alinma capital

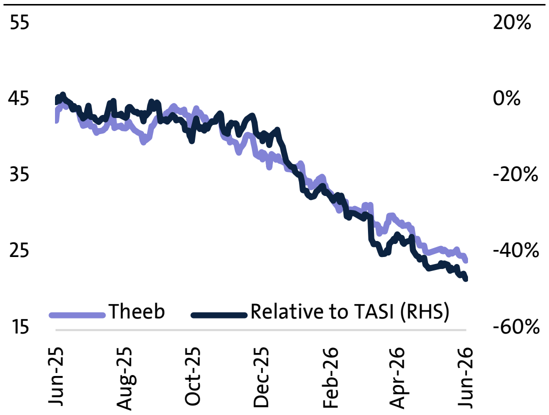
# Theeb: Estimates cut; Buy maintained

| Recommendation | BUY |
|---|---|
| Market Price | 24.48 |
| Target Price | 39.0 |
| Upside/Downside | 59% |

**Stock Data**

| | |
|---|---|
| Market Cap Total/FF (SARmn) | 1615/1175 |
| Shares Total/FF (mn) | 66/48 |
| 52 Week Hi-Low(SAR) | 45.3/24.1 |
| 3/6/12 M Volume Traded (mnsh) | 0.13/0.12/0.31 |
| 3/6/12 M Value Traded (USDmn) | 1.5/1.3/12.7 |
| 3/6/12 M Relative Performance (%) | -22/-38/-47% |

**Theeb Stock Price Performance VS TASI**




Source: AC

## Theeb: Estimates cut on elevated credit pressure; higher depreciation rate

While Theeb Rent a Car Company (Theeb) delivered an impressive 20% fleet growth in 1Q26, the company's earnings clearly faced elevated stress from credit risk, partially due to geopolitical events and weak used car sales market. Based on feedback from the latest earnings call, we conclude the twin issues will likely mar Theeb's growth strategy for most of 2026 and may even have bearings for future estimates as well. Accordingly, we have cut our earnings estimate for Theeb by 24-27% over 2026-2029. An 47% underperformance in 12-months adequately incorporates the weak earnings environment for 2026, in our view. We retain our Buy rating with revised TP of SAR39/sh

## Estimates changes driven by ECL and higher depreciation rate

The revision in earnings is primarily driven by two factors: (i) a higher charge for credit cost of 17% vs 12% previously assumed. ECL charge in 1Q26 came in at 22%. The management has guided for yet another quarter of an elevated ECL charge in 2Q (ii) expected change in depreciation rate in response to weak resale value of used cars and an ongoing exercise on assessment of residual value, which the management expects to conclude in 3Q26 (1% impairment of net book value results in SAR26mn impact).

## Buy retained on two key considerations

With new earnings and industry backdrop, we expect Theeb to moderate its growth aspirations by focusing more on value and margin under the current environment, recalibrate its debt levels to lower levels (1Q26 Debt to Assets:60%) and managing credit risk. We see high possibility of the company effectively delaying/skipping dividends in the next two quarters. Our Buy rating is predicated on two considerations: (i) Theeb's actual average fleet size is up 20% YoY in 1Q26 and should provide significant lift to EBITDA in 2026/2027, (ii) significant valuation discount under our revised assumptions on ECL (40% discount to average P/BV since listing) and recent stock price performance.

## Other key takeaways from the management meeting

(i)Revenue backlog on the leasing segment is up 5% QoQ in 1Q26 (ii) The management may look to add more Chinese vehicles in future, subject to the availability of internal and external infrastructure, (iii) As observed in other listed peer, Theeb has faced credit quality pressure across the board, particularly in logistics.

**Theeb: Financial Highlights (SARmn)**

| Year to Dec | CY24 | CY25 | CY26E | CY27E | CY28E | CY29E |
|---|---|---|---|---|---|---|
| Revenues | 1303 | 1497 | 1716 | 1876 | 1982 | 2075 |
| Growth | 14.7% | 14.9% | 14.6% | 9.3% | 5.6% | 4.7% |
| PAT | 183 | 180 | 172 | 194 | 199 | 220 |
| EPS (SAR) | 2.8 | 2.7 | 2.6 | 2.9 | 3.0 | 3.3 |
| Growth | 29% | -1% | -5% | 13% | 3% | 11% |
| DPS (SAR) | 1.4 | 1.3 | 0.3 | 1.5 | 1.5 | 1.7 |
| P/E (X) | 8.8 | 9.0 | 9.4 | 8.3 | 8.1 | 7.3 |
| D/Y (%) | 5.6% | 5.5% | 1.3% | 6.0% | 6.2% | 6.8% |
| P/BV | 1.4 | 1.9 | 1.8 | 1.5 | 1.4 | 1.3 |

Source: Theeb, AC Estimates

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## Summary of Estimate Changes

We have cut our earnings estimate for Theeb by 25-27% over 2025-2027. The revision in earnings is primarily driven by two factors:

- **Higher charge for credit cost:** ECL charge in 1Q26 came in at 22% (annualized). The management has guided for yet another quarter of an elevated ECL charge in 2Q. The credit cost pressure is not idiosyncratic to Theeb as other listed peers have recorded similar trend of higher cost. We have lifted credit losses to 17% (%age of receivable) from 12% to account for industry-wide pressure on credit quality. Theeb's 70% of total revenues (100% corporate, a portion of corporate rental revenues in the rental segment) generally face credit risk. While Theeb's total receivables have increased to SAR393mn in 1Q26 from SAR357mn in 4Q26, overall receivable days are broadly aligned with levels seen in 2025.
- Expected change in depreciation rate in response to weak resale value of used cars and ongoing exercise on assessment of residual value. The management expects to conclude the exercise in 3Q26 and is likely to incorporate any change in residual value of existing assets in 3Q. Theeb carries SAR2.6bn of net assets in 1Q. Assuming the company provides 1% impairment of net book value, we calculate the impairment charge of SAR26mn in 2026.

**Theeb: Summary of estimate changes**

| | 2026E | 2027 | 2028 | 2029 | TP |
|---|---|---|---|---|---|
| New | 171.5 | 193.7 | 199.2 | 220.2 | 39.0 |
| Old | 228.0 | 254.0 | 274.0 | | 56.8 |
| % | -25% | -24% | -27% | N/A | -31% |

Source: Company Announcement

### Key highlights of 1Q2026 results

- Revenue increased by 22%: Theeb recorded an impressive 22% YoY top line growth driven by significant addition in the company's vehicle fleet (+22% YoY to ~43k), robust utilization rate across product offerings (69% in rental, 96% in leasing) and robust leasing and rental rate.
- Margin came off 400bps YoY: Both QoQ and YoY, pressure on gross and EBIDA margin is visible despite healthy revenue KPIs. We attribute the margin decline to visible change in the company's top-line profile being skewed more towards long-term leasing (46% in 1Q26 vs 45% in 1Q25) and a steep normalization of margin for used car sales (18% discount in 1Q26 vs 7% premium in 1Q).
- Gross profit adjusted for revenues from used car sales has increased by 7%/17% QoQ/YoY. Overall, rental rate remained stable despite negative seasonality, though the average rate in the leasing segment dropped by 3/3% QoQ/YoY.
- Healthy backlog of revenue: Theeb's revenue backlog under LT leasing is quoted at SAR1.7bn, up 5% QoQ.

- ECL charge has increased to SAR22mn in 1Q26, up 17/139% QoQ/YoY. The management expect ECL charge to remain elevated in 2Q before normalization set in (no guidance on recurring ECL charge).
- Operating cost/vehicle is estimated to have dropped 14%/7% QoQ/YoY, partially attributed to low utilization rate in both rental and leasing segments.
- EBITDA recorded growth of -6/4% QoQ/YoY. Higher ECL charge and losses in the used-car segment has restricted EBITDA growth.
- Theeb's earnings have dropped by 7/24% QoQ/YoY in 1Q26. 1Q26 earnings constitute 22% of the revised 2026 earnings estimate.

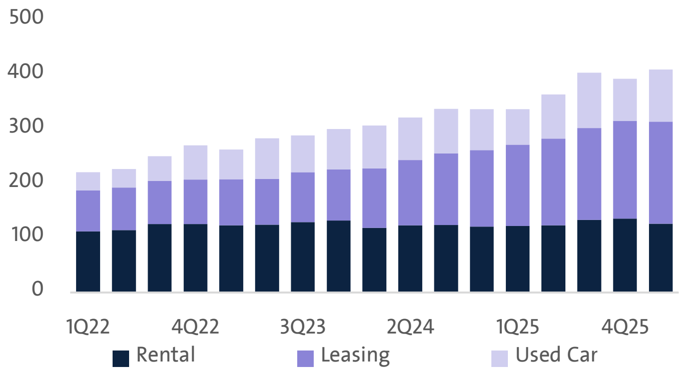
**Theeb: 1Q2026 Result Review**

| SARmn | 1Q25 | 4Q25 | 1Q26 | QoQ | YoY |
|---|---|---|---|---|---|
| **Revenues** | **337** | **392** | **410** | **5%** | **22%** |
| -Short-term rentals | 122 | 136 | 126 | -7% | 3% |
| -Long-term lease | 149 | 179 | 188 | 5% | 25% |
| -Used Car Sale | 65 | 78 | 96 | 24% | 48% |
| Gross Profit | 113 | 118 | 119 | 1% | 6% |
| **Gross Profit-Ex Used Cars** | **107** | **118** | **126** | **7%** | **17%** |
| ECL | 9 | 19 | 22 | 17% | 139% |
| Operating Profit | 69 | 69 | 62 | -11% | -11% |
| **EBITDA** | **164** | **181** | **171** | **-6%** | **4%** |
| Profit Before Zakat | 44 | 39 | 36 | -7% | -18% |
| Net Profit | 45 | 37 | 34 | -7% | -24% |
| EPS | 0.69 | 0.56 | 0.52 | -7% | -24% |
| DPS | 0.52 | 0.28 | 0.26 | | |
| **Margin** | | | | | |
| Gross Margin | 34% | 30% | 29% | -1% | -4% |
| EBITDA Margin | 49% | 46% | 42% | -4% | -7% |
| Net Margin | 13% | 9% | 8% | -1% | -5% |
| **Rental** | | | | | |
| Rate (SAR/day) | 147 | 158 | 149 | -6% | 1% |
| Average Fleet (x) | 9,252 | 9,548 | 9,414 | -1% | 2% |
| Utilization (%) | 70% | 73% | 69% | -4% | -2% |
| **Lease** | | | | | |
| Rate (SAR/day) | 74 | 74 | 72 | -3% | -3% |
| Average Fleet (x) | 22,530 | 26,867 | 29,046 | 8% | 29% |
| Utilization (%) | 97% | 97% | 96% | -1% | -1% |
| **Used Car** | | | | | |
| Car Sold (x) | 1,722 | 3,285 | 2,677 | -19% | 55% |
| Margin (%) | 7% | 9% | -18% | -27% | -26% |

Source: Theeb, AC

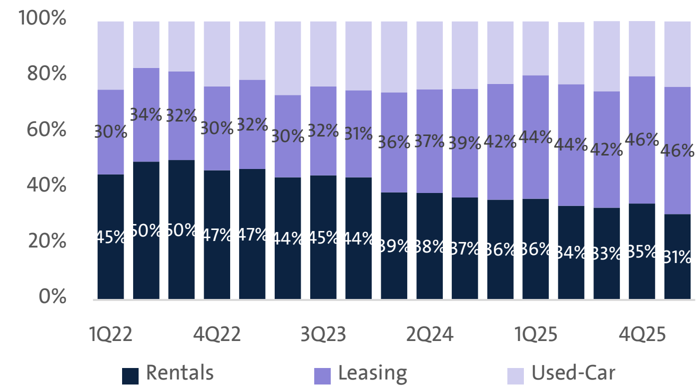
# Theeb: Key Quarterly Trends

**Theeb: Trend in key revenue segments (SARmn)**



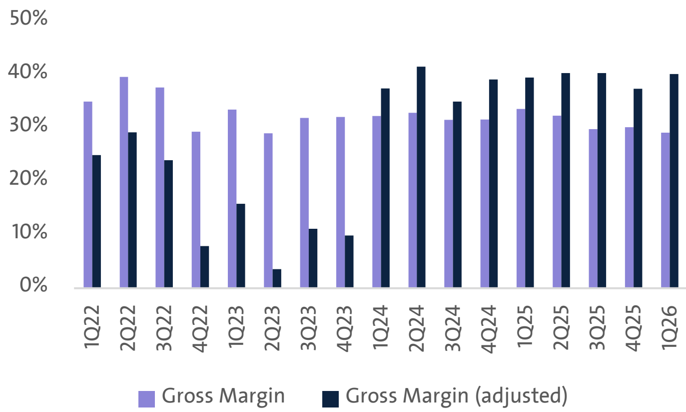

Source: Theeb, AC Estimates

**Theeb: Revenue profile by segment (%)**



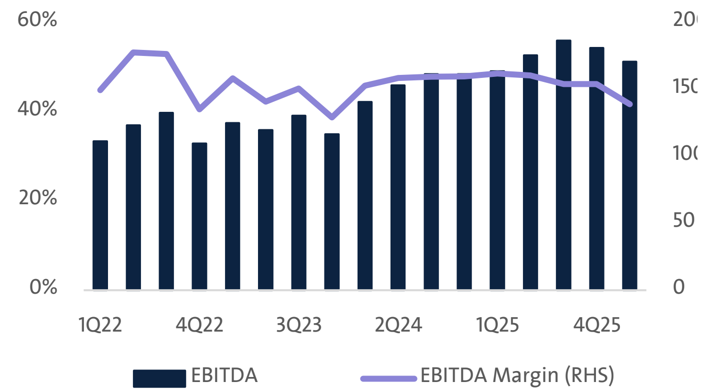

Source: Theeb, AC Estimates

**Theeb: Margin Trend (%)**



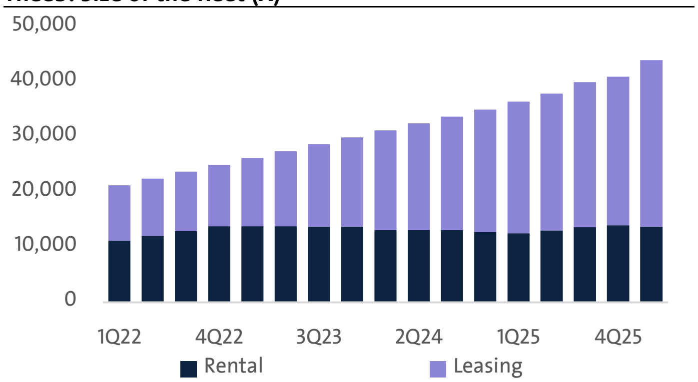

Source: Theeb, AC Estimates

**Theeb: EBITDA & EBITDA Margin (SARmn)_**



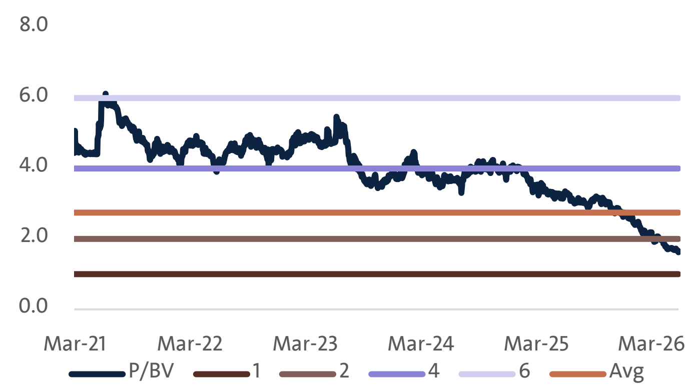

Source: Theeb, AC Estimates

**Theeb: Size of the fleet (X)**




Source: Theeb, AC Estimates

**Theeb: P/BV Valuation (x)**




Source: Theeb, AC Estimates

## Analyst Certification:

I/We, **Muhammad Fawad Khan, CFA** the author/s of this report, hereby certify that that: (i) views expressed in this report reflect the Research Analyst's personal views about all of the securities and (ii) no part of any of compensation of the author/s was, is, or will be directly or indirectly related to the specific recommendations or views expressed by in this report.

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**>+15% Total Return:** Stocks with +15% expected total return (including dividend yield) over the next 12-months are classified as Buy.

**5-15%:** Stocks with total return between 5-15% can be classified as Buy or Neutral.

**>-5%<+5% total return:** Stocks with total return between -5+5% can be classified as Neutral or Underperform

**Underperform**-Stocks which are expected to have <-5% total return

**Not Covered**: AIC has not assigned any rating on the stock

**Coverage Suspended:** AIC has temporarily suspended the coverage of the stock either in compliance with local regulation or other considerations

Price data for the listed securities is based on 23 June, 2026.

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