GiB CAPITAL جي آي بي كابيتال

Target Price: SAR38.00/share
Current Price: SAR31.20/share
Upside: 26% (+Div. Yield: 3.2%)
Rating: Overweight

United International Transportation Co. (BUDGET)

Weak margins drive earnings downgrade despite fleet expansion

- Fleet expansion continues but normalizes at lower rates following the 2024-25 surge; expect top-line to grow at a CAGR of ~9% over 2025-28e (13% earlier).
- Margin contraction and higher finance costs weigh down on profitability; we forecast earnings to grow at a slower CAGR of ~6% over 2025-28e vs. ~18% previously.
- We revise our TP to SAR38 per share (SAR66 earlier, adjusted for share issuance) based on DCF and P/E (13x on fwd 12 months EPS) with an “Overweight” rating.

Short-term topline softness on weak rentals despite continued fleet expansion: Budget’s fleet grew ~10% y/y in 2025 to ~59.1k vehicles, following the exceptional 52% surge in 2024 driven by the AW acquisition and further added ~500 vehicles in 1Q26 to reach ~59.5k (~9.5% y/y), reinforcing its market leadership. The mix remains skewed towards leasing at 74%, with rentals accounting for 26%. Going forward, we expect fleet expansion to continue but may normalize after the non-organic 2024-25 jump. Accordingly, we project an ~8% fleet CAGR over 2025 28e for both rental and leasing segments, reaching ~69-74k units by 2027-28e (vs. management’s 70k target for 2027e). While the overall mix should stay stable driven by similar growth momentum across segments, rental share is expected to edge higher by 2029-30e, due to AW’s expansion. Despite fleet expansion, topline performance in 2026e is set to be modest (+4% y/y to SAR2.52bn), reflecting softer rental activity in 1H26, a high UCS base in 2025, and a normalized leasing growth after the 2024-25 spike. Beyond 2026e, fleet driven momentum combined with rental recovery, UCS normalization, and supportive growth from logistics & others, are expected to drive revenue re-acceleration, translating into a ~9% CAGR over 2025-28e vs 13% previously.

Record low GPM amid structural weakness and inflated costs; expect to improve gradually: Budget’s profitability outlook remains challenged with GPM hitting a record low of 23.6% in 4Q25 and further contracting to 22.2% in 1Q26. The weakness is largely structural, driven by softness in the UCS market where Budget is more exposed than peers likely due to its fleet mix, alongside lower realized prices, weaker rental utilization, and general cost inflation, notably a SAR22mn q/q jump in depreciation. This left Budget with the lowest sector GPM as of 1Q26.

Figure 1: Key financial metrics

SARmn	2024a	2025a	2026e	2027e	2028e
Revenue	**1,971**	**2,419**	**2,521**	**2,804**	**3,111**
Revenue growth	*43%*	*23%*	*4%*	*11%*	*11%*
Gross Profit	**560**	**686**	**622**	**754**	**852**
Gross Profit Margin	*28%*	*28.4%*	*24.7%*	*26.9%*	*27.4%*
Operating Profit	398	458	365	475	548
Net profit*	**315**	**346**	**255**	**343**	**407**
Net profit margin	*16%*	*14.3%*	*10.1%*	*12%*	*13%*
Net profit growth	*13%*	*10%*	*-26%*	*35%*	*19%*
EPS (SAR)	3.02	3.32	2.44	3.29	3.91
DPS (SAR)	1.09	1.12	1.0	1.3	1.6
P/E	10.0x	9.1x	12.4x	9.2x	7.7x
EV/EBITDA	5.8x	4.8x	5.2x	4.4x	3.9x

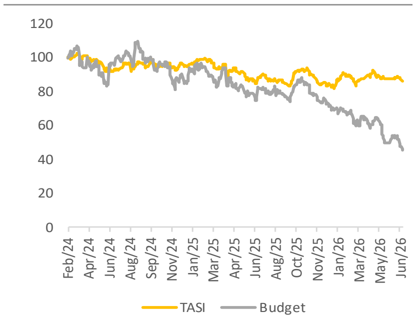
*Source: Company data, GIB Capital. * Attributed to shareholders. EPS and DPS are adjusted for stock issuance.*

Stock data

TASI ticker	4260
Mcap (SARmn)	3,157
Avg. Trd. Val (3m) (SARmn)	19.1
Free float	100.0%
QFI holding	13.2%
TASI FF weight	0.14%

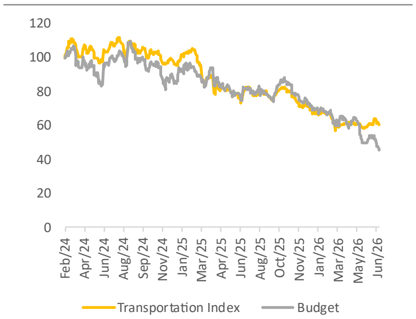
Source: Bloomberg

TASI vs Budget indexed to 100



Source: Bloomberg

Transportation sector vs Budget indexed to 100



Source: Bloomberg

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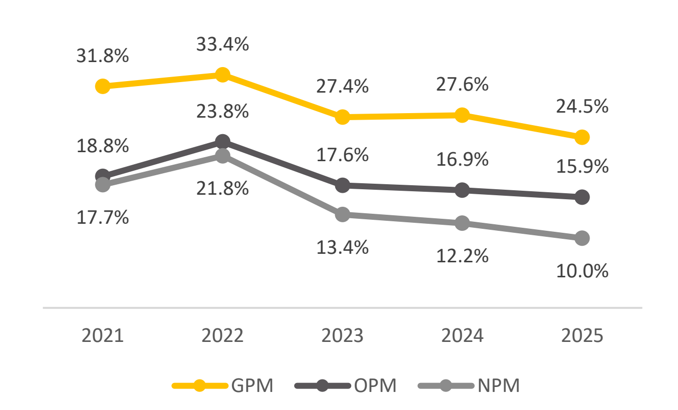
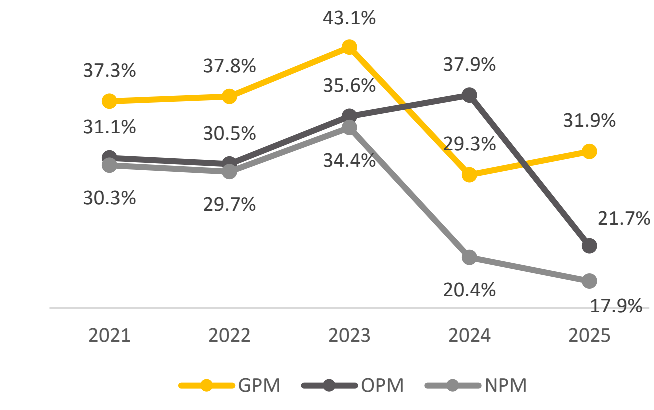
Looking ahead, we maintain a conservative stance on UCS's profitability given structural headwinds in the used-car market, including rising penetration by Chinese brands. While depreciation might normalize over the coming periods following residual values revision, broader cost inflation is likely to persist in our view. Conversely, rental performance should begin to recover from 2Q26, supported by easing macro disruptions and a gradual recovery in pricing, with clearer visibility by 3Q26. Meanwhile, leasing margins should remain resilient due to the contracted nature of the business. Incorporating these dynamics, margins are expected to improve gradually through 2026e but may remain below the 26% threshold, implying 3.7ppts y/y decline in GPM. Nonetheless, we expect margin expansion to resume in 2027e (~27%) and 2028e (27.4%), led by core operations, though UCS remains dilutive, reflecting an average ~4ppts downgrade versus prior estimates for 2026-28e.

Figure 2: Budget standalone margin profile



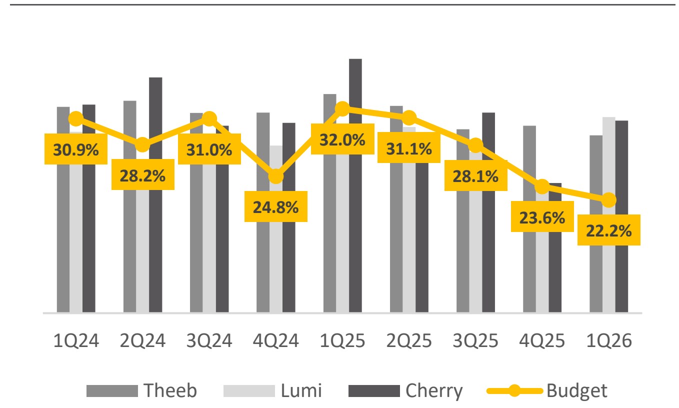
Source: Company data, GIB Capital.

Figure 3: Rahal unit margin profile



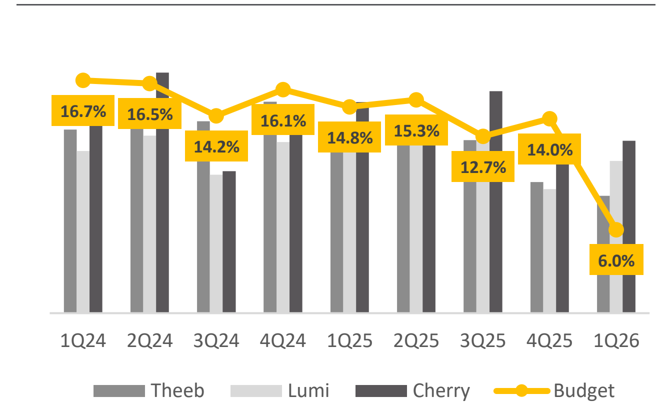
Source: Company data, GIB Capital

Figure 4: Budget's GPM vs peers' trend



Source: Company data, GIB Capital All rental operations under this unit.*

Figure 5: Budget's NPM vs peers' trend



Source: Company data, GIB Capital

A sharp earnings cut is warranted amid margin contraction and finance charges: Operationally, controlling OPEX remains critical, with expected synergies from the AW acquisition (management expects further ~SAR25mn in 2026e) yet to materialize. A temporary and unsustainable cost reduction at the Budget standalone pushed group OPEX down to 9.4% of sales in 2025 (vs. 11.6% initially estimated), effectively masking heavy Rahal consolidation costs. As a result, the OPEX to sales ratio is projected to rise to ~10% in 2026e (from 9.4% in 2025), followed by a gradual easing as operational leverage improves. Combined with parallel GPM compression, operating profitability is set to weaken despite steady support from other income (~SAR92mn expected in 2026e). Consequently, we expect operating margin now to average ~16% over 2026-28e, down from ~19% previously.

On the financing side, inflationary pressure on funding costs and higher borrowings tied to expansion are set to keep finance expense in 2026e elevated with a gradual increase to ~SAR136mn by 2028e from SAR108mn. These combined pressures lead to a projected 26% y/y decline in 2026e net income to SAR255mn. However, we expect strong earnings to rebound in 2027e (+35% y/y), driven by fleet additions and further supported by margin recovery, given a weak 2025 base, followed by continued growth in 2028e (+19% y/y) as expansion benefits and scalability materialize. Overall, this results in a ~6% earnings CAGR for 2025-28e, a substantial downgrade from the prior ~18% estimate, reflecting both structural margin compression and higher financial burden.

Leverage remains contained despite rising borrowings, supported by a robust balance sheet: With expectations for healthy fleet expansion, we have revised our CAPEX outlook upward by 5% for 2026-28e. Under updated assumptions for purchase prices, volumes, and minimal core PP&E additions, total spending is projected at ~SAR5.4bn over 2026-28e, averaging ~SAR1.8bn annually (previously ~SAR1.7bn). As a result, Budget's borrowing base is expected to rise steadily, reaching ~SAR2.4bn by 2028e. Despite this increase, the company's strong balance sheet keeps leverage at a healthy level, with net D/E expected to remain healthy, ~0.70x on average (vs. 0.55x as of 1Q26), preserving ample headroom for future expansion. In the near term, cash flows will come under pressure, reflected in negative FCFF in 2026-27e expectations, before turning positive in 2028e as expansion benefits materialize. Even with these temporary cash flow constraints, we remain confident in Budget's ability to sustain a 40% payout ratio, which (based on our earnings estimates) translates into dividend yields of 3.2% and 4.4% over 2026-27e, respectively.

Changes in estimates: While we largely maintain our fleet forecast estimates for 2026-27e, with an uptick of 4% for 2028e estimates, to 74k units, we cut our topline expectations by ~5% for 2026e and by ~9% for 2027e following downward revision in our rental revenue forecasts for 2026-28e. Further, we implement a drastic cut in GPM estimates by ~6pps and ~3pps for 2026-27e, respectively, due to persistent weakness in UCS profitability and increasing costs. While we meaningfully lowered our OPEX expectations, elevated finance charges are set to weigh down on the bottom line further. Consequentially, we also lower our earnings forecasts by ~35-28% for 2026-27e.

Figure 6: Change in estimates

SARmn	2026e			2027e		
	Current	Earlier	% change	Current	Earlier	% change
Revenues	**2,521**	**2,651**	**-4.9%**	**2,804**	**3,084**	**-9.1%**
Gross profit	622	804	-22.6%	754	930	-18.9%
GPM %	24.4%	30.3%		26.9%	30.2%	
Operating profit	365	504	-27.6%	475	596	-20.3%
Operating margin %	14.0%	19.0%		17.1%	19.3%	
Net Income*	**255**	**389**	**-34.6%**	**343**	**478**	**-28.3%**
Net margin %	9.6%	14.7%		12.4%	15.5%	
CAPEX	1,593	1,657	-3.9%	1,884	1,810	4.1%
Of sales %	63%	65%		67%	65%	

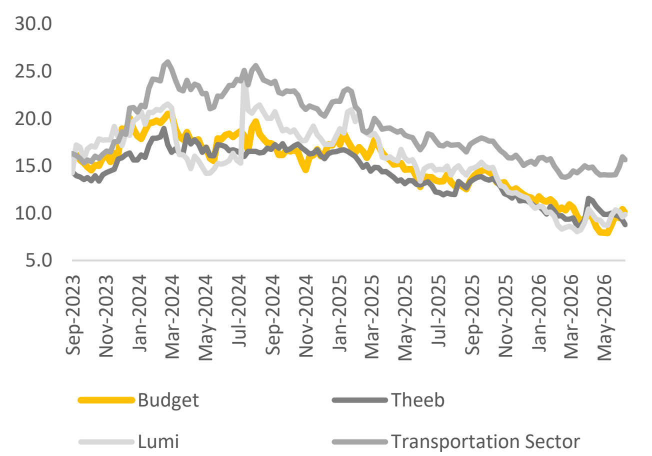
*Source: GIB Capital. *Attributed to shareholders*

Valuation and risk: Post revising our estimates and outlook, we cut our 1Y forward TP **to SAR38.00 per share** (SAR 66 earlier, adjusted for share issuance), based on the average of DCF (SAR38 TP) and P/E (13x, for the forward 12 months EPS; SAR38 TP). Our TP offers a potential upside of 26% of the current market valuation. Accordingly, we keep our "**Overweight**" recommendation on the stock. We cut our justified P/E from 18x earlier in line with the general repricing trend in the sector (figure 7), and to account for a discount based on revisiting some fundamentals of the company's profile, along with the impact partially including 2027 earnings in our valuation.

The stock currently trades at a 1Y fwd P/E of ~12.4x for 206e and 9.2x for 2027e, based on our estimated EPS; following 35% YTD correction, compared to a 3Y average of ~15x. Further, the stock trades at an EV/fleet multiple of SAR81.4k, the lowest in the sector currently, and at ~40% discount to Budget's historical average, further supporting our case for potential upside.

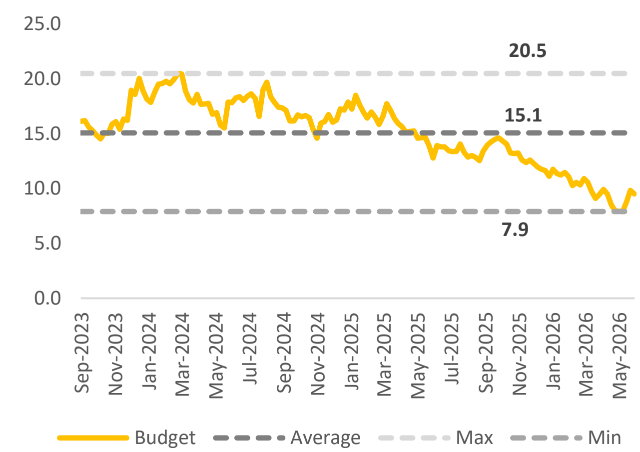
Key downside risks include lower-than-expected contribution from tourism, increased competition, supply chain disruptions for vehicles, lower-than-expected retention rates of lease clients, and weaker-than-expected impact of acquisitions.

Figure 7: Budget's 1Y Fwd P/E vs peers and sector index



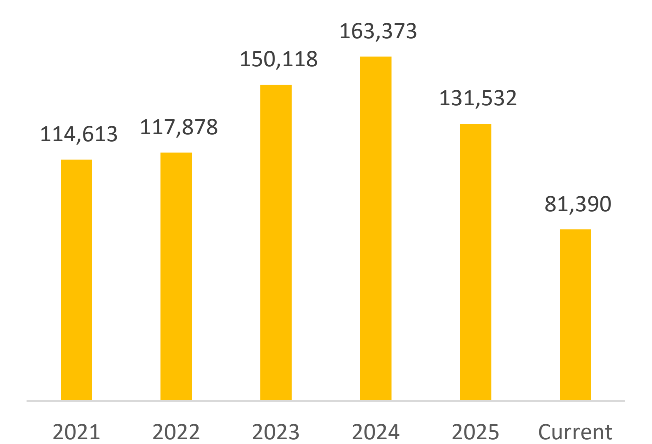
Source: Bloomberg, GIB Capital.

Figure 8: Budget's 1Y Fwd P/E trend



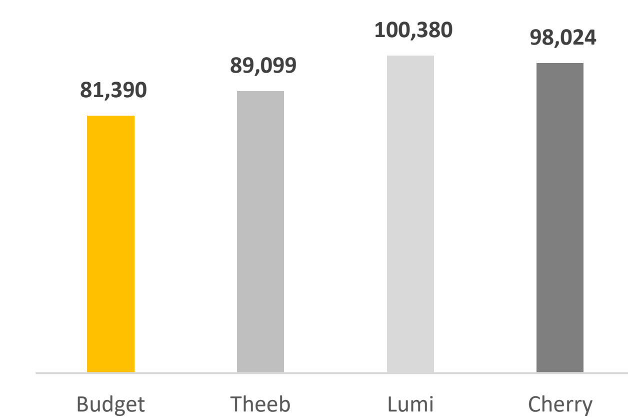
Source: Bloomberg, GIB Capital

*Figure 9: Budget's EV/fleet trend (SAR) **



*Source: Bloomberg, Company data, GIB Capital, as of 30th June 2026. *Based on average daily EV and average fleets for historical periods.*

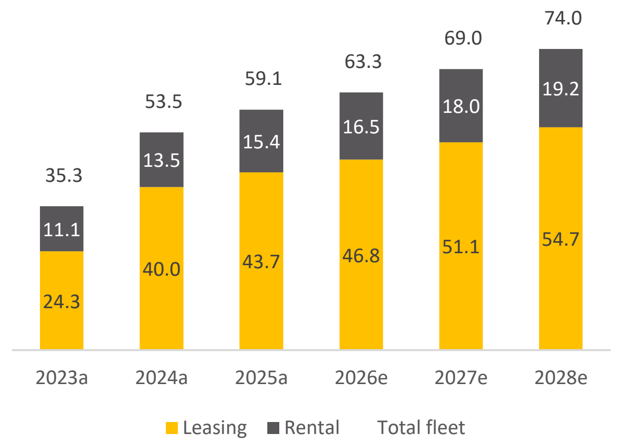
Figure 10: Budget's current EV/fleet vs peers (SAR)



Source: Bloomberg, Company data, GIB Capital, as of 30th June 2026.

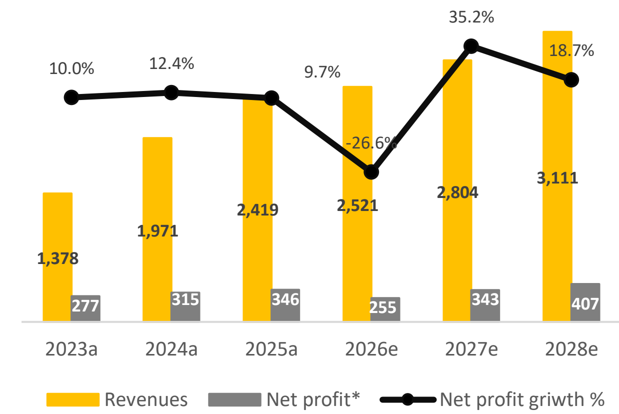
Financial analysis in charts

Figure 11: Fleet Size Trend (in thousands)



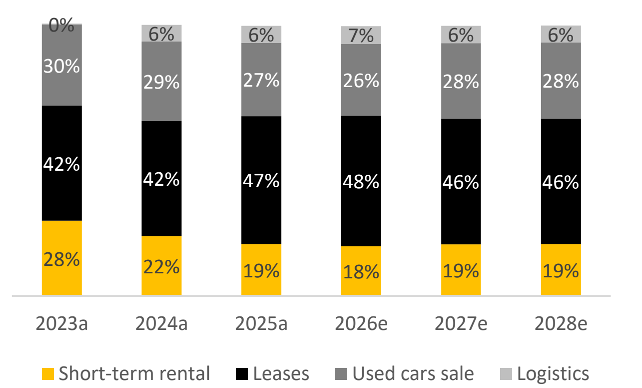
Source: Company's data, GIB Capital

Figure 12: Financial Performance Trend (in SAR mn)



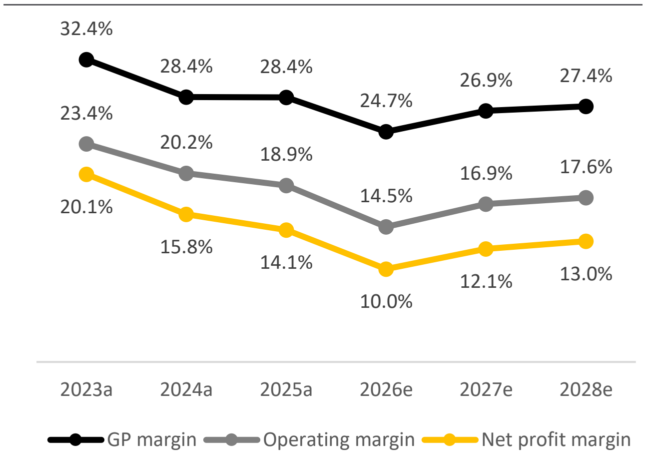
*Source: Company's data, GIB Capital. *Attributed to shareholders.*

Figure 13: Revenue Mix Trend



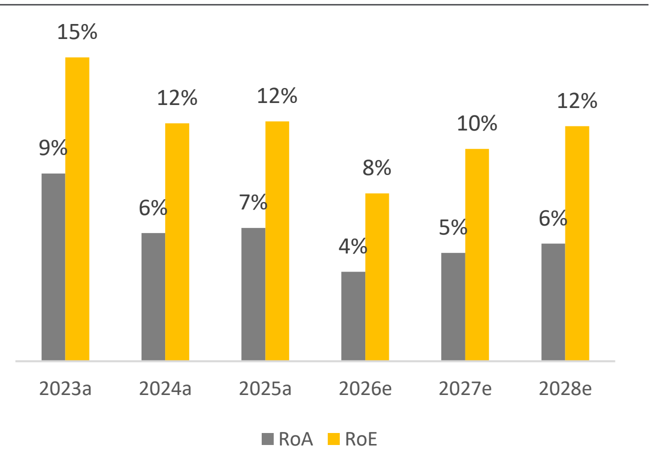
Source: Company's data, GIB Capital

Figure 14: Margins Trend



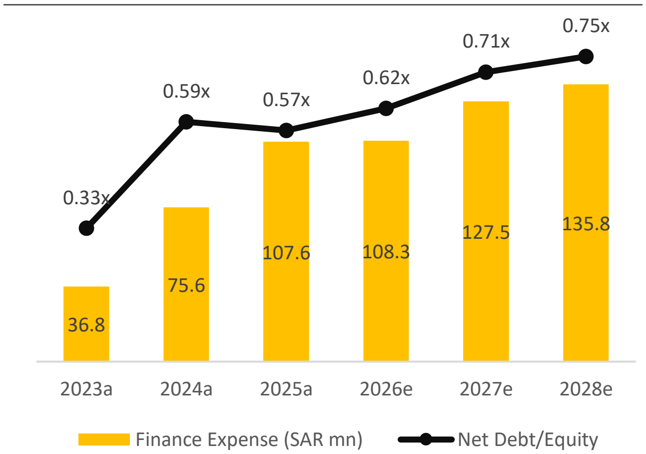
Source: Company's data, GIB Capital

Figure 15: RoA & RoE Trend



Source: Company's data, GIB Capital

Figure 16: Leverage Trend



Source: Company's data, GIB Capital

Summarized Financial Statements

Figure 17: Summarized basic financial statements (SARmn)

Income statement	2024a	2025a	2026e	2027e	2028e
Revenue	**1,971**	**2,419**	**2,521**	**2,804**	**3,111**
revenue y/y	*43%*	*23%*	*4%*	*11%*	*11%*
COGS	-1,412	-1,733	-1,899	-2,050	-2,259
Gross Profit	**560**	**686**	**622**	**754**	**852**
Gross Profit margin	*28.4%*	*28%*	*25%*	*27%*	*27%*
S&M	-89	-101	-105	-114	-121
G&A	-120	-180	-199	-219	-235
Impairment charges	-11	-33	-45	-33	-37
Other operating income, net	59	86	92	87	89
Operating profit	**398**	**458**	**365**	**475**	**548**
Operating margin	*20.2%*	*18.9%*	*14.5%*	*17%*	*18%*
Finance costs	-76	-108	-108	-127	-136
PBT	**323**	**350**	**257**	**347**	**412**
Zakat/tax	-11	-8	-6	-8	-9
Net income*	**315**	**346**	**255**	**343**	**407**
Net margin	*15.8%*	*14%*	*10%*	*12%*	*13%*
y/y	*12%*	*10%*	*-27%*	*35%*	*19%*
EPS	3.02	3.32	2.44	3.29	3.91
DPS	1.45	1.25	1.0	1.3	1.6
Payout	48%	38%	40%	40%	40%
EBITDA	**825**	**1,010**	**917**	**1,080**	**1,219**
Net debt (w/o lease liabilities)	1,336	1,415	1,661	2,076	2,377
Net debt (w/ lease liabilities)	1,583	1,666	1,917	2,335	2,640

Balance Sheet	2024a	2025a	2026e	2027e	2028e
Inventories	97	72	97	111	124
Accounts Receivable, Net	611	676	760	849	946
Prepayments & other receivables	70	58	64	69	76
Bank balances and cash	86	57	60	45	54
Total Current Assets	**866**	**864**	**981**	**1,075**	**1,201**
Right-of-use assets	247	247	252	257	261
PP&E	3,766	4,039	4,430	4,980	5,465
Total Non-Current Assets	**4,143**	**4,424**	**4,819**	**5,375**	**5,864**
Total Assets	**5,009**	**5,288**	**5,800**	**6,450**	**7,064**
Current Liabilities	1,144	1,261	1,486	1,728	1,942
Non-current Liabilities	1,124	1,045	1,183	1,389	1,549
Equity	2,697	2,942	3,091	3,294	3,534
Total Equity and Liabilities	**5,009**	**5,288**	**5,800**	**6,450**	**7,064**
BVPS	25.9	28.2	29.7	31.6	33.9

Cashflow	2024a	2025a	2026e	2027e	2028e
Cashflow from Operations	141	225	41	-63	94
Cashflow from Investing	-18	-31	-25	-28	-31
Cashflow from Financing	-72	-220	-13	77	-53
Total Cashflows	**52**	**-27**	**3**	**-15**	**9**

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

Figure 18: Key ratios

Key ratios	2024a	2025a	2026e	2027e	2028e
Profitability ratios					
RoA	6%	7%	4%	5%	6%
RoE	12%	12%	8%	10%	12%
Sales/Assets	39%	46%	43%	43%	44%
Net margin	16%	14%	10%	12%	13%
EBITDA margin	42%	42%	36%	39%	39%
Liquidity ratios					
Curr. Assets/ Curr. Liabilities	0.8	0.7	0.7	0.6	0.6
Debt to Total Equity	0.6	0.6	0.6	0.7	0.8
Receivable Days	113	102	110	111	111
Inventory Days	25	15	14	15	15
Payable days	78	62	72	72	71
Cash conversion cycle	60	56	52	54	55
Debt ratios					
Net Debt/EBITDA	1.6	1.4	1.8	1.9	1.9
Debt/Assets	0.28	0.28	0.30	0.33	0.34
Net Debt/Equity	0.59	0.57	0.62	0.71	0.75
Valuation ratios					
P/E	10.0x	9.1x	12.4x	9.2x	7.7x
P/B	1.2x	1.1x	1.0x	1.0x	0.9x
EV/EBITDA	5.8x	4.8x	5.2x	4.4x	3.9x
Div. yield	3.6%	3.7%	3.2%	4.4%	5.2%

Source: Company, GIB Capital.

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