



Acquisition effect and unexpected GP margin expansion drives the earnings growth, partially offset by higher-than-expected OPEX

Budget Saudi's (Budget) net profit jumped 18.1% Y/Y to SAR 82.8mn in Q1-25, in line with our estimate of SAR 81.9mn and market estimate of SAR 87.9mn. The Y/Y growth was driven by healthy topline and higher GP margin, despite higher financing expenses and losses from acquired logistics company. Revenues increased 30.4% Y/Y to SAR 543.4mn, broadly in line with our estimate of SAR 580.2mn. The revenue growth appears to be primarily driven by growth in fleet size and improved utilization rates across long-term and short-term rentals. GP margin expanded by ~110bps Y/Y to 32.0%, while operating margin widened by 10bps to 19.7% and were above our expectations of 25.8% and 19.2%, respectively. The stock currently trades at a P/E of 16.6x based on our FY25E estimates, and we believe the current market valuations already factors in most of the gains related to the acquisition and future growth. We keep our TP of SAR 84.0/share on Budget Saudi and maintain "Neutral" recommendation.

- Budget reported net income of SAR 82.8mn, up 18.1% Y/Y in Q1-25. The bottom line was in-line with our estimate of SAR 81.9mn. The Y/Y growth in net income was driven by healthy topline and higher GP margin, despite higher financing expenses and losses from the acquired logistics company.
- Revenue in Q1-25 increased by 30.4% Y/Y to SAR 543.4mn and was broadly in line with our estimate of SAR 580.2mn. It appears that the revenue growth was primarily led by growth in fleet size and improved utilization rates across long-term and short-term rentals. Further contribution from the newly consolidated subsidiary Autoworld too contributed to the topline growth in Q1-25.
- Gross profit rose 34.9% Y/Y to SAR 174.0mn and was above our estimate of SAR 149.7mn. The GP margin grew ~110bps Y/Y in Q1-25 to 32.0% and was above our estimate of 25.8%. The GP margin was significantly higher than the pre-acquisition levels and we believe lower sales of used-vehicles could have aided in the expansion. However, we don't expect the current levels of GP margins to be sustainable.
- Operating profit rose 31.2% Y/Y to SAR 107.1mn in Q1-25 and was in-line with our estimate of SAR 111.7mn. Operating margins widened to 19.7% in Q1-25 vs. 19.6% in Q1-24 (AJC estimate: 19.2%). The operating margin expansion could be due to improved utilization rates across short term and long-term rental segments, alongside better cost rationalization for certain operational cost items.

AJC view and valuation: Budget posted robust topline growth in Q1-25 and was broadly in-line with our estimates. The company's GP margin exceeded our expectations; however, we don't expect Q1-25 levels to be sustainable considering the integration of AutoWorld. Nevertheless, over the longer term we expect Budget to maintain its healthy growth in short-term and long-term segments. Its acquisition of AutoWorld will give it a lead over peers with expanded scale of operation. Although AutoWorld operates in lower-margin business than Budget, the expected cost synergies of SAR 45mn over three years could help offset this margin impact. Despite the more leveraged AutoWorld's balance sheet, Budget's financial position is expected to be comfortable to support any further expansion to gain most out of the upcoming growth in sector. However, we believe the current market valuation already factors in most of the gains related to the acquisition and future growth. Thus, we reiterate our 'Neutral' stance on the stock and forecast Budget's fleet to expand at CAGR of 6.7% to reach over 76.3K by FY29E, translating into revenue CAGR of 10.2% and net profit CAGR of 15.8% over FY24-29E. The stock currently trades at P/E of 16.6x and EV/EBITDA of 5.8x based on our FY25E estimates. We keep our TP of SAR 84.0/share on Budget and maintain "Neutral" recommendation.

SAR mn	Q1-24	Q4-24	Q1-25	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	416.9	623.3	543.4	30.4%	-12.8%	-6.3%
Gross Profit	129.0	150.4	174.0	34.9%	15.7%	16.2%
Gross Margin	30.9%	24.1%	32.0%	-	-	-
EBIT	81.7	132.1	107.1	31.2%	-18.9%	-4.1%
Net Profit	70.1	102.0	82.8	18.1%	-18.9%	1.1%
EPS	0.90	1.31	1.06	-	-	-

Source: Company Reports, Aljazira Capital

Recommendation	Neutral
Target Price (SAR)	84.0
Upside / (Downside)*	13.2%

Source: Tadawul *prices as of 12th of May 2025

Key Financials

SARmn (unless specified)	FY22	FY23	FY24	FY25E
Revenues	1,025	1,378	1,971	2,392
Growth %	3.7%	34.4%	43.0%	21.4%
Gross Profit	358	447	556	628
Net Income	252	277	312	348
Growth %	14.6%	10.0%	12.4%	11.8%
EPS	3.22	3.55	3.99	4.46
DPS	2.00	1.50	1.45	1.75

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24	FY25E
Gross Margin	35.0%	32.4%	28.2%	26.3%
Net Margin	24.6%	20.1%	15.8%	14.6%
P/E (x)	14.2	22.3	20.5	16.6
P/B (x)	3.1	2.8	2.0	1.8
EV/EBITDA (x)	6.1	8.4	6.3	5.8
Dividend Yield	4.2%	1.9%	1.8%	2.0%

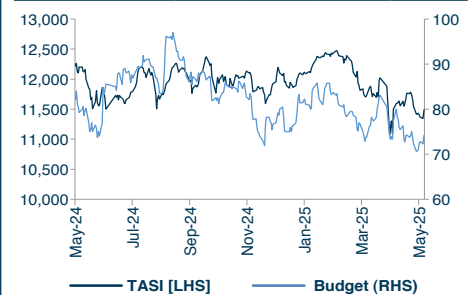
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (bn)	5.8
YTD%	-9.4%
52 week (High)/(Low)	98.6/69.4
Share Outstanding (mn)	78.2

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
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3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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