# Lumi Rental Co.

## Investment Update



### 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% |

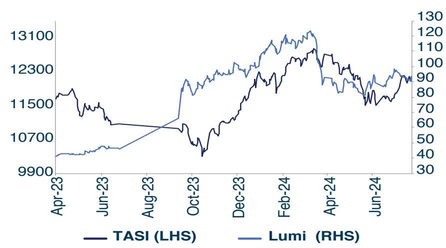
Source: Company reports, Aljazira Capital

### 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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RATING TERMINOLOGY

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.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
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.

## Disclaimer