الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Leasing contracts provide revenue visibility but near-term pressures in rentals persist, margins stay resilient; lower the TP but upgrade to "Overweight" on attractive valuation

Lumi's multi-year wins enhance revenue visibility for leasing business, but intense competition keeps us watchful of contract renewals in the near term. Moreover, the recent trends in the rental business suggest that it could stay subdued in the near term. Aggressive fleet expansion, major leasing contracts and leveraging its position in used-vehicles business has aided Lumi fuel its overall growth and market share. However, SG&A costs have surged 3.5x post IPO, thereby increasing the operational costs levels, which we believe are sustainable. Additionally, an expected lower purchase price could impact on the already lower margin used-vehicle sales business. To capture the growing demand, management's strategy is to add 2k+ vehicles every year, which we expect to result in revenue CAGR of 6.0% and a net income CAGR of 12.8% over FY24-29E. That said, fleet expansion also calls for increased net capex and debt requirements in the near-term, thereby straining finance costs. However, as the debt levels normalize post FY26E and interest rates ease, Lumi can benefit from lower finance costs which could improve net margins. Since our last report in December 2024, despite i) sluggish revenue and fleet growth in car rentals, and ii) rebound in operational costs after a significant reduction in Q2-24, Lumi's gross and operating margins have been resilient. This resiliency in margins denotes its high bargaining power with stakeholders. This has made us revise our TP to SAR 71.0/share (from SAR 81.2 earlier). However, Lumi's stock is currently trading at 16.1x FY25E P/E after a decline of ~19% over the last 3 months and implies an upside of 15.3%. Thus, we revise our rating to "Overweight".

Leasing and Car rentals drive the revenue momentum with stable gross margins; Despite higher G&A operating margins and net income margins remain stable and resilient: : Lumi's Q1-25 revenue rose 7% Y/Y to SAR 412mn, slightly below our estimate of SAR 418mn due to the absence of revenue from other services. However, excluding this, the revenue was in line with our expectations. Revenue growth was driven by Leasing (+32%) and Car Rental (+9%), while Used Vehicle Sales fell 17% due to lower volumes. Leasing and Car Rental growth was supported by increase in average pricing. The fleet growth remained modest, up 4% in Leasing while car rentals reported sluggish fleet growth for the fourth consecutive quarter. With the revenue and cost of goods growing in tandem, the gross margins contracted 20bps Y/Y to 29.3% but came higher than our estimate of 28.5%, as better than expected rates per vehicles are likely to have supported margins. Lumi's continuous investments in workforce, technology and infrastructure resulted in a sharp rise in G&A expenses. However, reduced employee incentive expenses helped the operating profits rise by 7% Y/Y to SAR 83mn (vs our estimate of SAR 83mn). Significant debt repayments in 2024 and Q1-25 resulted in reduction of finance costs and aided the net income to rise to SAR 53mn (AJC estimate of SAR 47mn)..

Recent large contract wins in leasing to provide better revenue visibility, but watchful of renewal trends due to heated competition: Over FY23-24, Lumi signed several long-term contracts, which we believe could provide strong revenue visibility for the leasing segment in the near term. However, given the increased competition from the peers who are looking for market share gains, the renewal of contracts nearing expiry (like NEOM expiring in March-26) is crucial for the company's long-term growth. We are watchful of these trends. Moreover, the deployment of fleet for large contracts is already completed. Hence, we project the leasing revenue growth to moderate to 8.6% CAGR (vs 39.6% CAGR over FY19-24) over FY24-29E, to reach SAR 858.3mn. This growth will primarily stem from fleet expansion, with the total fleet size expected to rise from 23.8K vehicles in FY24 to 30.1K by FY29E. While the average leasing rate is expected to rise gradually from SAR 23.9K in FY24 to 28.5K by FY29E.

Rental business to be muted in the short-term, however long-term prospects unwavering: Over Q1-23 to Q1-25, the rental revenues have grown tepidly at 4.1% CQGR (versus 9.1% for leasing). This is primarily due to muted fleet expansions driven by strategic optimizations and sale of vehicles at the end of their useful life. We expect this trend to continue in the near-term alongside the price war amongst incumbents. Thus, we expect the fleet size to increase from 10.3K in FY24 to 11.6K by FY25E. However, we believe the long-term prospects for this segment are unwavering due to i) rapid infrastructure developments under KSA's Vision 2030, ii) focus on increasing the number of tourists from 109mn in 2023 to 150mn by 2030e; iii) focus on enriching Hajj & Umrah experience to expand pilgrims capacity to 30mn by 2030e. Accordingly, we expect the short-term rental revenues to grow from SAR 465.4mn in FY24 to SAR 606.2mn by FY29E, implying a 5.4% CAGR.

Recommendation	Overweight
Target Price (SAR)	71.0
Upside / (Downside)*	15.3%

Source: Tadawul *prices as of 06th of May 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenues	1,550	1,698	1,830	1,932
Growth %	40.2%	9.5%	7.8%	5.6%
Gross Profit	438	489	532	564
Net Income	180	210	236	268
Growth %	12.3%	16.5%	12.4%	13.4%
EPS	3.28	3.82	4.30	4.87
DPS	0.00	0.00	0.00	2.00

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	28.2%	28.8%	29.1%	29.2%
Net Margin	11.6%	12.4%	12.9%	13.9%
ROE	16.5%	16.3%	15.6%	15.7%
ROA	5.4%	5.7%	5.6%	6.0%
P/E (x)	21.7	16.1	14.3	12.6
P/B (x)	3.2	2.4	2.0	1.9
EV/EBITDA (x)	2.4	2.4	2.1	1.8
Dividend Yield	0.0%	0.0%	0.0%	3.2%

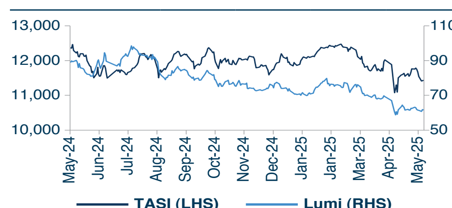
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	3.5
YTD%	13.5%-
52 weeks (High)/(Low)	99.4/55.9
Share Outstanding (mn)	55.0

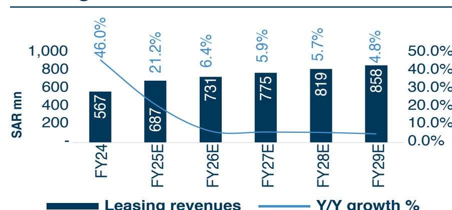
Source: Company reports, Aljazira Capital Research

Price Performance



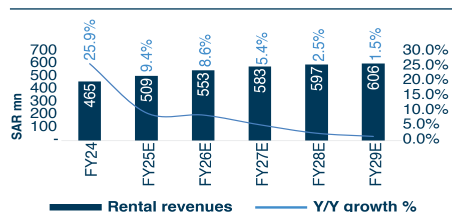
Source: Tadawul, Aljazira Capital Research

Leasing revenue



Source: Company, AlJazira Capital research

Rental revenue



Source: Company, AlJazira Capital research

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Management's strategy of adding 2k+ fleet every year calls for higher net capex and debt requirements in the short-term: Lumi's recent multi-year contract wins indicate growing demand for which Lumi has devised the strategy to add 2k+ fleet every year. Thus, the total fleet could increase from 34.1K in FY24 to 44.9K by FY29E, implying a 5.7% CAGR over FY24-29E. Majority of this growth could be attributable to car rentals fleet which could rise from 10.3K in FY24 to 14.8K by FY29E (7.5% CAGR), while leasing fleet could rise from 23.8K in FY24 to 30.1K by FY29E (4.8% CAGR). The recent contracts could swell FY25E net capex (excluding transfer to inventory) to SAR 310mn. Further, the regular refurbishments, replacement costs could continue to drive capex until FY25E, but we believe the rate of growth shall slow-down post FY25E. Lumi could incur a cumulative capex of SAR 736mn over FY24-26E to support its expansion plans. Car rental is typically a capital-intensive business and hence the asset-heavy balance sheet is supported by increased debt levels. Thus, we expect Lumi to use debt to fund its strategic expansion plans. We expect the debt to rise from SAR 1.7bn in FY24 to SAR 2.3bn by FY26E, post which it could normalize.

Lower margin on sales of used vehicles and increased SG&A could pressurize near-term margins: Lumi's gross margins have shown upward trend over FY20-23, we don't expect the same momentum to continue in the future. As the company expands its fleet, the cost of goods sold could also increase in tandem. Thus, we expect the gross margins to rise by 120bps over FY24-29E (vs +470bps over FY19-24) to 29.5%. Lumi's SG&A expenses have been elevated post its IPO in September 2023. It increased from 7.2% of revenues in FY20 to 9.3% in FY24 (almost 3.5x increase). This elevated SG&A is likely to pressurize the operating margins in the near-term. However, as the top-line expands the operating margins could likely improve gradually due to operating leverage. Thus, we forecast it to contract by 80bps over FY24-25E, post which we expect to gradually increase by 90bps till FY29E to reach 20.7%

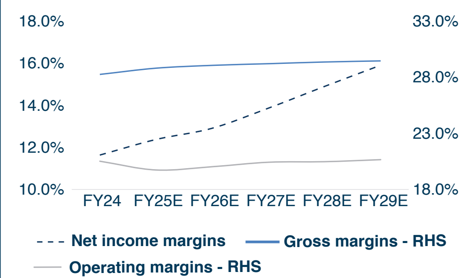
Commencement of rate cuts globally to aid in higher flow through of operating profit to net income: Lumi's high leverage and potential debt additions to fund near term net capex may further strain the finance costs in the near-term. However, as the debt levels normalize post FY26E and potential interest rate cuts, Lumi can benefit from lower finance costs which could improve net margins. Accordingly, we expect the net income margins to expand from 11.6% in FY24 to 15.9% by FY29E.

AJC View and Valuation: We believe Lumi's multi-year contract wins enhance revenue visibility for leasing business, but intense competition keeps us watchful of the contract renewal trends. Further the recent trend in the rental business suggests it to stay subdued in the near-term, but long-term prospects remain strong with Lumi positioned to benefit from rising tourism, multi-year contracts and robust demand for used vehicles. The total revenues could grow at 6.0% CAGR over FY24-29E, driven by leasing business (8.6% CAGR), followed by car rentals (5.4% CAGR) and used vehicles (4.4% CAGR). Despite strong revenue growth, operating margins are likely to face near-term pressures due to sticky SG&A which surged 3.5x post IPO and lower margins on used vehicle sales. However, as business scales, operating leverage should support margin expansion. Moreover, normalization of debt levels and potential interest rate cuts could improve net income flow-through, translating into net income CAGR of 12.8% over FY24-29E. 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 18.5x for FY25E EPS, help us arrive at a blended TP of **SAR 71.0 per share** (from SAR 81.2 earlier). However, Lumi's stock is currently trading at 16.1x FY25E P/E after a 19% decline in the share price in 3 months, which implies an upside of 15.3%. Thus, we revise our rating to "**Overweight**".

Valuation Methodology	TP (SAR)	Weight	Weighted TP
DCF	71.4	50%	35.7
P/E	70.7	50%	35.3
Blended TP			**71.0**
Upside/(Downside) potential			**15.3%**

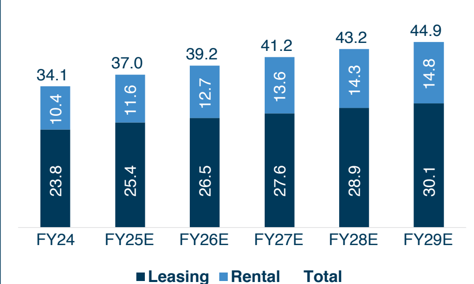
Source: Company, AlJazira Capital research

Margin profile



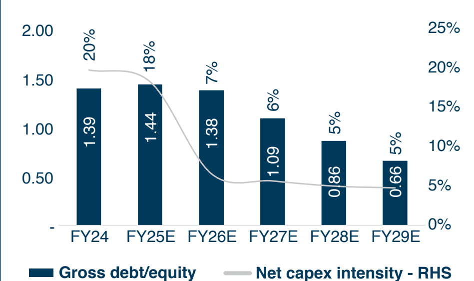
Source: Company, AlJazira Capital research

Fleet size (in 000's)



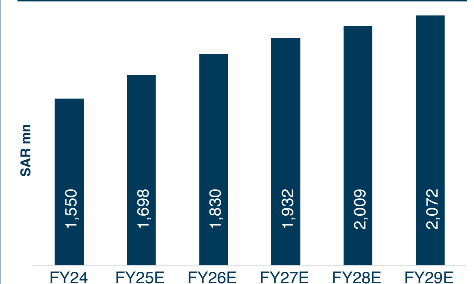
Source: Company, AlJazira Capital research

Net capex intensity & Debt levels



Source: Company, AlJazira Capital research

Overall revenues (in SAR mn)



Source: Company, AlJazira Capital research

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement						
Revenues	1,550	1,698	1,830	1,932	2,009	2,072
Y/Y	**40.2%**	**9.5%**	**7.8%**	**5.6%**	**3.9%**	**3.1%**
Cost	-1,112	-1,209	-1,298	-1,368	-1,419	-1,462
Gross profit	**438**	**489**	**532**	**564**	**590**	**610**
Gross margin (%)	28.2%	28.8%	29.1%	29.2%	29.4%	29.5%
General and administrative expenses	-145	-155	-166	-173	-178	-181
Other operating expenses	25	1.5	0.5	3.4	-0.5	-0.9
Operating profit	**318**	**335**	**366**	**395**	**411**	**428**
Y/Y	**36.4%**	**5.4%**	**9.4%**	**7.7%**	**4.2%**	**4.0%**
Operating margin (%)	20.5%	19.7%	20.0%	20.4%	20.5%	20.7%
Impairment in subsidiary	0	0	0	0	0	0
Income before zakat	**185**	**215**	**244**	**278**	**310**	**341**
Zakat	-5	-5	-7	-10	-11	-12
Net income	**180**	**210**	**236**	**268**	**299**	**329**
Y/Y	**12.3%**	**16.5%**	**12.4%**	**13.4%**	**11.7%**	**10.1%**
Net margin(%)	**11.6%**	**12.4%**	**12.9%**	**13.9%**	**14.9%**	**15.9%**
EPS (SAR)	**3.28**	**3.82**	**4.3**	**4.87**	**5.44**	**5.99**
DPS (SAR)	**0.00**	**0.00**	**0.00**	**2.00**	**2.50**	**2.50**
Balance sheet						
Assets						
Cash & equivalent	30	306	687	495	344	242
Other current assets	345	385	409	423	429	430
Total current assets	374	691	1,096	918	773	673
Vehicles	2,860	3,168	3,289	3,368	3,438	3,506
Property plant & equipment	31	31	30	30	29	28
Other non-current assets	94	87	77	64	48	26
Total assets	**3,374**	**3,992**	**4,507**	**4,395**	**4,302**	**4,248**
Total current liabilities	**1,086**	**1,267**	**1,388**	**1,299**	**1,210**	**1,120**
Long-term loans & lease liabilities	1,054	1,275	1,426	1,236	1,059	888
Total other non-current liabilities	22	27	35	44	56	71
Paid -up capital	550	550	550	550	550	550
Retained earnings	607	817	1,053	1,211	1,373	1,564
Total owners' equity	1,186	1,396	1,632	1,790	1,952	2,144
Total equity & liabilities	**3,374**	**3,992**	**4,507**	**4,395**	**4,302**	**4,248**
Cashflow statement						
Operating activities	-209	-45	174	252	298	338
Net CAPEX	-306	-310	-120	-109	-100	-99
Financing activities	226	325	212	-439	-444	-434
Change in cash	-12	276	381	-192	-151	-102
Ending cash balance	**30**	**306**	**687**	**495**	**344**	**242**
Key fundamental ratios						
Liquidity ratios						
Current ratio (x)	0.3	0.5	0.8	0.7	0.6	0.6
Quick ratio (x)	0.3	0.3	0.3	0.3	0.4	0.4
Profitability ratios						
Gross profit margin	28.2%	28.8%	29.1%	29.2%	29.4%	29.5%
Operating margin	20.5%	19.7%	20.0%	20.4%	20.5%	20.7%
EBITDA margin	45.3%	43.0%	42.4%	42.0%	41.8%	20.7%
Net profit margin	11.6%	12.4%	12.9%	13.9%	14.9%	15.9%
Return on assets	5.4%	5.7%	5.6%	6.0%	6.9%	7.7%
Return on equity	16.5%	16.3%	15.6%	15.7%	16.0%	16.1%
Leverage ratio						
Debt / equity (x)	1.39	1.44	1.38	1.09	0.86	0.66
Market/valuation ratios						
EV/sales (x)	1.1	1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	2.4	2.4	2.1	1.8	1.6	2.8
Market price (SAR)*	71.2	61.6	61.6	61.6	61.6	61.6
Market-Cap (SAR Mn)	3,916	3,388	3,388	3,388	3,388	3,388
Dividend yield	0.0%	0.0%	0.0%	3.2%	4.1%	4.1%
P/E ratio (x)	21.7	16.1	14.3	12.6	11.3	10.3
P/BV ratio (x)	3.2	2.4	2	1.9	1.7	1.6

Source: Company Reports, AJC Research

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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.
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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