Target Price: SAR85/share
Current Price: SAR77.5/share
Upside: ~10%
Rating: Overweight

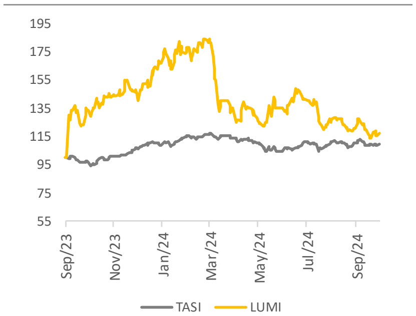
Lumi Rental Co. (LUMI)

Demand drivers intact; likely lower finance cost helps to mitigate the margin pressure

Stock data	
TASI ticker	4262
Mcap (SARmn)	4,263
Avg. Trd. Val (3m) (SARmn)	17.7
Free float	30.0%
QFI holding	2.5%
TASI FF weight	0.06%

Source: Bloomberg, Tadawul

TASI vs Lumi indexed to 100



Source: Bloomberg

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- Growth in the top line to continue on the back of fleet expansion, healthy utilization of rental fleets, and better realization of lease contracts.
- Margins are likely to improve gradually but remain below the historical level, mainly due to a change in the mix; Likely reduction in finance expenses to support the bottom line.
- We set our TP at SAR85/share based on blended valuation approaches using DCF and P/E (18x on 2025e EPS), implying an "Overweight" on the stock.

Expanding the fleet to accommodate for increasing operations: Lumi recorded a robust growth in the top-line in 1H24 by 49% y/y, driven by growth in all segments, with sales of used vehicles rising the most by 65% y/y. We expect Lumi to continue delivering a high double-digit top-line growth of ~34% y/y in 2H24, implying an annual growth of 41% y/y for 2024e, driven by i) higher utilization rates, mainly for the rental segment (78-78.5% expected for 2H24), ii) a higher realization of leasing contracts and iii) higher volumes of sold vehicles. Going forward, we believe that favorable demand drivers like tourism (KSA witnessed around 17.5mn tourists in 7M24, up 10% y/y) and regional headquarters of international corporations moving to Riyadh (517 licensed companies by 1H24, against targeted 500 companies by 2030) would support the demand for mid-long run. Also, it's worth noting that there a sizeable of vehicles to be served in the public sector, and we expect Lumi to be one of the beneficiaries of this opportunity; given its strong record with government entities (43.9% of 2Q24 lease revenues came from government). Accordingly, we expect the company' total fleet size to reach from 34k in 2024e to ~40k by 2026e, ensuring a heathy medium-term top-line CAGR of 14.7% over 2023-28e.

Likely lower finance costs to mitigate the contracting margins: In 1H24, Lumi witnessed a margin pressure, with gross margin narrowing down by 6.5ppts y/y to ~28%, weighed down by lower margins across all segments. We believe that the operational segments were pressured by the seasonality impact during the period and the delayed realization of lease contracts. Moving forward, we expect GP margin to show a gradual improvement starting from 2H24, however it may still remain below the 2022-23 margins (33-34%), primarily due to lower margin in the Used Car Sales with core business margins expecting to remain firm. Overall, we forecast a GP margin of ~29% for 2024e, which is expected to improve gradually to ~31% by 2027e.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e
Revenue	1,106	1,554	1,706	1,893
Revenue growth	*41%*	*41%*	*10%*	*11%*
Gross Profit	381	453	511	581
Gross Profit margin	*34%*	*29%*	*30%*	*31%*
EBITDA	493	658	753	838
Net profit	161	168	231	286
Net profit margin	*15%*	*11%*	*14%*	*15%*
EPS (SAR)	2.9	3.1	4.2	5.2
DPS (SAR)	0.0	0.0	0.0	3.1
P/E	26.5x	25.4x	18.5x	14.9x

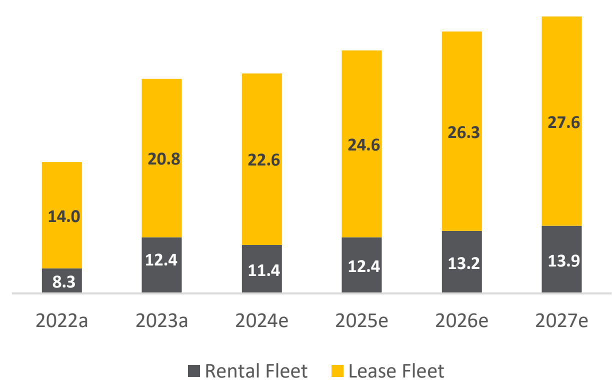
Source: Company's report, GIB Capital

Further, we expect relatively high operating expenses for 2H24 to reflect its continued investment in personnel, technology, and infrastructure to support future growth. We note that Lumi currently has independent departments for most functions (earlier, all were shared departments with its parent, Seera Group), resulting in higher OPEX. However, we expect the impact of this to normalize starting 2025e. Further, given the company's leverage level (net debt/equity of 1.7x by June 24), we expect it to benefit from a lower interest rate cycle, which we believe could mitigate some of the impact of contracting margins and provide support to the bottom line. Overall, we forecast an earnings CAGR of ~19% for Lumi over 2023-28e.

Valuation and risk: We derive a 1Y forward TP of SAR85 per share; based on the average of DCF (SAR86 TP) and P/E (18x, for 2025 EPS; SAR83 TP), indicating a 10% upside from current market valuation. Accordingly, we issue an "Overweight" recommendation on the stock; given the recent dip in market prices. Key downside risks include lower-than-expected contribution from tourism, increased competition, supply chain disruptions for vehicles, and lower-than-expected retention rates of lease clients.

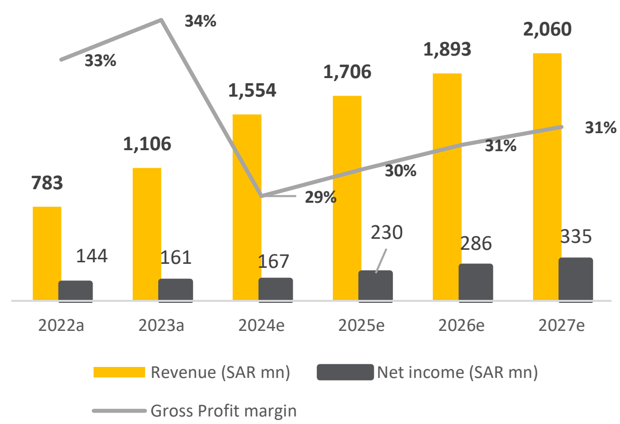
Financial analysis in charts

Figure 2: Fleet Size trend (in 000)



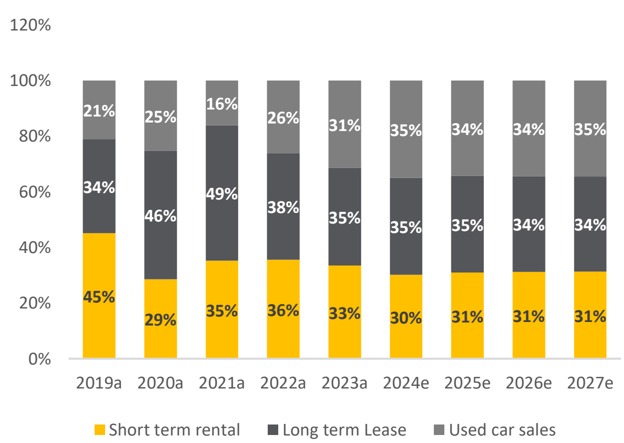
Source: Company data, GIB Capital

Figure 3: Financial Performance Trend



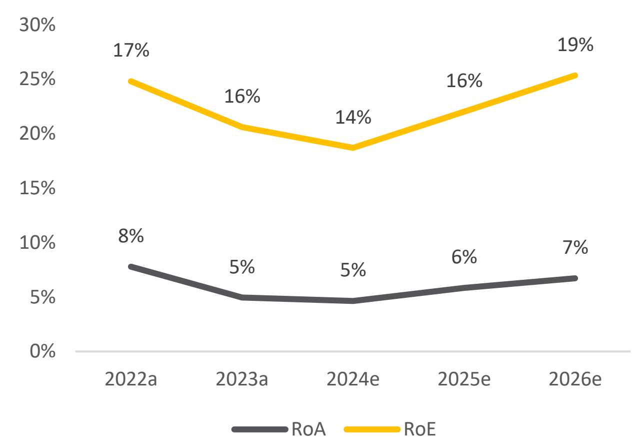
Source: Company data, GIB Capital

Figure 4: Revenue segmentation trend



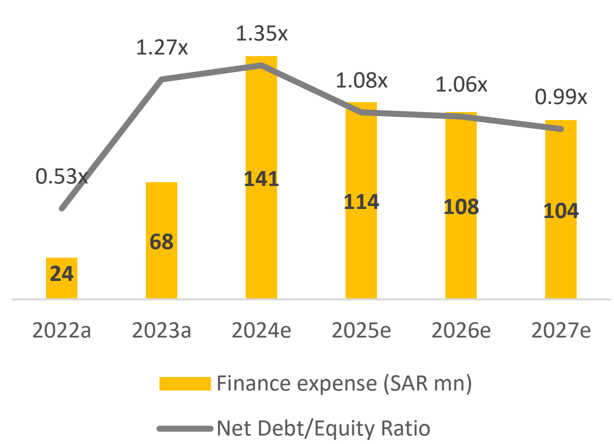
Source: Company data, GIB Capital

Figure 5: Profitability trend



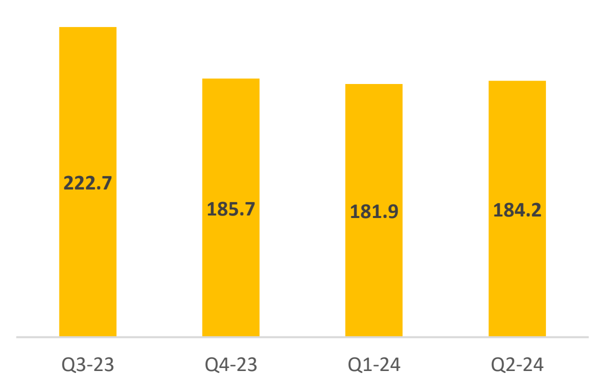
Source: Company data, GIB Capital

Figure 6: Leverage trend



Source: Company data, GIB Capital

Figure 7: EV/Fleet trend (SAR 000')



Source: Company data, GIB Capital

Financials

Figure 8: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e
Revenue	**1,106**	**1,554**	**1,706**	**1,893**
Revenue y/y	*41%*	*41%*	*10%*	*11%*
COGS	-725	-1,101	-1,196	-1,313
Gross Profit	**381**	**453**	**511**	**581**
Gross Profit margin	*34%*	*29%*	*30%*	*31%*
General and administrative expenses	-139	-164	-162	-180
Impairment loss on A/R and other	-19	-4	-4	-4
Operating profit	**223**	**286**	**345**	**397**
Operating margin	*20%*	*18%*	*20%*	*21%*
Finance cost	-68	-141	-114	-108
Other income	10	28	7	7
PBT	**165**	**173**	**238**	**295**
Zakat/tax	-5	-5	-7	-9
Net income	**161**	**168**	**231**	**286**
Net margin	*15%*	*11%*	*14%*	*15%*
y/y	*12%*	*4%*	*37%*	*24%*
EPS (In SAR)	2.9	3.1	4.2	5.2
DPS (In SAR)	0.0	0.0	0.0	3.1
Payout	0%	0%	0%	60%
EBITDA	**493**	**658**	**753**	**838**

Balance Sheet	2023a	2024e	2025e	2026e
Inventories	2	6	7	7
Accounts Receivable, Net	242	341	374	415
Prepayments and other receivables	103	156	170	187
Bank balances and cash	41	36	81	105
Total Current Assets	**389**	**539**	**632**	**714**
Other property and equipment	56	72	89	108
Vehicles	2,712	2,918	3,163	3,364
Right-of-use assets	89	99	107	114
Total Non-Current Assets	**2,858**	**3,089**	**3,359**	**3,586**
Total Assets	**3,246**	**3,628**	**3,991**	**4,300**
Current Liabilities	1,215	1,215	1,363	1,477
Non-current Liabilities	1,006	1,220	1,204	1,285
Equity	1,025	1,193	1,424	1,538
Total Equity and Liabilities	**3,246**	**3,628**	**3,991**	**4,300**
BVPS	18.6	21.7	25.9	28.0

Cashflow	2023a	2024e	2025e	2026e
Cashflow from Operations	-720	-107	254	265
Cashflow from Investing	-43	-16	-17	-19
Cashflow from Financing	754	117	-191	-222
Total Cashflows	**-8**	**-6**	**46**	**24**

Source: Company, GIB Capital

Figure 9: Key ratios

Key ratios	2023a	2024e	2025e	2026e
Profitability ratios				
RoA	5%	5%	6%	7%
RoE	16%	14%	16%	19%
Sales/Assets	34%	43%	43%	44%
Net margin	15%	11%	14%	15%
EBITDA margin	45%	42%	44%	44%
Liquidity ratios				
Currrent Assets/ Current Liabilities	0.3	0.4	0.5	0.5
Debt to Total Equity	1.3	1.4	1.1	1.1
Receivable Days	80	80	80	80
Inventory Days	1	2	2	2
Payable days	365	200	235	235
Cash conversion cycle	-284	-118	-153	-153
Debt ratios				
Net Debt/EBITDA	2.6	2.5	2.0	1.9
Debt/Assets	0.4	0.5	0.4	0.4
Net Debt/Equity	1.3	1.4	1.1	1.1
Valuation ratios				
P/E	26.5	25.4	18.5	14.9
P/B	4.2	3.6	3.0	2.8
EV/EBITDA	12.5	9.4	8.2	7.4
FCF Yield	-25.0%	-4.1%	4.5%	4.5%
Div. Yield	0.0%	0.0%	0.0%	4.0%

Source: Company, GIB Capital

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