



Margins pressure to persist in the near term; fleet expansion, large leasing contracts and conducive car rental market to aid revenue growth

Lumi Rental Co.'s (Lumi) aggressive fleet expansion coinciding major leasing contract wins with Aramco and other government entities has fueled the growth trajectory and market share gain for the company. The company is also leveraging its market position to benefit from growth in car rental demand. However, the company is expected to see pressure on its earnings due to the anticipated lower margin on sales of used vehicles, increased G&A and finance expenses. We believe this pressure to weigh on the bottom line in the short term. Nevertheless, healthy revenue growth would partially offset the impact. We revise our recommendation on Lumi to "Neutral" with a revised TP of SAR 94.0/share.

Contraction of GP margins, increased OPEX and higher finance cost dragged net profit Y/Y in Q1-24: Lumi's net profit declined 11.2% in Y/Y in Q1-24 to SAR 44.7mn, missing our estimate of SAR 53.2mn. A significant drop in the GP margin and higher-than-expected finance cost led to the lower-than-expected bottom line, despite higher revenue. The revenue growth of 43.8% Y/Y to SAR 384.0mn was mainly driven by a sharp jump in revenue from sales of used vehicles (+54.4%) followed by leasing revenue (+52.5%) and car rental revenue (+25.3% Y/Y). The GP margin contracted to 29.5% from 35.5% in Q1-23, owing to the higher cost of the vehicles sold. Operating profit rose 20.9% Y/Y to SAR 77.3mn, as a 39.9% surge in G&A was partly offset by lower impairments on receivables. Finance expenses grew 2.6x to SAR 31.2mn due to increased borrowing to fund fleet expansion and high interest rates.

Multiple near term headwinds to net margin due to expected lower margins on used vehicle sale and higher G&A and finance cost: We believe there are multiple factors that are likely to put downward pressure on Lumi's net margins. **1) Lower margins on used vehicles sold** – prices of used vehicles seem to be easing from the phase of high demand due to supply chain constraints for new vehicles (sale price per vehicle declined 9% Y/Y in Q1-24). Additionally, 2-3 years old vehicles that would be sold in the coming period are expected to be bought at higher purchase prices, thus the margin on sale of used vehicles is anticipated to be lower compared to the recent past, which is anticipated to be reflected in GP margin of the company. **2) Higher G&A** – Lumi's G&A expenses are likely to be higher going forward after restructuring of certain costs post IPO. Also, the company's ongoing investments related to digitization and higher personnel and other administrative costs due to expansion would keep G&A elevated. **3) Increased finance cost** – The company's debt has increased to SAR 1.7bn in Q1-24 from SAR 1.4bn in FY23 and SAR 567mn in FY22. This led to a sharp increase in finance expenses (~+163% Y/Y in Q1-24). The company is expected to raise more debt to fund its fleet expansion. Hence, increased debt and delayed interest rate cuts are expected to add pressure on Lumi's bottom line. We forecast GP and net margins to fall to 31.3% (-312bps Y/Y) and 11.8% (-272bps Y/Y), respectively, in FY24E and improve thereafter to reach 34.1% and 20.1%, respectively, in FY28E.

Market share growth underpinned by fleet expansion to deliver 11.3% revenue CAGR: Lumi's market share in Saudi vehicle leasing and car rental market increased from 7% in FY21 to 9-10% as of March 2024. We believe the company has potential to further expand its market share given the company's aggressive fleet expansion strategy (total fleet grew 39% Y/Y to 33,900 as of Q1-24). The company is anticipated to deploy the remaining ~2,500 vehicles for major leasing contracts (out of total 5,758) in Q2-24. Moreover, the growing logistic sector and regional headquarters program is likely to keep a healthy demand for vehicle leasing in the Kingdom. Alternatively, car rental demand is expected to benefit from rising travel, tourism and entertainment activities, increasing number flights and visitors. Thus, Lumi's expansion strategy aligns well with the market dynamics that will translate into a topline CAGR of 11.3% during FY23-28E to reach SAR 1.9bn.

AJC view and valuation: We expect the near term pressure on Lumi's margin to limit earnings growth despite robust topline growth. Nevertheless, in the long run margins are anticipated to improve, accelerating the earnings growth, resulting in a net income CAGR of 18.8% during FY23-28E. We valued Lumi with 50% weightage to DCF (WACC = 7.9% and terminal growth = 2.5%) and 50% weightage to P/E multiple of 22.0x applied to EPS for FY25E to arrive at a blended TP of SAR 94.0 per share. We revise our recommendation on the stock to "Neutral"

Recommendation	Neutral
Target Price (SAR)	94.0
Upside / (Downside)*	0.53%

Source: Tadawul *prices as of 30th of July 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	783	1,106	1,413	1,567
Growth %	50.1%	41.3%	27.8%	10.9%
Gross Profit	260	381	442	504
Net Income	151	161	167	216
Growth %	42.1%	6.6%	3.9%	29.4%
EPS	2.61	2.92	3.03	4.15
DPS	NA	0.00	0.00	0.00

Source: Company reports, Aljazira Capital

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	33.2%	34.4%	31.3%	32.1%
Net Margin	19.3%	14.5%	11.8%	13.8%
ROE	19.5%	17.4%	15.3%	16.8%
ROA	9.4%	6.3%	4.8%	5.3%
P/E (x)	NA	34.2	30.8	22.5
P/B (x)	NA	5.4	4.3	3.6
EV/EBITDA (x)	NA	2.8	2.6	2.4
Dividend Yield	NA	0.0%	0.0%	0.0%

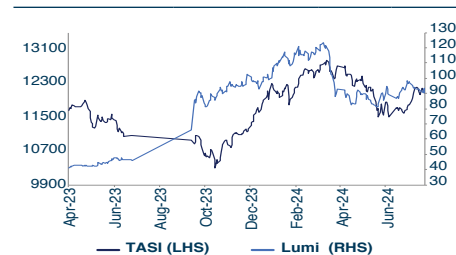
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	5.2
YTD%	-6.5%
52 weeks (High)/(Low)	125.0/72.6
Share Outstanding (mn)	55.0

Source: Company reports, Aljazira Capital

Price Performance



Source: Bloomberg, Aljazira Capital

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Key Financial Data

Amount in SAR mn, unless otherwise specified	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Income statement								
Revenues	521	783	1,106	1,413	1,567	1,676	1,786	1,891
Y/Y	21.1%	50.1%	41.3%	27.8%	10.9%	6.9%	6.6%	5.9%
Cost	-357	-523	-725	-971	-1,064	-1,121	-1,188	-1,246
Gross profit	165	260	381	442	504	555	598	645
General and administrative expenses	-46	-59	-119	-131	-143	-152	-161	-170
Other operating expenses	-14	-28	-29	-7	-4	-4	-4	-4
Operating profit	104	173	233	304	357	399	433	471
Y/Y	90.5%	65.3%	35.1%	30.5%	17.3%	11.8%	8.7%	8.6%
Financing Expense (net)	-3	-24	-68	-132	-133	-119	-90	-78
Other income	8	7	0	0	0	0	0	0
Income before zakat	109	155	165	172	224	280	344	393
Zakat	-3	-5	-5	-5	-8	-10	-12	-13
Net income	106	151	161	167	216	270	332	379
Y/Y	110.8%	42.1%	6.6%	3.9%	29.4%	25.1%	23.0%	14.2%
EPS (SAR)	2.23	2.61	2.92	3.03	4.15	5.15	6.30	7.17
DPS (SAR)	0.00	0.00	0.00	0.00	0.00	2.00	2.50	3.00
Balance sheet								
Assets								
Cash & equivalent	17	49	41	33	238	516	336	173
Other current assets	256	234	347	456	488	499	508	518
Total current assets	274	283	389	490	726	1,015	843	691
Vehicles	1,051	1,472	2,712	3,118	3,506	3,661	3,802	3,928
Property plant & equipment	38	79	14	15	15	16	17	17
Other non-current assets	0	10	129	127	119	107	94	78
Total assets	1,363	1,844	3,246	3,751	4,368	4,801	4,758	4,716
Liabilities & owners' equity								
Total current liabilities	646	577	1,215	1,359	1,512	1,602	1,538	1,460
Long-term loans & lease liabilities	9	411	989	1,178	1,407	1,568	1,370	1,163
Total other non-current liabilities	9	13	18	23	29	37	47	60
Paid -up capital	550	550	550	550	550	550	550	550
Additional capital								
Statutory reserves	15	29	29	29	29	29	29	29
Retained earnings	134	264	426	592	821	994	1,203	1,433
Total owners' equity	699	844	1,005	1,172	1,400	1,574	1,783	2,012
Total equity & liabilities	1,363	1,844	3,246	3,751	4,368	4,801	4,758	4,716
Cashflow statement								
Operating activities	-148	-86	-777	-244	-93	188	275	333
Investing activities	-2	8	-43	-6	-6	-6	-7	-7
Financing activities	151	110	811	242	304	96	-449	-488
Change in cash	1	32	-8	-8	205	278	-181	-163
Ending cash balance	17	49	41	33	238	516	336	173
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	0.4	0.5	0.3	0.4	0.5	0.6	0.5	0.5
Quick ratio (x)	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.4
Profitability ratios								
Gross profit margin	31.6%	33.2%	34.4%	31.3%	32.1%	33.1%	33.5%	34.1%
Operating margin	20.0%	22.0%	21.1%	21.5%	22.8%	23.8%	24.3%	24.9%
EBITDA margin	59.4%	55.9%	45.5%	45.1%	47.6%	48.1%	47.9%	48.0%
Net profit margin	20.3%	19.3%	14.5%	11.8%	13.8%	16.1%	18.6%	20.1%
Return on assets	9.3%	9.4%	6.3%	4.8%	5.3%	5.9%	7.0%	8.0%
Return on equity	16.4%	19.5%	17.4%	15.3%	16.8%	18.2%	19.8%	20.0%
Leverage ratio								
Debt / equity (x)	0.03	0.67	1.40	1.43	1.43	1.42	1.10	0.83
Market/valuation ratios								
EV/sales (x)	NA	NA	1.3	1.2	1.2	1.0	0.9	0.8
EV/EBITDA (x)	NA	NA	2.8	2.6	2.4	2.2	1.9	1.7
EPS (SAR)	2.23	2.61	2.92	3.03	4.15	5.15	6.3	7.2
BVPS (SAR) - Adjusted	14.7	15.3	18.6	21.7	25.8	29.0	32.8	37.0
Market price (SAR)*	NA	NA	100.0	93.5	93.5	93.5	93.5	93.5
Market-Cap (SAR Mn)	NA	NA	5,500	5,143	5,143	5,143	5,143	5,143
DPS (SAR)	NA	NA	0.0	0.0	0.0	2.0	2.5	3.0
Dividend yield	NA	NA	0.0%	0.0%	0.0%	2.1%	2.7%	3.2%
P/E ratio (x)	NA	NA	34.2	30.8	22.5	18.1	14.8	13.0
P/BV ratio (x)	NA	NA	5.4	4.3	3.6	3.2	2.9	2.5

Source: Company reports, Aljazira Capital Research





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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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