solid backlog and improving market dynamics.
- Earnings are likely to rise a CAGR of 15% over 2023-27e, aided by fleet expansion and healthy margins.
- We revise our target price to SAR75/share, implying an upside of ~12% and maintain our Overweight rating.

Stock data	
TASI ticker	4261
Mcap (SARmn)	2,881
Avg. Trd. Val (3m) (SARmn)	6.5
Free float	64.5%
QFI holding	3.7%
TASI FF weight	0.10%

Source: Bloomberg

TASI vs Theeb indexed to 100

Source: Bloomberg

Growing leasing backlog to support top-line growth: Theeb has a healthy revenue visibility for its leasing segment, supported by a strong backlog that stood at SAR1,001mn as of 1Q24 (+88% y/y), with the majority of orders to be delivered in 2024-25 (62% of total backlog; Figure 2). Additionally, the segment's average fleet size showcased impressive growth during 1Q24, increasing by 39% y/y to reach 17.1k from ~12.3k in the same quarter last year (+18% q/q). With a robust leasing backlog and an anticipated pipeline, we, on a conservative basis, expect the segment revenue to continue its trend and grow at a CAGR of 13% (previously ~7%) over the period 2023-27e. On the other hand, the rental segment experienced pressure during 1Q24 mainly due to Ramadan effect (utilization dropped to 68.6% from 72.2% in the same quarter last year) and change in client mix. However, given the rising demand from domestic travelers, tourism activities, and corporate clients, we anticipate the company to add more rented vehicle gradually in the coming years (low-mid single digit CAGR). This, along with a healthy utilization of above 70% would enable the company to record a modest top-line growth for the segment going forward (~5% CAGR over 2023-27e).

Heathy earnings growth: We remain positive on Theeb, driven by its robust backlog and favorable demand environment. However, we slightly revised our gross margin estimates in the range of ~33-34% (34-35% earlier), mainly due to slower-than-expected growth in the rental segment and change in revenue mix. Nonetheless, the company is undergoing to optimize operational cost (especially the insurance & maintenance cost) which are expected to enhance margins gradually, in our view. With the increased fleet size and a delay in rate cuts, we also expect finance costs to increase, which may limit the bottom-line growth. Overall, we anticipate a bottom-line growth CAGR of 15% over 2023-27e (previously 18%).

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Revenue	1,135	1,295	1,415	1,505
Revenue growth	*17%*	*14%*	*9%*	*6%*
Gross Profit	359	423	467	508
Gross Profit margin	*32%*	*33%*	*33%*	*34%*
EBITDA	538	610	660	709
Op. income	206	262	292	323
Net profit	142	172	194	228
Net profit margin	*13%*	*13%*	*14%*	*15%*
EPS (SAR)	3.3	4.0	4.5	5.3
DPS (SAR)	1.6	2.0	2.3	2.7
P/E	20.3x	16.7x	14.8x	12.6x

Source: Company, GIB Capital

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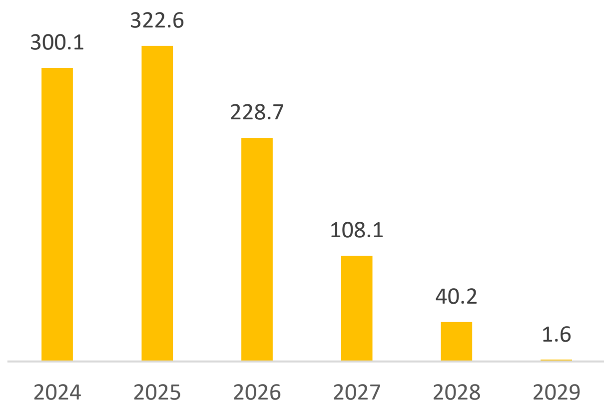
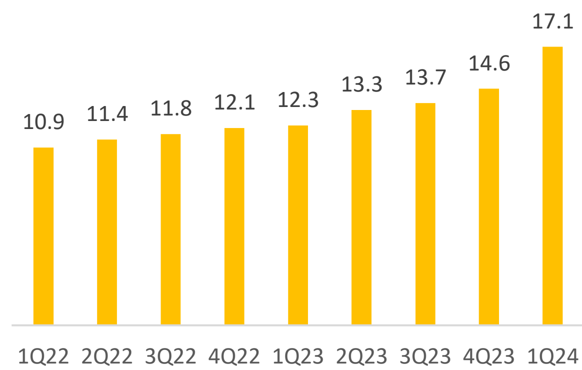
Valuation and risk: Post revision in our estimates, we revise our 1Y forward TP to SAR75 (SAR80 earlier), based on the average of DCF (SAR73 TP) and P/E (16x avg. 2024-25 EPS; SAR77 TP), implying an Overweight rating. Key downside risks are global recession, lower than expected benefits from Riyadh/Jeddah seasons, cut in VAT, return of the pandemic, increased competition, cost inflation for new vehicles, supply chain issues for automobiles, and cancellation of long-term leasing contracts.

Figure 2: Leasing backlog recognition (end of Mar-24 – SARmn)



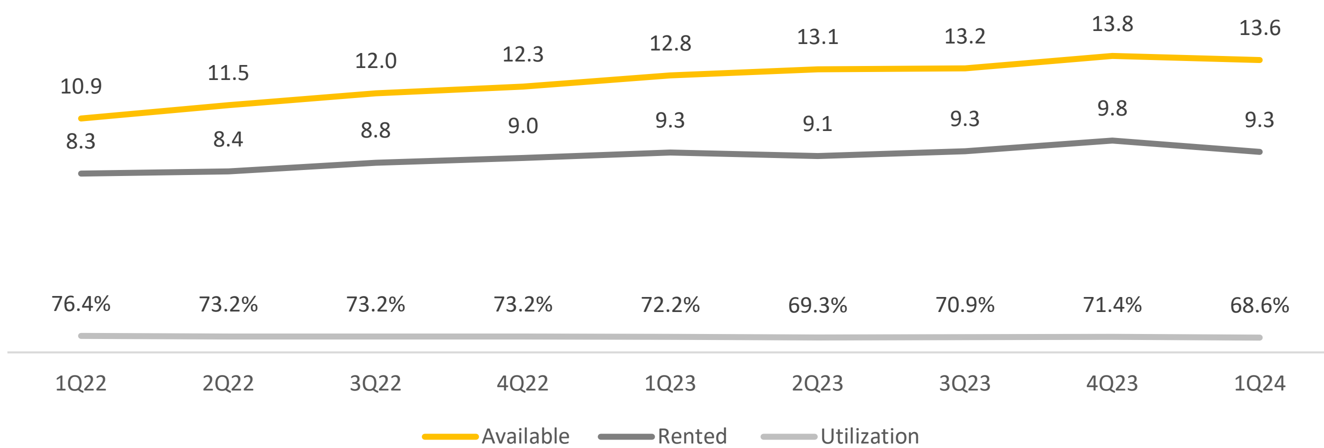
Source: Company data, GIB Capital

Figure 3: Quarterly average leasing Fleet evolution ('000)



Source: Company data, GIB Capital

Figure 2: Quarterly average rental fleet evolution ('000)



Source: Company data, GIB Capital

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