

## Resilient leasing segment-led growth, net margin expansion and attractive valuation anchor “Overweight” rating, despite ST rental challenges

While near-term geopolitical factors and the rescheduling of selected large-scale projects may create a temporary drag on earnings, Lumi remains well-positioned to benefit from its medium-term structural growth drivers. Following a brief 2.5% revenue deceleration in FY26, total revenue is projected to accelerate at a 2.7% CAGR over FY26-30E. Long-term leasing segment is expected to lead topline growth at 4.9% CAGR over FY25-30E. Used Car Sales is also projected to recover steadily to SAR 449mn by FY30E after an anticipated decline this year. Even though the short-term rental segment faces temporary utilization pressure at approximately 70% in FY26-27E due to Neom relocations and market fragmentation compressing rental rates, the segment’s revenue is likely to expand at a 1.1% CAGR by FY30E. While short-term challenges stem from the DSO increasing to 104-97 days in FY26-FY27, recovery is expected over the medium to long term. Crucially, Lumi’s balance sheet optimization will see the debt-to-equity ratio improve from 1.13x in FY25 to 0.52x by FY30E, driving net profit margins up by ~283 bps to 14.7% and net profit to SAR 280mn by FY30E. We believe near-term challenges are already fully priced into the stock. Consequently, the current valuation at an attractive FY27E P/E of 9.1x, combined with anticipated net margin expansion, indicates significant intrinsic value. Thus, we maintain our “Overweight” recommendation on Lumi with a revised TP of SAR 43.0/share (down from our previous TP of SAR 61.4/share).

**Q1-26 net profit came under pressure from geopolitical headwinds, with strong gross margin failing to translate into earnings growth due to elevated operating expenses:** Lumi posted a net profit of SAR 40mn in Q1-26 (down 24.7% Y/Y and up 5.3% Q/Q), mainly absorbing the topline pressure in addition to the surge in OPEX. The recent US-Iran war has created noticeable pressure on the company’s topline (more specifically on S-T Rental & UCS). Lumi recorded total revenue of SAR 366mn in Q1-26, showing a decline of 11% Y/Y and 14% Q/Q (-11% deviation to AJBC estimate of SAR 411mn). S-T Rental was the main contributor to the weak performance, recording SAR 113mn (down 9.9% Y/Y and 11.9% Q/Q) -10% deviation to AJBC estimate of SAR 125mn, reflecting a dip in average rate/vehicle of 7.5% in addition to the 830bps contraction in utilization rates to 69.6%. On the other hand, UCS recorded an 11.3% decline Y/Y to SAR 76mn (-35% deviation to AJBC estimate of SAR 118mn), with recovery rates contracting to 65.3% vs. 71.2% in Q1-25. L-T Leases showed a resilient performance, recording SAR 170mn (up 1.8% Y/Y and 10.7% Q/Q), +2% deviation to AJBC estimate of SAR 167mn, supported by a 6% increase in average rate/vehicle. GPM expanded by 187bps Y/Y to 31.1%, reflecting the company’s efforts in saving costs related to insurance, maintenance, and others; however, the GPM expansion was muted by an 11.3% increase in SG&A due to digital infrastructure-related expenses, in addition to SAR 6.1mn (compared to SAR 1.2mn in 1Q-25) provisions related to receivables.

**NEOM fleet relocation plan is expected to further pressure the S-T rental segment:** Lumi began 2025 with 5.5k vehicles deployed in the Northern Region, including 4.0k vehicles operating in NEOM. By year-end, the regional fleet had declined to 3.7k vehicles, of which only 2.2k remained in NEOM. This contraction reflects a slowdown in NEOM-related activity and has consequently tempered the growth trajectory of Lumi’s overall fleet. We expect the fleet size for this segment to remain around the current level of 10.7k through the forecasted period, as any expansion in fleet size will be a dynamic response to market demand. The company’s market share in the Northern Region declined from 53.7% in FY24 to 49.1% in FY25 and further to 44.2% in Q1-26. This is expected to create additional pressure on the S-T segment. The company therefore may face two potential outcomes: (i) deeper penetration of existing markets such as Riyadh and Western region, which could intensify pricing pressure and further weigh on profitability; or (ii) identification of underserved markets with limited competition, which may present a new growth opportunity however utilization recovery might take time to reach historical levels. In FY26E, we expect continued pressure, reflected in the H1-26 air traffic disruption and Northern region situation. Accordingly, we forecast the segment revenue to decline by 8.2% Y/Y to SAR 474mn, driven by a 6.1% decline in average rate/vehicle alongside the expected 705bps contraction in utilization rates. Over the medium term, we expect S-T rental revenue to grow at a CAGR of 1.1% during FY25-30E, supported by demand from global hosted events (i.e. the Asia Cup 2027 and Expo 2030), alongside a gradual recovery in rental yields. However, we expect rates to remain below FY25 levels, reflecting the increasingly fragmented market dynamics.

Recommendation	Overweight
Target Price (SAR)	43.0
Upside / (Downside)*	30.8%

Source: Tadawul \*prices as of 24<sup>th</sup> June 2026

### Key Financials

SARmn (unless specified)	FY24	FY25	FY26E	FY27E
Revenues	1,550	1,669	1,627	1,705
Growth %	40.2%	7.7%	-2.5%	4.8%
Gross Profit	438	460	459	478
Net Income	180	198	177	198
Growth %	12.3%	9.9%	-10.9%	12.2%
EPS	3.28	3.60	3.21	3.60
DPS	0.00	0.00	0.00	1.00

Source: Company reports, Aljazira Capital Research

### Key Ratios

	FY24	FY25	FY26E	FY27E
Gross Margin	28.2%	27.5%	28.2%	28.0%
Operating Margin	20.5%	19.2%	17.6%	18.2%
Net Margin	11.6%	11.9%	10.9%	11.6%
ROE	15.2%	14.3%	11.3%	11.6%
ROA	5.3%	5.8%	5.2%	5.7%
P/E (x)	21.7	13.9	10.3	9.1
P/B (x)	3.2	2.0	1.1	1.0
EV/EBITDA (x)	2.4	2.1	1.8	1.6
Dividend Yield	0.0%	0.0%	0.0%	3.0%

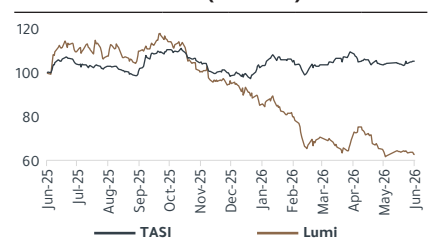
Source: Company reports, Aljazira Capital Research

### Key Market Data

Market Cap (bn)	1.89
YTD%	(32.0%)
52 week (High)/(Low)	34.96/34.44
Share Outstanding (mn)	55.0

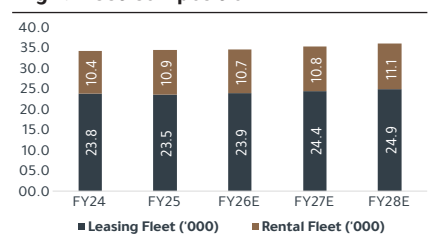
Source: Aljazira Capital Research, Company reports

### Price Performance (Indexed)



Source: Bloomberg, Aljazira Capital Research

### Fig 1: Fleet Composition



Source: Aljazira Capital Research, Company reports

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**Solid long-term leasing and revenue diversification are expected to mitigate UCS-related profitability**

**pressure:** The L-T leasing segment should remain strong in FY26E, reaching SAR 689mn (+5.6% Y/Y), supported by new contracts. Fleet size is expected to reach 23.9k, alongside a 5.1% Y/Y increase in average rates. The NUPCO framework agreement is expected to support revenue diversification and help marginally offset car rental market headwinds. Low UCS recovery rates are likely to remain under pressure due to weak secondhand vehicle market conditions, with used vehicle prices down 4.5% Y/Y in May 2026. New vehicle prices also declined 1.5% Y/Y; however, disruptions related to the strait of Hormuz have extended delivery times to up to three weeks. If these delays persist, tighter dealer inventories could lift new vehicle prices and support the secondhand market, creating upside potential for UCS recoveries. In our base case recovery rates are expected to stay near 65% in FY26-27 before gradually improving to 66% in FY28E in our base case. UCS revenue is projected to decline 10.2% Y/Y to SAR 404mn in FY26E. Over the medium term, we forecast L-T leasing revenue to grow at 4.9% CAGR FY25-30E to SAR 830mn by FY30E, while UCS forecasted slowly recover to SAR 449mn after notable decline in FY25 and FY26E. Logistics revenue is expected to grow at 10.8% CAGR FY25-30E to SAR 81.6mn. We expect total revenue to decline by 2.5% in FY26 to SAR 1,627mn, before growing at a 2.7% CAGR over FY25-30E.

**Profitability is expected to face headwinds in FY26E; however, a longer-term recovery is anticipated:**

Although GPM is expected to expand by 66bps to 28.2% in FY26E supported by a more favorable revenue mix and insurance refunds. Recent digitalization investments are expected to keep OPEX in line with Q1-26 levels. In addition, expected credit losses (ECL) are projected to remain above historical levels throughout FY26E, reflecting current market conditions. These factors are expected to weigh on operating margin, resulting in a decline of 160bps Y/Y to 17.6% in FY26E. Nonetheless, both GPM and operating margins are likely to improve gradually to 28.4% and 19.3%, respectively, by FY30E. On the other hand, the company's plan to extend fleet life supports its low-leverage strategy which is expected to assist Lumi's net margin due to easing of finance costs. We expect net profit to grow at a 5.2% CAGR over FY25-28E, reaching SAR 230mn with net margin expansion of ~110 bps over the same period.

**DSO and ECL expected to peak amid recent disruptions; recovery and balance sheet optimization**

**remain in sight:** Lumi's CCC increased in 1Q26, driven by annualized DSO rising to 93 days from 68 days in 1Q25. We expect DSO to peak at 104 days in FY26E before recovering by FY28E, reflecting payment delays amid weaker economic conditions and geopolitical uncertainty. We forecast impairment provisions to increase to 19% of gross receivables in FY26E from 16% in FY25. However, this remains below the peer average of 25%, supported by Lumi's resilient contract portfolio. The D/E ratio is projected to ease from 1.13 in FY25 to 0.67 by FY28E, supporting margin expansion, with net profit margin improving by 128bps from 11.9% in FY25 to 13.0% in FY28E. However, utilization rates are expected to remain under pressure at ~70% in FY26-27E, which will constrain profitability and drive ROE down to 11.3% in FY26 and 11.6% in FY27, compared to 14.3% in FY25. While Lumi does not currently pay dividends, we expect dividend distributions to commence in FY27, with an estimated DPS of SAR 1.00.

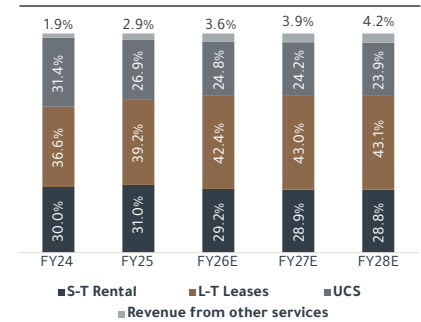
**Investment thesis and valuation:** Despite temporary near-term headwinds from geopolitical factors and the rescheduling of selected large-scale projects, Lumi's structural growth narrative remains firmly intact, with current market pricing already fully reflecting these transient challenges. Following an expected 2.5% revenue deceleration in FY26, total revenue is projected to accelerate at a 2.7% CAGR over FY25-30E, anchored by long-term leasing at a 4.9% CAGR (FY25-30E) and a steady recovery in Used Car Sales to SAR 449mn by FY30E. While short-term rental utilization faces temporary pressure at ~70% in FY26-27E due to Neom fleet relocations, the segment is still set to maintain a stable 1.1% CAGR through FY30E. While short-term challenges stem from the DSO increasing to 104-97 days in FY26-FY27, recovery is expected over the medium to long term. Crucially, significant balance sheet optimization will improve the D/E ratio from 1.13x in FY25 to 0.52x by FY30E, driving net profit margins up by ~283bps to 14.7% and lifting net profit to SAR 280mn by FY30E. Lumi's stock price has declined 32% YTD, reflecting market concerns around recent regional disruptions and conditions in the Northern region. While we acknowledge sector risks and the impact of geopolitical tensions in our valuation, we believe much of the downside is already priced in and current valuation of 9.1x FY27E P/E seems lucrative. We apply a blended valuation approach for Lumi. Our 50% weightage to DCF (WACC = 8.7% and terminal growth = 2.5%), 50% weightage to P/E multiple of 13.0x for FY27E EPS (discounted on the cost of equity 10.5%), help us arrive at a revised blended TP of **SAR 43.0 per share**, which implies an upside of 30.8%. Hence, we retain our rating at **"Overweight"**.

**Blended Valuation**

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF	43.7	50%	21.9
P/E (13.0x FY27E - discounted)	42.3	50%	21.2
<b>Weighted average price target</b>			<b>43.0</b>
<b>Up/Downside (%)</b>			<b>30.8%</b>

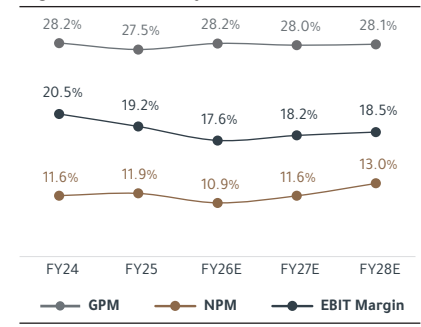
Source: Tadawul \*prices as of 24<sup>th</sup> June 2026

**Fig 2: Revenue contribution**



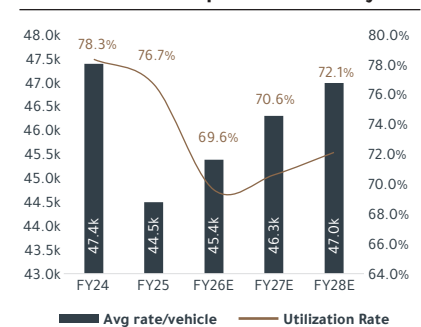
Source: Company reports, Aljazira capital Research

**Fig 3: Profitability Trends**



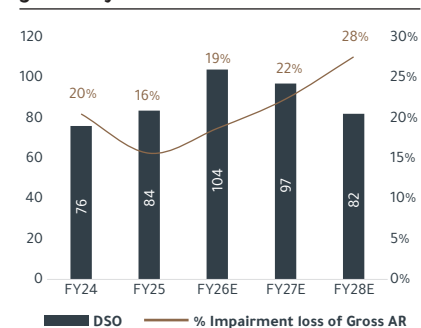
Source: Company reports, Aljazira capital Research

**Fig 4: ST Rental Rates are expected to slow down as completion intensify**



Source: Company reports, Aljazira capital Research

**Fig 5: DSO are expected to recover gradually**



Source: Company reports, Aljazira capital Research

## Key Financial Data

Amount in SARmn, unless otherwise specified	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
<b>Income statement</b>							
Revenues	1,550	1,669	1,627	1,705	1,777	1,841	1,907
Y/Y	40.2%	7.7%	-2.5%	4.8%	4.2%	3.6%	3.6%
Cost	(1,112)	(1,209)	(1,168.2)	(1,227.9)	(1,277.6)	(1,321.5)	(1,366.0)
<b>Gross profit</b>	<b>438</b>	<b>460</b>	<b>459</b>	<b>478</b>	<b>500</b>	<b>519</b>	<b>541</b>
Y/Y	15.0%	5.0%	-0.2%	4.1%	4.6%	4.0%	4.1%
<b>Gross margin (%)</b>	<b>28.2%</b>	<b>27.5%</b>	<b>28.2%</b>	<b>28.0%</b>	<b>28.1%</b>	<b>28.2%</b>	<b>28.4%</b>
General and administrative expenses	-145	-151	(168.5)	(170.5)	(179.5)	(180.4)	(185.0)
Impairment loss on trade and other receivables	(3)	(10)	(20.0)	(14.5)	(8.8)	(8.2)	(8.0)
Other income	34	21	17	18	18	19	20
<b>Operating profit</b>	<b>318</b>	<b>320</b>	<b>287</b>	<b>310</b>	<b>330</b>	<b>350</b>	<b>368</b>
Y/Y	36.4%	0.6%	-10.2%	8.0%	6.3%	6.1%	5.1%
<b>Operating margin (%)</b>	<b>20.5%</b>	<b>19.2%</b>	<b>17.6%</b>	<b>18.2%</b>	<b>18.5%</b>	<b>19.0%</b>	<b>19.3%</b>
Financing Expense (net)	(133)	(116)	(105.5)	(105.9)	(93.4)	(85.5)	(80.0)
<b>Income before zakat</b>	<b>185</b>	<b>203</b>	<b>182</b>	<b>204</b>	<b>236</b>	<b>264</b>	<b>288</b>
Zakat	(5)	(5)	(5.0)	(6.1)	(5.9)	(6.6)	(7.2)
<b>Net income</b>	<b>180</b>	<b>198</b>	<b>177</b>	<b>198</b>	<b>230</b>	<b>258</b>	<b>280</b>
Y/Y	12.3%	9.9%	-10.9%	12.2%	16.3%	11.8%	8.8%
<b>Net margin (%)</b>	<b>11.6%</b>	<b>11.9%</b>	<b>10.9%</b>	<b>11.6%</b>	<b>13.0%</b>	<b>14.0%</b>	<b>14.7%</b>
<b>EPS (SAR)</b>	<b>3.28</b>	<b>3.60</b>	<b>3.21</b>	<b>3.60</b>	<b>4.19</b>	<b>4.68</b>	<b>5.10</b>
<b>DPS (SAR)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1.00</b>	<b>1.50</b>	<b>1.75</b>	<b>2.00</b>
<b>Balance sheet</b>							
<b>Assets</b>							
Cash & equivalent	30	21	47	43	77	66	61
Other current assets	345	433	450	425	364	368	379
Total current assets	374	454	497	467	441	434	439
Vehicles	2,860	2,816	2,764	2,832	2,956	3,076	3,203
Property plant & equipment	31	45	62	78	94	108	120
Other non-current assets	90	80	70	63	55	47	43
<b>Total assets</b>	<b>3,374</b>	<b>3,414</b>	<b>3,411</b>	<b>3,459</b>	<b>3,564</b>	<b>3,683</b>	<b>3,824</b>
<b>Liabilities &amp; owners' equity</b>							
Total current liabilities	1,086	1,135	1,060	1,013	1,004	995	992
Long-term loans & lease liabilities	1,054	840	735	687	652	619	592
Total other non-current liabilities	22	32	32	32	32	33	33
Paid-up capital	550	550	550	550	550	550	550
Additional capital							
Statutory reserves	29	29	29	29	29	29	29
Retained earnings	607	802	979	1,122	1,270	1,431	1,601
Total owners' equity	1,186	1,382	1,558	1,701	1,849	2,010	2,181
<b>Total equity &amp; liabilities</b>	<b>3,374</b>	<b>3,414</b>	<b>3,411</b>	<b>3,459</b>	<b>3,564</b>	<b>3,683</b>	<b>3,824</b>
<b>Cashflow statement</b>							
Operating activities	-209	165	278	201	247	218	229
Investing activities	-29	-27	-24	-26	-27	-28	-29
Financing activities	226	-146	-228	-180	-185	-202	-205
Change in cash	-12	-8	26	-5	35	-12	-5
<b>Ending cash balance</b>	<b>30</b>	<b>21</b>	<b>47</b>	<b>43</b>	<b>77</b>	<b>66</b>	<b>61</b>
<b>Key fundamental ratios</b>							
<b>Liquidity ratios</b>							
Current ratio (x)	0.3	0.4	0.5	0.5	0.4	0.4	0.4
Quick ratio (x)	0.3	0.4	0.4	0.4	0.4	0.4	0.4
<b>Profitability ratios</b>							
Gross profit margin	28.2%	27.5%	28.2%	28.0%	28.1%	28.2%	28.4%
Operating margin	20.5%	19.2%	17.6%	18.2%	18.5%	19.0%	19.3%
EBITDA margin	45.3%	45.7%	45.2%	45.6%	45.4%	45.6%	45.0%
Net profit margin	11.6%	11.9%	10.9%	11.6%	13.0%	14.0%	14.7%
Return on assets	5.3%	5.8%	5.2%	5.7%	6.5%	7.0%	7.3%
Return on equity	15.2%	14.3%	11.3%	11.6%	12.5%	12.8%	12.9%
<b>Leverage ratio</b>							
Debt / equity (x)	1.39	1.13	0.88	0.76	0.67	0.58	0.52
<b>Market/valuation ratios</b>							
EV/sales (x)	1.1	0.9	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	2.4	2.1	1.8	1.6	1.5	1.3	1.3
EPS (SAR)	3.28	3.60	3.21	3.6	4.2	4.7	5.1
BVPS (SAR) - Adjusted	22.0	25.6	28.8	31.4	34.1	37.0	40.1
Market price (SAR)*	71.2	49.9	32.9	32.9	32.9	32.9	32.9
Market-Cap (SAR Mn)	3,916	2,746	1,810	1,810	1,810	1,810	1,810
DPS (SAR)	0.0	0.0	0.0	1.0	1.5	1.8	2.0
Dividend yield	0.0%	0.0%	0.0%	3.0%	4.6%	5.3%	6.1%
P/E ratio (x)	21.7	13.9	10.3	9.1	7.9	7.0	6.5
P/BV ratio (x)	3.2	2.0	1.1	1.0	1.0	0.9	0.8

Source: Company reports, Aljazeera capital Research, prices as of 24<sup>th</sup> June 2026

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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.

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