



United International Transportation Co.

15 Feb 2021

Resilient Performance by Budget, Challenges Remain in FY2021

Budget reported a record-high net income of SAR79mn during Q4 2020 (+64% Y-o-Y, +96% Q-o-Q) due to exceptional gains on the sale of used vehicles. Amid current low utilization and weak demand in the rental business, Budget sold the vehicles in excess of market demand during Q4 2020 thus recording record high vehicles sales. Budget's fleet diversification and heavy reliance on the more resilient long-term lease business helped it survive FY2020 with only 6% drop in revenues and 5% rise in profits. We expect flat revenues and lower profits in FY2021e compared to FY2020 with expectations of full recovery by FY2022e.

Budget's revenues grew by 4.1% Y-o-Y during Q4 2020 and dropped by 6.4% during FY2020. Short-term rental and long-term lease revenues fell by 32.4% and 4.6% Y-o-Y, respectively, during Q4 2020, while used vehicles sales hiked by 17.6% recording an all-time high of SAR122mn.

Gross profit surged by 41.7% Y-o-Y during Q4 2020, but remained flat for FY2020, as the company reported 70% profit margins on its vehicles' sales during FY2020 vs 65% and 47% in 2019 and 2018, respectively. The fleet sold during FY2020 was 84% depreciated vs 80% and 75% in 2019 and 2018, respectively, allowing Budget to report higher gains on vehicle sales during the year. Gross margins reached a record high of 37.2% in Q4 2020 vs 27.3% in Q4 2019. SG&A dropped by 4.8% on lower employee expenses allowing further expansion of EBIT by 64.3%. EBIT filtered through net income, which hiked by 64.3% Y-o-Y during Q4 2020 and doubled to SAR79mn Q-o-Q.

Budget's diversified fleet and flexible business model allowed it to overcome the impact of COVID on its operations during the year, thanks to the sale of used vehicles and relative robustness of the long-term lease segment. However, record high disposal of used vehicles indicate weak demand and low utilization in the rental business, which encouraged Budget to sell unproductive vehicles in its fleet to increase operating efficiencies. The move is expected to support the stability of Budget's rental prices going forward. Vehicle sales also strengthened Budget's cash flow position with a record high reported cash balance of SAR147mn as of Q4 2020, which will support its financial position amid continued short-term challenges.

We expect vehicle sales and profits to normalize in FY2021e from an exceptionally high base in FY2020. We see flat revenues and lower profits & margins in FY2021e compared to FY2020 as: (i) borders closure continues until May 2021, hindering short term rental recovery in H1 2021, (ii) vehicles sales volume and profits normalize, and (iii) weak business conditions continue to pressure long-term lease revenues. On the other hand, Budget's strong balance sheet will continue to help it withstand persistent pressures.

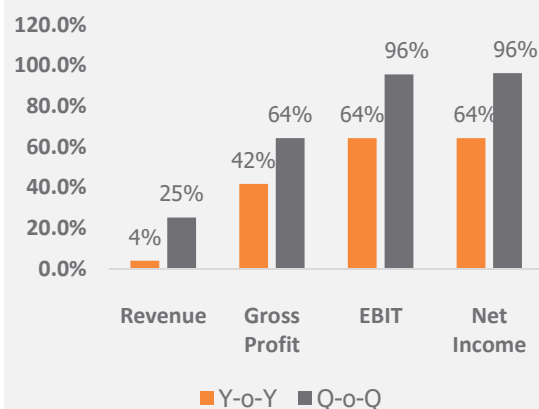
We maintain our **Neutral recommendation for Budget with a 52-weeks target price of SAR36.5**

Recommendation	Neutral
Previous Recommendation	Neutral
Current Price (14-02-2021)	SAR37.8
Target Price (52 Weeks)	SAR36.5
Upside/ (Downside)	(%3.3)
Shariah Compliance	Pass

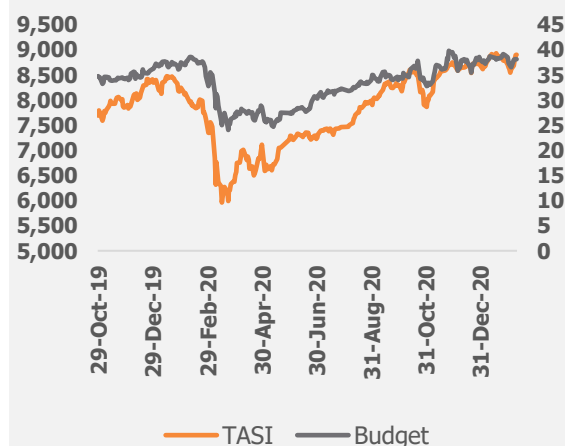
Key Financial Ratios

Ratio	Q4 2020	Q3 2020	Q4 2019
Revenue Growth	25.3%	21.3%	7.2%
Gross Margin	37.2%	28.4%	27.3%
EBIT Margin	29.1%	18.6%	18.4%
Net Margin	27.8%	17.8%	17.6%

Key Financial Results (Q4 2020)



Share Price Performance



Guide to Ratings and Disclaimer

Guide to Ratings

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

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