Lumi Rental Co.

Automotive - Transportation
Saudi Arabia
25 September 2023

Target price	95.00	44.00% upside
IPO price	66.00	as at 25/09/2023

Research Department
Mazen AlSudairi, CFA
Tel +966 11 836 5468, alsudairim@alrajhi-capital.com

Existing rating

Underweight	Neutral	**Overweight**

Transaction Overview

Offering type	Primary IPO
Offered shares	16,500,000 ordinary shares (30%) of the total company's capital with fully paid nominal value of SAR10/sh
Use of Proceeds	Net of IPO proceeds will be distributed to the selling shareholder
Tranche	Tranche A: Participating Parties Tranche B: Individual Investors
Lisitng Venue	Main Market of Saudi Exchange
Selling Shareholder	Seera Group Holding
Financial Advisor	Saudi Fransi Capital

Financials

(SARmn)	2022	2023E	2024E
Revenue	783	1,210	1,552
Revenue growth	50.1%	54.7%	28.2%
Gross profit	260	401	513
Gross margin	33.2%	33.1%	33.1%
EBIT	165	304	396
EBIT margin	21.1%	25.1%	25.5%
EBITDA	430	672	823
EBITDA margin	55.0%	55.5%	53.1%
Net profit	144	246	330
Net margin	18.4%	20.3%	21.3%
EPS	2.6	4.5	6.0
DPS	0.0	0.0	0.0
RoE	17.0%	22.5%	23.3%

Source: Company data, Al Rajhi Capital.

Lumi Rental Co.

Initiating Coverage, Proxy play to travel and tourism

We initiate coverage on Lumi Rental Co. with an "Overweight "rating and a target price of SAR95/sh. Established in 2006, Lumi, one of the leading players in the car rental operation segment in KSA has created a niche for itself with a network of branches spanning across the Central, Western, Eastern, Northern and Southern regions in the Kingdom. Lumi's robust fleet expansion over the past few years has enabled the company to capitalise on the momentum in the leasing industry across Corporate and Government clients. Besides its focus on the omnichannel presence shall pave way for further growth in the short-term rental business. The used vehicle space has been robust post pandemic and Lumi put up a strong show in this segment due to its young fleet and integration with the other two businesses. The company registered a solid growth over 2019-2022 in the top-line at a CAGR of 35%. In addition to that, we believe Lumi to exhibit a revenue CAGR of 26% over the next five years (2022-2027e) owing to the tailwinds in the mobility market besides a robust backlog, well-diversified client base and thrust on digital adoption. Hence, we initiate with an "Overweight" rating on the stock.

Fleet size expansion to spearhead growth: Lumi witnessed a significant expansion in fleet size at an impressive pace from 3,603 vehicles in December 2015 to 24,730 vehicles as of April 2023. Its potential fleet size is expected to keep growing at a buoyant pace over the coming years thereby enabling it to capture a larger market share. Businesses and government entities' inclination to leasing for cost savings, streamlined fleet management, and convenient end-of-life vehicle disposal would push up the demand for leasing. Additionally, rising tourism shall boost demand for rental vehicles.

Competent Fleet Procurement Strategy: Lumi's strategy of sourcing vehicles directly from primary dealers of car manufacturers provides them with a competitive edge. Their solid longstanding relationships with suppliers helps them to channelize quicker deliveries at favourable pricing. This allows Lumi to maintain a well-matched inventory to meet demand, obtain discounts from dealers, offer competitive prices for rentals and leases, and ensure fair price recovery in the used vehicle market.

Robust Backlog in the Leasing Vertical: The leasing vertical for the company is set for solid growth with the upcoming addition of approximately 6,000 vehicles by 2023 end. These additions primarily cater to Saudi Aramco's needs, with the remainder going towards the Ministry of Interior, Saudi Emergency Force, and other clients. Consequently, a stronger revenue visibility is implied by the remarkable order backlog of SAR1300.7mn as of April 2023, compared to SAR454.8mn in 9M2022.

Influx of inbound Tourism: KSA, being a hub of holy sites shall continue to witness the buzz in tourism market thereby driving demand for rental vehicles. Religious and business tourists prefer rental vehicles over owned vehicles as a means of commute due to the flexibility and other value-added services attached with it. Meanwhile, the Government's push to reshape the tourism landscape with various projects in line would solidify the demand for rental vehicles going forward. Lumi is well placed to expand its fleet size in order to meet the growing demand.

Industry Geared up for Growth: Growing corporate and Government mobility needs arising out of large-scale projects presents significant opportunities for the leasing sector. Short-term rental demand is expected to rise with increased travel for events, business, leisure, and a surge in Umrah visitors. Furthermore, the strong performance in used car sales is likely to continue, driven by its affordability factor. We believe, Lumi is strategically positioned to benefit across its core business activities due to its established reputation, extensive branch network, competitive pricing, fleet customization capabilities, and convenient service offerings.

Attractive Valuations: We value the company based on an equal mix of DCF, P/E and EV/EBITDA. The DCF valuation is based on a 2.0% terminal growth rate and 9.5% WACC implying a target price of SAR 96/sh. The P/E approach using a multiple of 16x on 2024e EPS implies a target price of SAR96/sh. Besides, the EV/EBITDA approach implies a target price of SAR92/sh at a multiple of 8x on 2024e EBITDA. Using an equally weighted mix of the above-mentioned approaches, we arrive at a weighted average target price of SAR95/sh implying an upside of 44% from the IPO price.

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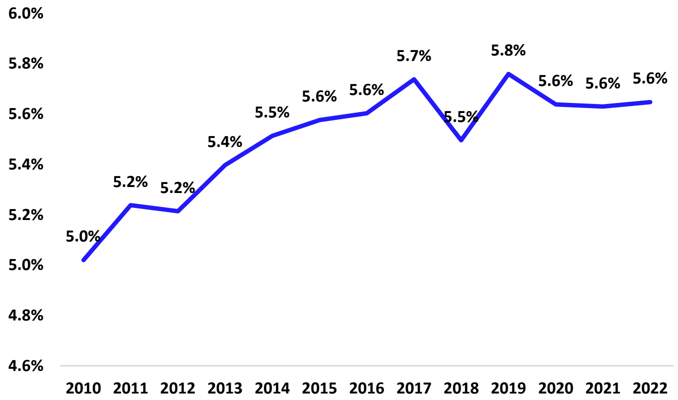
Industry overview

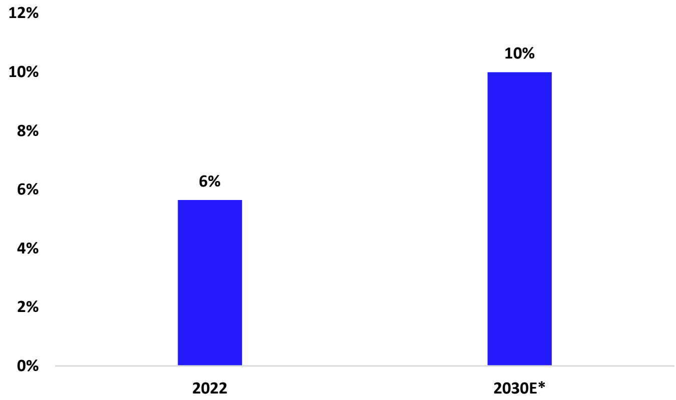
The car rental industry in KSA is poised for substantial growth at a projected CAGR of 9.3% over the period of 2023-2028 as per a report by Morder Intelligence. The fragmentation in the segment is expected to dwindle to some extent with the Government's restrictions on issuance of licences based on fleet size. An array of factors like development of tourism and infrastructure under Saudi Vision 2030 and the Government's aspirations to transform the Kingdom into a logistics hub have acted as key catalysts for the growth in this sector. Moreover, the Government's commitment to increase the contribution of the transport and logistics sector to 10% of the National GDP will create a favourable environment for continued expansion in the car rental industry.

Figure 1 **Transport, Storage and Communication Sector Contribution to GDP at Constant Prices**



Source: GASTAT, Al Rajhi Capital

Figure 2 **Evolution of Contribution of Transport and Logistics sector to National GDP**

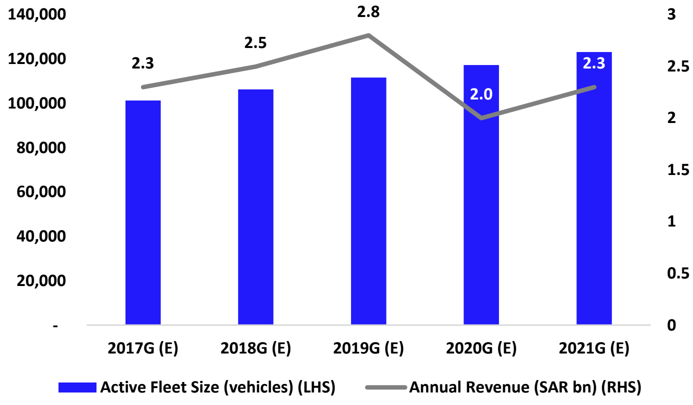


Source: Company Data, Al Rajhi Capital; *Government Vision 2030 Aspirations

KSA features a robust ecosystem of service providers, both international and local in the Car rental space. These services providers have a range of vehicles to offer based on utility type and budget preferences. With the evolving transportation landscape, leasing and renting cars have proven to be a viable option for consumers at the back of convenient after-market services, cost optimisations, ease of disposal and other value-added services offered by the market players. As per the company data, fleet size expansion in the Kingdom has been sturdy in both the Short-Term rental (Fig.3) and Long-Term leasing (Fig.4) categories for the service providers. Besides used vehicle sales volume have persistently been higher than new vehicle sales over the period of 2017-2021. The used vehicle sales gathered more steam post pandemic due to rising preferences for personal mobility and the VAT hike implemented during Covid leading to higher vehicle prices.

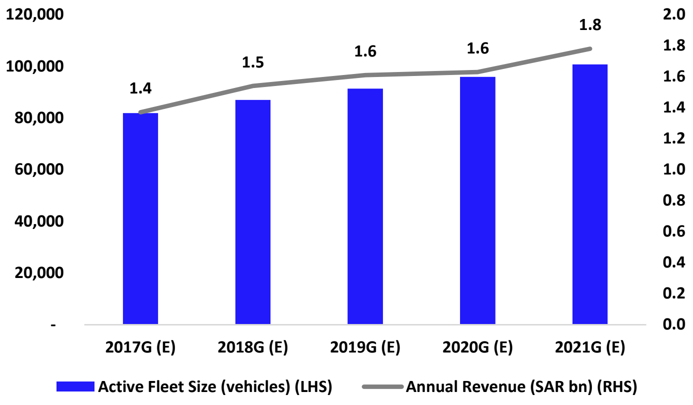
Overall, the car rental industry has bounced back strong, and resilient post the pandemic. Going forward, the frenzy in the tourism market and surge in expat professionals will provide more legs to the growth for car rental operators. Besides, a rise in number of women drivers may also aid growth. The Government's progression on mega and giga projects would facilitate demand from Corporates and Government sector in the long-term leasing vertical. Used car sales would also grow owing to better affordability options. Additionally, expansion in fleet size for renting and leasing would render a higher number of vehicles to be disposed of in the used car segment. In conclusion, the industry is poised for a steady growth in the coming years.

Figure 3 **Car Rental Market Segment in KSA**



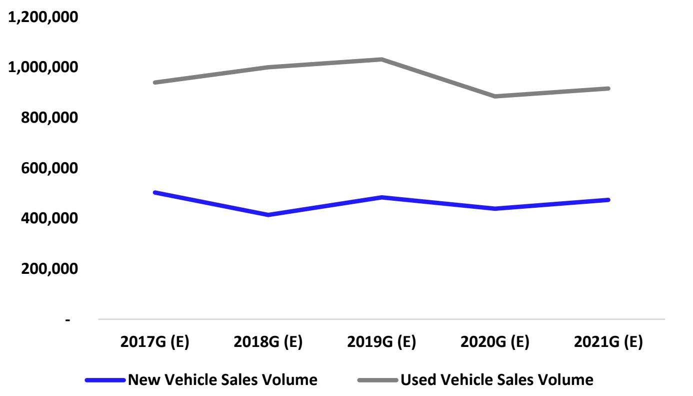
Source: Company Data, Al Rajhi Capital

Figure 4 **Vehicle Lease Market Segment in KSA**



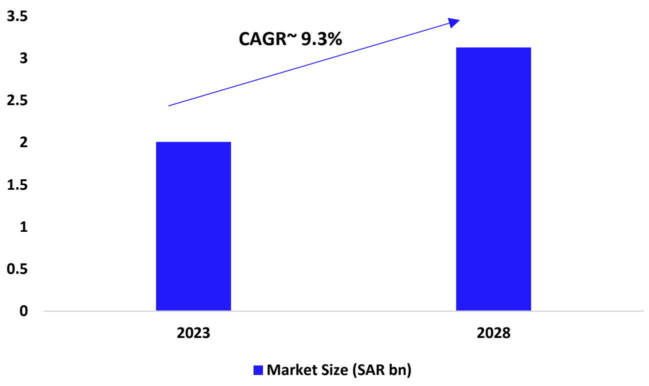
Source: Company Data, Al Rajhi Capital

Figure 5 **Comparison of Used Car sales against New Car**



Source: Company Data, Al Rajhi Capital

Figure 6 **KSA Car Rental and Leasing Market Size**



Source: Mordor Intelligence Report, Al Rajhi Capital

Company Overview

Lumi Rental Co., a wholly owned unit of Seera Group Holding, can be regarded as one of the leading omnichannel companies in KSA's portfolio of travel companies ranking among the top 5 players. With a 7% market share (based on active fleet size) as of FY21, Lumi boasts of being the third largest player in the Kingdom following Budget Saudi and Theeb Rent a Car Company. Backed by Seera Group Holding, Lumi has been in operations from 2006 onwards, thereby carving a niche for itself in the car rental space. The company's business spans across 3 segments categorised as Long-Term Lease, Short Term Rental and Sale of Used Vehicles. Lumi caters to a diverse set of clients with corporate and government clients being the key stakeholders in the Leasing space and retail and corporate clients in the short-term rental segment. The company commands a strong geographical footprint with a network of 12 and 21 branches across airports and cities respectively. As a part of its growth strategy, further branch expansion to 40 branches by end of FY23 is on cards for the company to garner a higher market share. The enormous fleet size of the company at more than 24,000 vehicles as of 30th April 2022 with strong footed brands in the fleet mix places it in a position to well-capitalise on the growth in the car rental market.

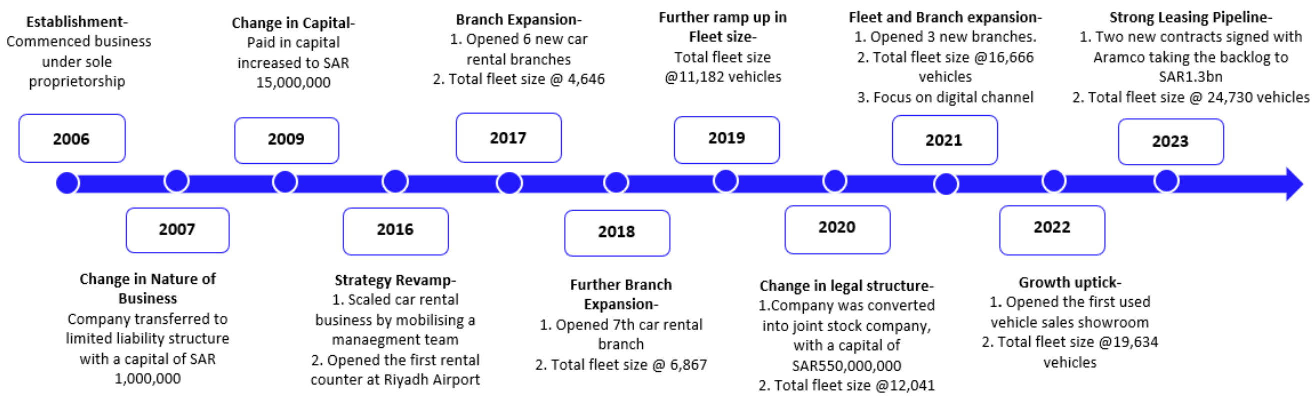
Lumi's core line of business can be categorised into 3 broad segments-

Long-Term Lease: The company engages in leasing of commercial and non-commercial vehicles for a fixed tenure ranging from 1-5 years in lieu of agreed lease payments, fulfilling the fleet requirements of Corporate and Government clients. The company also actively provides several value-added services from fleet customization, maintenance, replacement, and accident management over the lease period to optimise operations for its customer base.

Short-Term Rental: Under this vertical, the company is responsible for providing car rental services for daily, weekly, and monthly rental to retail and corporate clients by way of its omni channel setup. The company leverages its network of branches across airports and cities to acquire customers besides its digital application and website presence.

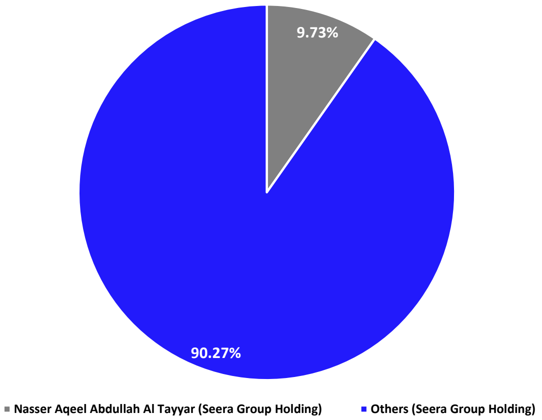
Used Vehicle Sales: The rental segment acts as an anchor vertical for the fleet sold in the used vehicles space. The company engages in disposing of vehicles from its own fleet post the expiry of the lease contract which ranges between 3-4 years on an average and sells the vehicles released from the rental fleet at the end of their two-year life cycle.

Figure 7 **Lumi Rental Co. Timeline**



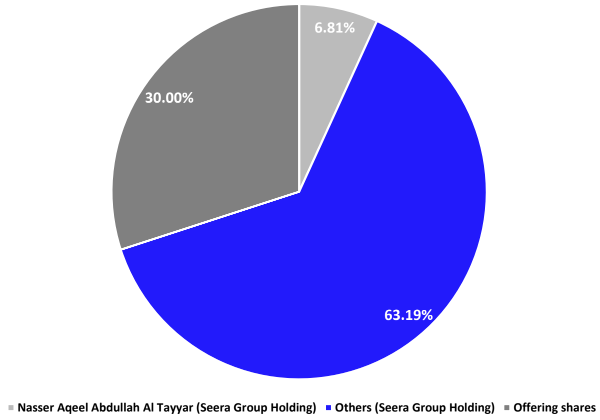
Source: Company Data, Al Rajhi Capital

Figure 8 **Pre-IPO Shareholding**



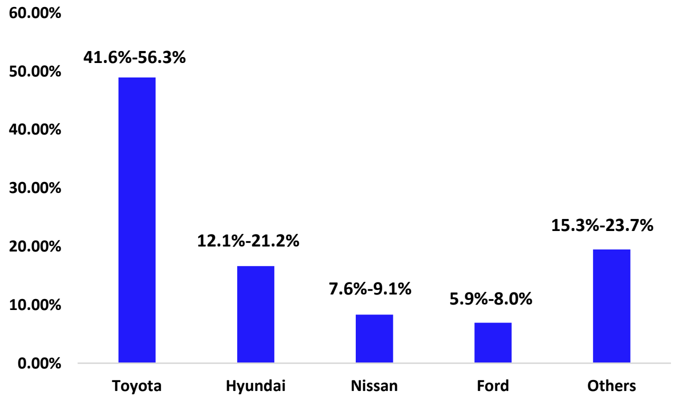
Source: Company Data, Al Rajhi Capital

Figure 9 **Post-IPO Shareholding**



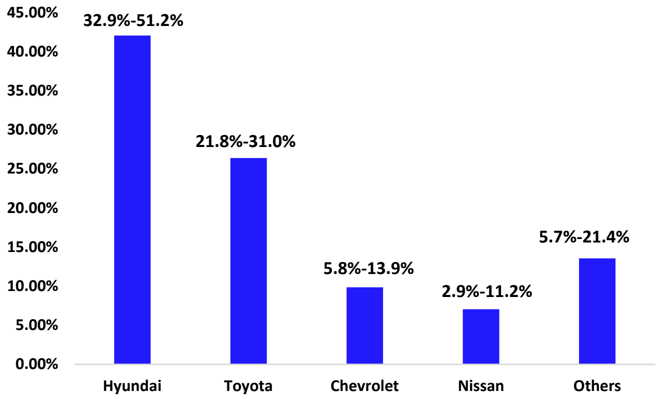
Source: Company Data, Al Rajhi Capital

Figure 10 **Lease Fleet Mix as of 9M2022**



Source: Company Data, Al Rajhi Capital

Figure 11 **Rental Fleet Mix as of 9M2022**



Source: Company Data, Al Rajhi Capital

Figure 12 **Geographical Footprint Breakdown***

Country	City	Car Rental Branches	Used Vehicle Showroom	Workshop
KSA	Riyadh	5	1	1
	Neom	2		
	Dammam	3		
	Jeddah	3		1
	Al Ula	2		
	Yanbu	3		
	Taif	1		
	Tabuk	4		
	Al Jouf	1		
	Al Wajh	1		
	Al Baha	1		
	Medina	2		
	Khobar	1		1
	Jubail	1		
	Al Ahsa	1		
	Jizan	1		
	Khamis	1		
Total		**33**	**1**	**3**

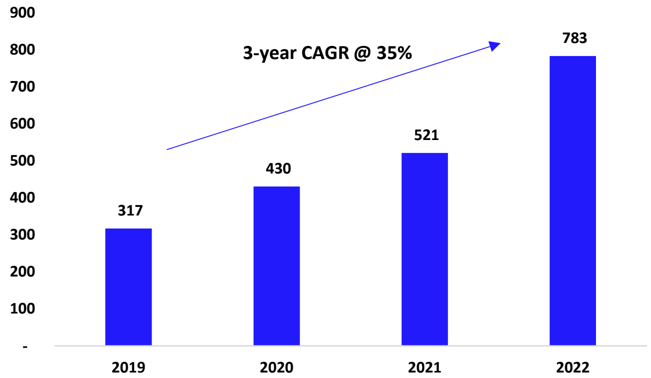
Source: Company Data, Al Rajhi Capital; * As of 30th September 2022.

Business Model

Lumi, one of the leading car rental brands in the KSA stands out as it owns a young fleet with a vintage of less than 2 years across its entire fleet of vehicles. The company operates within three distinct reportable segments, each of which plays a crucial role in the company's revenue mix. Headquartered in Riyadh, Lumi has expanded its fleet size enormously with accelerated growth post 2016 registering an increase in the overall fleet size from 3,603 vehicles (as of 31st December 2015) to 24,730 vehicles as of 30th April 2023. The company is focused on expanding its network footprint by way of significant branch expansion in 2023 to harness growth in the rental segment. Besides, the company's' backlog in the leasing vertical stands at a whopping SAR1.3bn as of April 2023 vis-à-vis SAR0.5bn as of September 2022. The steep jump in pipeline corresponds to the signing of 2 new contracts which shall entail the delivery of an additional ~6000 vehicles by end of FY23 further boosting the overall fleet size. In essence, the company's integrated approach to generate revenue at various stages of a vehicle's lifecycle positions it to strengthen its competitiveness in the market.

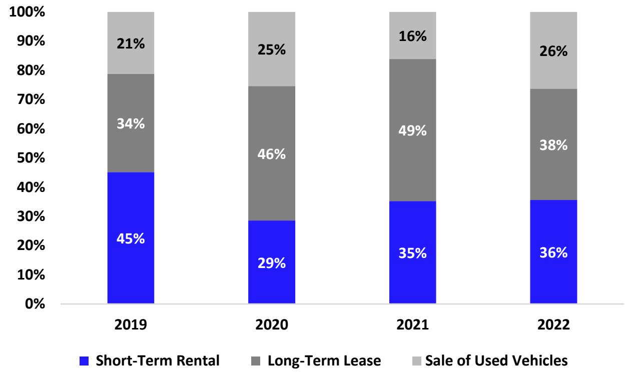
The company delivered a healthy 3-year revenue CAGR of 35% between 2019-2022. We note that the revenues in the sale of used vehicles segment reported the highest CAGR of ~45% over the same period owing to the rising interest in this space post pandemic. The revenue mix of the company has moderately changed over the past few years with reduced skewness towards the short-term rental segment.

Figure 13 **Lumi Revenue Trend 2019-2022 (SARmn)**



Source: Company Data, Al Rajhi Capital

Figure 14 **Lumi Revenue Breakdown by Segment (%)**



Source: Company Data, Al Rajhi Capital

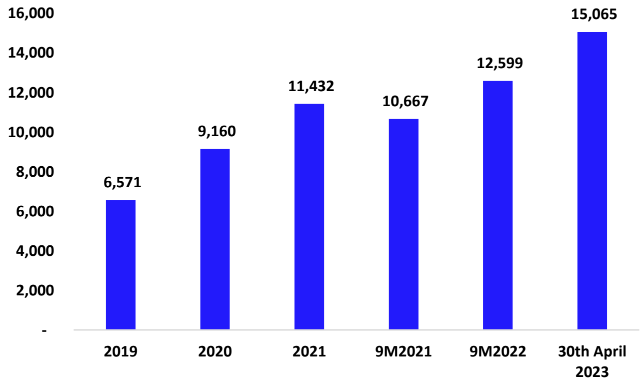
A Deep Dive into Core Business Activities-

Leasing- Under this segment, the company caters to the set of customers who prefer the flexibility of leasing rather than outright ownership of a vehicle thereby conserving capital for the clients. The clients are entitled to pay a fixed fee over the tenure of the lease (average 3-4 years) and can also avail of additional value-added services like vehicle customization, maintenance packages and insurance needs. The company encompasses an available leasing fleet of 15,065 vehicles as of April 2023 and boasts of a marquee client base (Corporate and Government), with Aramco being one of its key customers. The Government clients are acquired through a bidding process on the Etimad system whereas the corporate client acquisition is based on several screens like the potential contract value, creditworthiness, etc. The leasing revenue mix is skewed towards corporate clients contributing 56% of the lease revenue and the Government clients accounting for the remaining 44% of the overall lease revenue as of September 2022.

We believe, Lumi is well poised to capture a higher market share in the Leasing segment based on its robust contract pipeline to deliver an additional ~6,000 vehicles by the end of FY23 with 3003 vehicles contracted to Aramco and 1500 vehicles to be chartered by the Ministry of Interior.

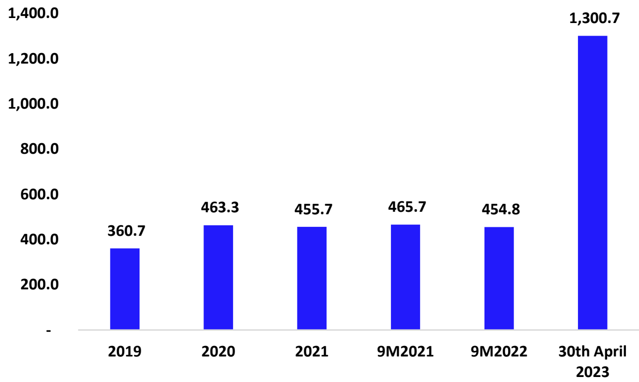
Furthermore, Lumi aims to capitalize on the growing demand for vehicle leasing owing to the cost optimization benefits for clients.

Figure 15 **Available Leasing Fleeting**



Source: Company Data, Al Rajhi Capital

Figure 16 **Backlog Book (SAR mn)**

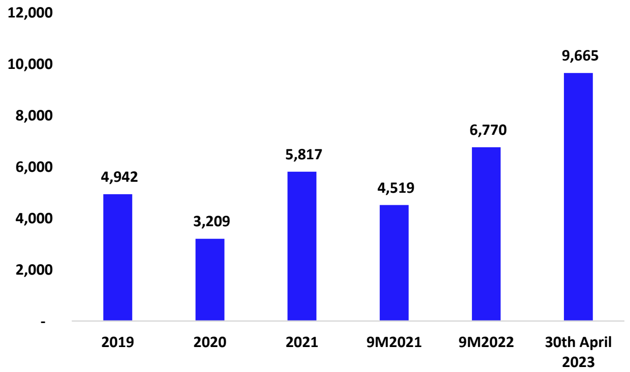


Source: Company Data, Al Rajhi Capital

Short Term Rental- The company offers a comprehensive suite of passenger cars and commercial vehicles available to rent either for day use, or for weekly or monthly use. The rental service is complemented by supplementary services like flexibility in pick-up and drop location, chauffer services coupled with 24/7 roadside assistance. Revenue in this segment is primarily generated through a take rate in the form of rental fees earned from a mix of corporate and retail clients. The need for use of rental vehicles differs among retail and corporate clients wherein the former may rent vehicles for business/leisure and religious travel purposes whereas the latter may need it for their inter/intra-city business travel needs. Omnichannel serves as a key acquisition strategy for retail client base while corporate clients are acquired through strategic relationships with private companies or through the Etimad platform for Government clients.

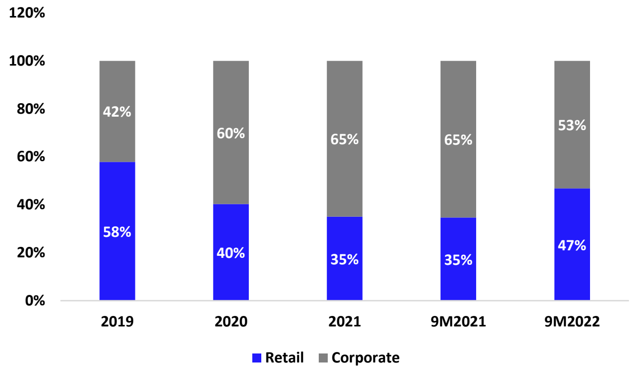
Rental revenues are a function of fleet utilization levels. The company has adequately been able to manage its utilization rates barring the covid year where inbound tourism and local travel hit rock bottom, Besides, client concentration has also been well-balanced by Lumi. However, branch expansion strategies shall pave way for further uptick in retail contribution to the rental revenue mix. Rental vehicles are usually disposed of from the company's fleet after two years of service, thereby ensuring a healthy purchase price recovery for the same.

Figure 17 **Available Rental Fleet**



Source: Company Data, Al Rajhi Capital

Figure 18 **Rental Revenue by Customer Mix**

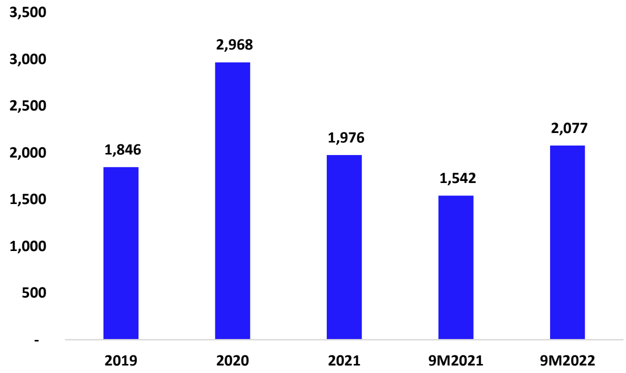


Source: Company Data, Al Rajhi Capital

Sale of Used Vehicles- The VAT hike during Covid boosted the consumer's preference for used cars. The used vehicle sales segment is integrated into the leasing and the car rental segment for Lumi. The company maximizes its recovery rate by undertaking thorough inspection and refurbishment of matured vehicles which are due for disposal from its own fleet rather than using third party vehicles. The used vehicles are offloaded via a weekly-auction mechanism and Lumi has successfully been able to maintain healthy recovery rates between 65-75% as compared to the cost of the vehicle.

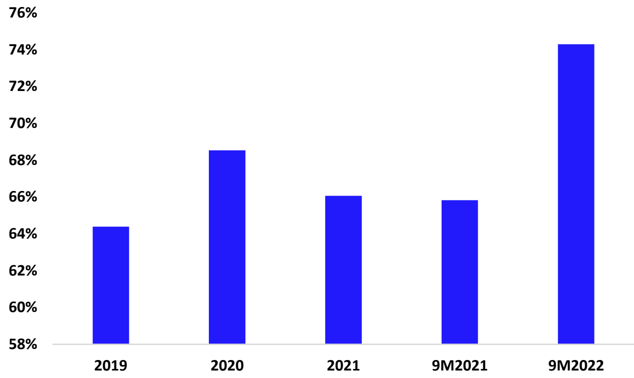
We believe that the company has ample headroom to capitalize on the untapped potential of the used vehicle market owing to the demand upsurge driven by rising prices of new vehicles. We expect the overall sales to grow in this segment as growth in leasing and rental fleet will flow to used vehicle sales albeit with a lag. The company is now also exploring the sale of used vehicles via showrooms and plans to add another showroom in early 2024.

Figure 19 **Number of Used Cars Sold**



Source: Company Data, Al Rajhi Capital

Figure 20 **Recovery Rate for sale of Used cars**

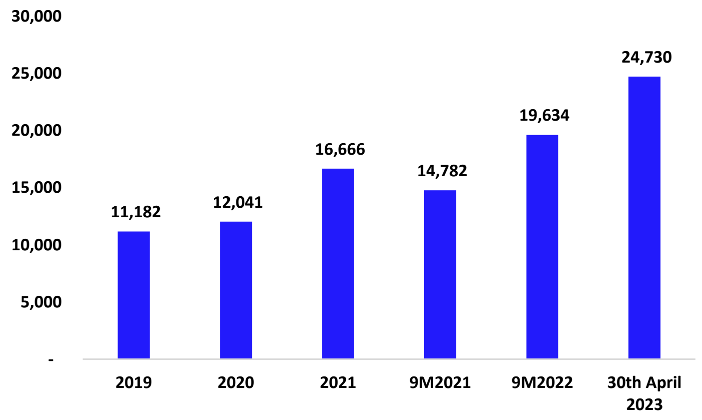


Source: Company Data, Al Rajhi Capital

Investment Case

Fleet size expansion to spearhead growth: LUMI's fleet size registered a multifold increase from 3,603 in December 2015 to 16,661 in December 2021 (CAGR ~29%). At present, Lumi has a fleet of 24,730 as of 30th April 2023. Coherent growth insights in the mobility market shall support the momentum in fleet expansion for the company which will fuel healthy performance. A robust growth in the fleet size will enable the company to capture a larger market share in the rental segment going forward. Businesses and Government are showing increased reliance on leasing as a means of mobility at the back of cost optimization due to low maintenance, hassle-free fleet management benefits and convenient disposal of vehicles at the end of their lifecycle by car-rental companies. Moreover, an influx of tourism shall also swell up demand for the rental fleet. Consequently, an increase in the overall vehicle fleet will push the availability of used vehicles for sale by the company post the completion of their life cycle in the other two segments.

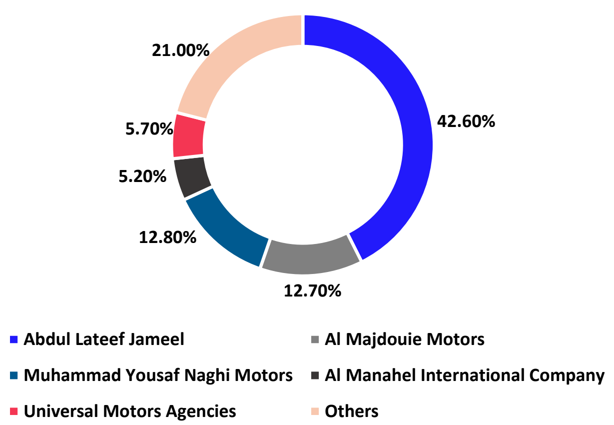
Figure 21 **Existing Fleet size Trajectory (%)**



Source: Company Data, Al Rajhi Capital

Competent Fleet Procurement Strategy: Lumi's vehicle procurement strategy of buying vehicles from the primary specific dealer of each car company gives them the advantage of competitive pricing. A well-established and long-standing relationship with car suppliers enables them to leverage faster delivery and attractive pricing. This gives an edge to Lumi over other companies to obtain a sufficient supply of new vehicles by maintaining a well-balanced inventory as per demand requirements. The ability to obtain discounts from dealers also plays out in terms of offering reasonable prices to the customers in the rental and leasing space and ensures reasonable price recovery in the used vehicle segment.

Figure 22 **Fleet Purchase Breakup by Suppliers as of 9M2022 (%)**



Source: Company Data, Al Rajhi Capital

Robust Backlog in the Leasing Vertical: Lumi has a healthy pipeline in its leasing vertical underpinned by the upcoming addition of ~6000 vehicles in the leasing fleet, majority of which is towards the requirement from Saudi Aramco and the remaining towards Ministry of Interior, Saudi Emergency Force, and others. This amounts to a record order backlog of SAR1300.7mn as of April 2023 versus SAR454.8mn as of 9M2022 over the life of the lease. The significant jump in backlog provides a strong revenue visibility for Lumi in the Leasing Vertical. Additionally, the growth in the leasing fleet will anchor the growth in used vehicle sales in the rear of lifecycle completion.

Influx of Inbound Tourism: The traction in the tourism sector with regard to religious and leisure travel will increase the demand for rental vehicles due to their flexible terms and competitive rates as compared to public transportation. This will boost the growth in short term rental segment. We believe Lumi is well poised to capitalise on the prospective demand from the tourism space given its network of branches across the cities and airports. Moreover, branch expansion to attract a higher share of walk-in customers and airport traffic is one of the key focus areas for the company as this will increase the retail contribution in the revenue split. All in all, Lumi's active role in creating an optimal digital transformation shall also bolster growth going forward.

Industry Geared up for Growth- Certain macro tailwinds will stimulate growth in the car rental industry. Demand for leasing will be fostered by the increase in addressable market size as the mobility needs of Corporates and Government increase. Besides, mega and giga projects shall also create a sea of opportunities for market leaders in the vehicle leasing segment. Demand for short-term rental is also bound to pick up with an uptick in travel in view of events, business or leisure travel coupled with an upsurge in Umrah visitors. Furthermore, high spirit in the used car sales is expected to sustain with affordability being one of the key parameters. Lumi stands to benefit across its core business activities by virtue of its legacy, network footprint, competitive pricing, fleet customization capabilities and convenience of service.

Valuation

Lumi Rental Co. will get listed on KSA Main Market. The final IPO price for the offering has been set at SAR66/sh. At the current IPO price of SAR66/sh, the stock is trading at a discounted forward multiple range of 11.0x of 2024e EPS. We believe the stock should command a P/E of 16x based on 2024e EPS given robust growth pipeline. In addition, we expect the company's top line to grow at a 5-year CAGR of 26% (between 2022-2027e) and the bottom line CAGR to surpass the revenue growth during the same period. Essentially, high growth rates make a compelling case for investment in Lumi Rental Co. Our preferred valuation approach to value the company is a blend of DCF, P/E and EV/EBITDA methods wherein we assign equal weights to each. The DCF valuation is based on a 2.0% terminal growth rate and 9.46% WACC implying a target price of SAR 96/sh. The P/E approach also implies a target price of SAR 96/share using a multiple of 16x on 2024e EPS. The EV/EBITDA valuation approach using a multiple of 8x on 2024e EBITDA implies a target price of SAR92/sh. Using a combination of the above-mentioned approaches, we arrive at a weighted average target price of SAR95/sh implying an upside of 44% from the IPO price level (SAR66/sh).

Figure 23 **Valuation**

Valuation Methodology	Fair Value (SAR)	Weightage	Weighted value per share (SAR)
DCF	96	33%	32
Relative Valuation (PE)	96	33%	32
Relative Valuation (EV/EBITDA)	92	33%	31
Fair Value (SAR)			**95**
Offer Price (SAR)			***66***
Upside/Downside			***44%***

Source: Al Rajhi Capital

Figure 24 **DCF Sensitivity Analysis**

		Terminal Growth				
		1.5%	**1.8%**	**2.0%**	**2.3%**	**2.5%**
WACC	**9.0%**	98	102	106	110	115
	9.2%	94	97	101	105	109
	9.5%	90	93	96	100	104
	9.7%	86	89	92	96	99
	10.0%	82	85	88	91	95

Source: Al Rajhi Capital

Key risks

1) Slowdown in pace of fleet expansion leading to a muted revenue growth.
2) Pricing competition among peers in quest for market share may pose risk to the revenues.
3) Delay in branch expansion may lead to setbacks in B2C customer acquisition in the rental space.
4) Abnormal jump in receivables shall adversely affect the working capital of the company.
5) Unprecedented disruption in the tourism sector may hinder growth in the business.
6) Cancellation in long term leasing contracts shall disrupt the company's existing backlog in place.
7) An ample supply of cars in the used vehicle segment in the KSA market might pose some downside risk to per vehicle realization.

Financial Analysis

Revenue analysis: Lumi reported a 3-year revenue CAGR of 35% (FY19-22) and we believe the company is capable of sustaining a healthy revenue momentum in the coming years. We have factored in a 5-year revenue CAGR of 26% between 2022-2027. Post 2027, the growth in revenues growth may start to normalise to mid-teens and then to low single digit by 2032. Increase in fleet size, higher recovery rates and stable utilisation levels have been the key contributors for the continuing uptick in the company's top line. Historically, the evolution of revenue suggests a shift in the mix from short-term rental to sale of used vehicles owing to buoyancy in the used vehicle market post the pandemic. As of H1 2023, the company clocked in revenues worth SAR500mn (+49% y-o-y) signalling a robust demand for the company's services portfolio. Overall, we expect the nature of integrated services to foster growth across all lines of business while the used vehicle sales contribution might inch upwards in the overall revenue mix in the near term. However, post 2027, we expect the used vehicle sales to gradually slow down to~30% of the revenue mix.

Cost analysis: The improvement in cost of sales as a % to revenue can primarily be attributed to the curtailment in salaries during the pandemic. Salaries and other benefits hover around 4-5% of overall cost of sales, down from 9% in 2019. A major chunk of Lumi's costs arises out of depreciation expenses due to the asset heavy model of the company. As the fleet size trends upwards, the depreciation costs shall rise thereby pushing the cost of revenue slightly upwards. In the near-medium term, we believe the cost of sales to grow proportionately in line with the revenue at the back of a robust increase in fleet size (~6000 in H2 2023 itself) and in the company's pursuit of gaining market share. However, as economies of scale kick in, the company's cost of sales as a % of revenue shall start seeing some improvement.

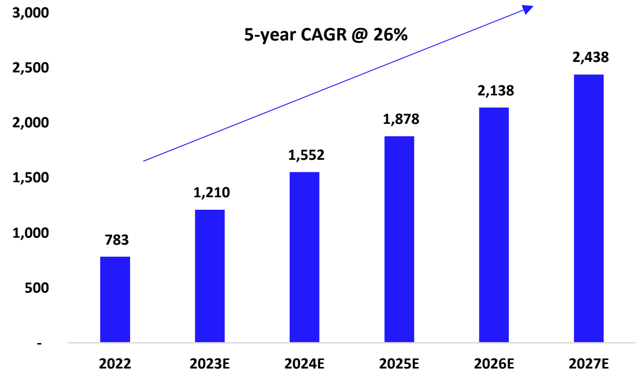
Margins: Despite the expected rise in cost of sales in tandem with the top line and the company's limited ability to significantly increase rental rates/ lease fees as a result of competition in the market we expect the gross margins to hold up around ~33-34%. Moreover, operating efficiencies and an efficient management of expected credit losses on receivables shall boost operating margins. Net profit margins shall also observe an expansion at the back of the likely fleet size expansion and lower financing burden in the coming years.

Balance Sheet: Car rental is typically a capital-intensive business model. As a result the company has an asset-heavy balance sheet with slightly elevated debt levels to fund its capex requirements for fleet expansion but the company's ability to handle its outstanding debt is evident by a healthy interest coverage ratio. The company's capex is expected to swell in 2023 owing to the deliverable leasing fleet to Aramco, Ministry of Interior and Saudi Emergency Force. Besides, fleet size expansion, regular refurbishments and replacement costs would continue to drive high capex for Lumi until 2027 but in our view, the rate of growth for capex shall slowdown post 2027. In our view, the capex wave would contribute positively in stepping up revenue growth and profitability thereby providing scale and scope to Lumi's growth story.

Working capital: The working capital needs of the company can be fulfilled adequately given its short-term financial health metrics. Going forward, the receivables turnover ratio may improve as we expect an increase in retail contribution to the revenue mix. We expect DSO to reduce significantly from 85 days to 60 days and thereafter settle at more stable levels. Therefore, current ratio would witness a notable improvement with quality management of key working capital metrics.

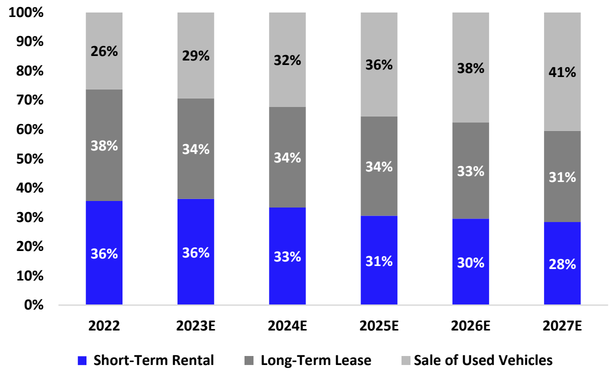
Cash Flow Position: LUMI registered healthy ROE levels ~17% as of FY22. On account of funding requirements for the fleet expansion, the company's leverage ratios may inch up to hover around ~1.0x by end of FY23 vis a vis 0.5x in FY22. However, the leverage will come off to more normalised levels after FY23. In our view, the company may start delivering positive operating cash flows from FY27 onwards as the growth capex matures.

Figure 25 **Revenue Projection (SAR mn) (2022-2027E*)**



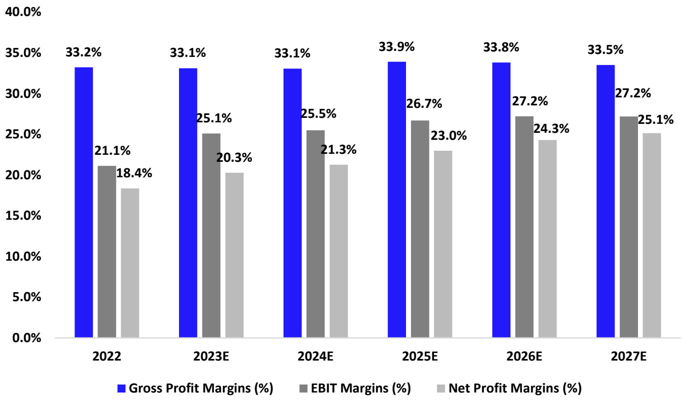
Source: Company Data, Al Rajhi Capital; *ARC estimates

Figure 26 **Revenue Mix (2022-2027E*)**



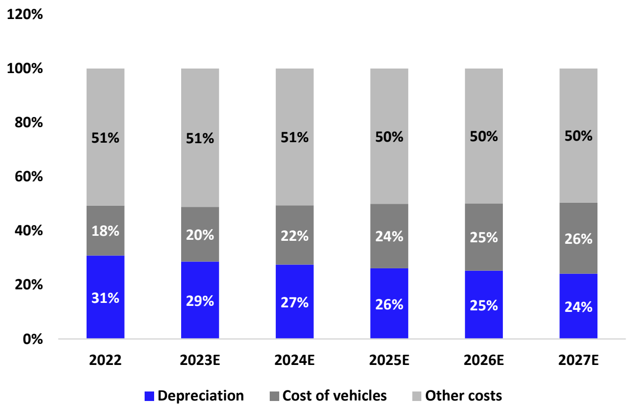
Source: Company Data, Al Rajhi Capital; *ARC estimates

Figure 27 **Profitability Analysis (2022-2027E*)**



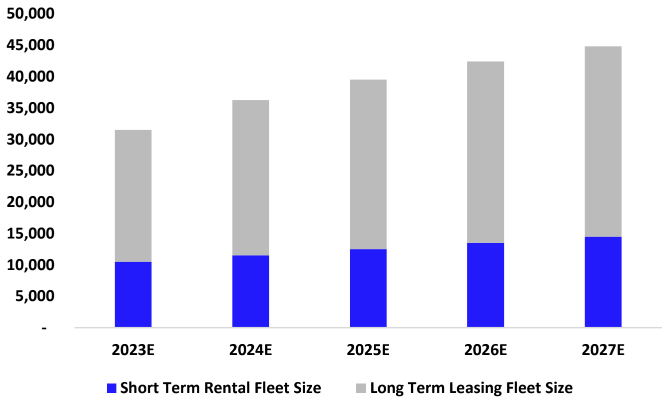
Source: Company Data, Al Rajhi Capital; *ARC estimates

Figure 28 **Cost of Sales Breakdown (%) (2022-2027E*)**



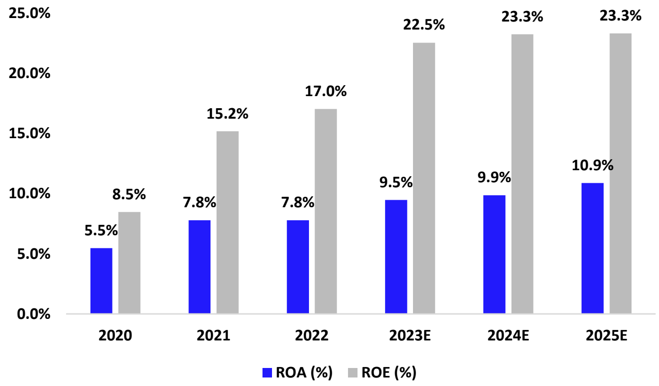
Source: Company Data, Al Rajhi Capital; *ARC estimates

Figure 29 **Expected Fleet Size Breakdown (2023E-2027E*)**



Source: Company Data, Al Rajhi Capital; *ARC estimates

Figure 30 **ROA and ROE (%) (2022-2027E*)**



Source: Company Data, Al Rajhi Capital; ARC estimates

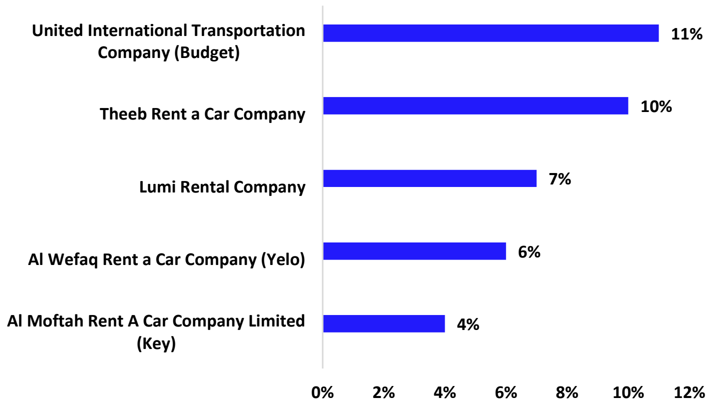
Competitive Landscape

The car rental industry in KSA is fragmented with the presence of several small local and some leading international players. As per company data, Lumi stands to be the third largest market player following Budget and Theeb in the local market as of 2021. However, we believe this market share breakdown is not reflective of the fact that small players who capture more than 60% market share face tough challenges owing to the regulations imposed by the Public Transport Authority and are not comparable to the market in which Lumi and other Category A players operate.

Although Lumi faces steep competition from top local players like Theeb and international players such as Budget, AVIS, and Hertz, we note that the competitive position of Lumi is improving implied by a robust revenue CAGR compared to other two, the market leaders. Besides, the gross margins for Lumi have shown a sharp improvement over the past two years and the margin gap has narrowed down. In addition to that, Lumi boasts of being the sole supplier for vehicles in the NEOM area and thereby has a higher composition of SUVs and Luxury cars in its fleet. The growing network footprint and robust pipeline for the deliverable leasing fleet places Lumi on a strong footing against its competitors.

Going forward, as the industry becomes less fragmented, Lumi is capable of garnering a higher market share from small scale players owing to its technical capabilities to offer competitive pricing and fulfilling consumer preferences.

Figure 31 **Market Share based on Active Fleet Size as of 2021**



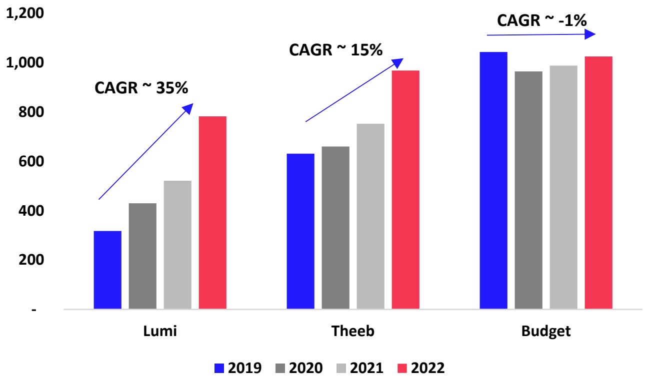
Source: Company Data, Al Rajhi Capital

Figure 32 **Public Transport Authority Licencing Requirement (2022)**

Category Classification	License Requirements	No. of companies (2022)
Category A	Companies with a fleet of more than 3000 vehicles providing regular rental and chauffeured services with the granted right to provide hourly rental services.	17
Category B	Companies with a fleet of more than 300 vehicles providing regular rental only with the granted right to provide hourly rental services.	73
Category C	Companies with a fleet of more than 100 vehicles providing regular rental only with the granted right to provide hourly rental services, but limited to operate only within the licencing city.	212
Category D	Companies with a fleet of more than 15 vehicles, limited to operating within the licencing city only and restricted to branch offices, operating out of the major cities of Riyadh, Makkah, Madinah, Dammam and Jeddah.	311
Online Car Rental	No limitation on fleet size	2

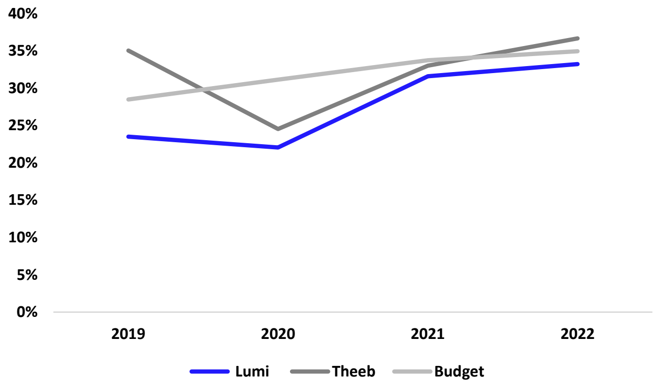
Source: Company Data, Al Rajhi Capital

Figure 33 **Revenue over the Years (SARmn) (2019-2022)**



Source: Company Data, Al Rajhi Capital

Figure 34 **Peer Gross Margins (%) (2019-2022)**



Source: Company Data, Al Rajhi Capital

Key Financials

Figure 35 **Income Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Sales	**783**	**1,210**	**1,552**	**1,878**	**2,138**	**2,438**
Y-o-Y	*50.1%*	*54.7%*	*28.2%*	*21.0%*	*13.9%*	*14.0%*
Cost of Sales	(523)	(810)	(1,039)	(1,241)	(1,415)	(1,621)
% of revenues	*66.8%*	*66.9%*	*66.9%*	*66.1%*	*66.2%*	*66.5%*
Gross Income	**260**	**401**	**513**	**637**	**723**	**817**
Y-o-Y	*57.8%*	*54.1%*	*28.0%*	*24.1%*	*13.6%*	*12.9%*
GPM	*33.2%*	*33.1%*	*33.1%*	*33.9%*	*33.8%*	*33.5%*
G&A	(59)	(80)	(95)	(107)	(114)	(124)
% of revenues	*7.6%*	*6.6%*	*6.1%*	*5.7%*	*5.3%*	*5.1%*
ECL Provision	(36)	(17)	(22)	(29)	(28)	(30)
Operating Expenses	**(95)**	**(97)**	**(117)**	**(136)**	**(141)**	**(154)**
% of revenues	*12.1%*	*8.0%*	*7.6%*	*7.2%*	*6.6%*	*6.3%*
Operating Income	**165**	**304**	**396**	**501**	**582**	**663**
Y-o-Y	*58.6%*	*83.6%*	*30.3%*	*26.7%*	*16.1%*	*13.9%*
OPM	*21.1%*	*25.1%*	*25.5%*	*26.7%*	*27.2%*	*27.2%*
Financial costs	(24)	(57)	(62)	(63)	(52)	(40)
Other income	7	7	7	7	7	7
Profit before tax	**148**	**254**	**341**	**446**	**537**	**630**
Zakat & Tax	(5)	(8)	(11)	(14)	(17)	(20)
% of PBT	*3.2%*	*3.2%*	*3.2%*	*3.2%*	*3.2%*	*3.2%*
Net Profit Before Unusual Items	**144**	**246**	**330**	**432**	**520**	**610**
Net Income	**144**	**246**	**330**	**432**	**520**	**610**
Y-o-Y	*35.4%*	*71.0%*	*34.4%*	*30.8%*	*20.4%*	*17.4%*
NPM	*18.4%*	*20.3%*	*21.3%*	*23.0%*	*24.3%*	*25.0%*
EPS (SAR/sh)	**2.61**	**4.47**	**6.00**	**7.85**	**9.45**	**11.09**

Source: Company Data, Al Rajhi Capital

Figure 36 **Cash Flow Statement**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Cash from operations	(86.4)	(534.7)	(7.5)	(128.6)	(34.0)	78.0
Cash from investing	8.1	(35.3)	(30.6)	(18.4)	(20.2)	(22.2)
Cash from financing	110.4	578.9	56.1	123.0	61.2	32.2
Net change in cash and cash equivalents	**32.1**	**8.8**	**18.0**	**(24.0)**	**7.1**	**87.9**

Source: Company Data, Al Rajhi Capital

Figure 37 **Key Ratios**

Key metrics	2022	2023E	2024E	2025E	2026E	2027E
Current ratio	0.5x	1.1x	0.7x	0.7x	0.7x	0.8x
Receivables turnover ratio	4.3x	6.1x	6.0x	5.9x	5.9x	6.2x
Payables turnover ratio	1.7x	2.3x	2.2x	1.8x	2.0x	2.1x
Asset Turnover Ratio	0.6x	0.6x	0.6x	0.6x	0.6x	0.6x
ROA	7.8%	9.5%	9.9%	10.9%	11.3%	11.5%
ROE	17.0%	22.5%	23.3%	23.3%	21.9%	20.5%

Source: Company Data, Al Rajhi Capital

Figure 38 **Balance Sheet**

(SAR mn)	2022	2023E	2024E	2025E	2026E	2027E
Assets						
Inventories	1	2	3	3	4	5
Trade Receivables	174	225	289	344	379	409
Prepayment and other receivables	68	106	124	150	171	195
Due from related parties	0	0	0	0	0	0
Cash and cash equivalents	49	58	76	52	59	147
Total current Assets	**293**	**391**	**492**	**550**	**613**	**756**
Vehicles	1,472	2,115	2,767	3,348	3,950	4,534
Property and Equipment	79	87	85	67	49	35
Investment in Subsidiaries	0	0	0	0	0	0
Total non-current assets	**1,551**	**2,202**	**2,851**	**3,415**	**3,999**	**4,568**
Total assets	**1,844**	**2,593**	**3,343**	**3,965**	**4,612**	**5,324**
Liabilities						
Trade payables	392	299	648	698	748	798
Loans and Borrowings	128	0	0	0	0	0
Lease liabilities	28	28	28	28	28	28
Accruals and other liabilities	24	36	47	56	64	73
Due to related parties	0	0	0	0	0	0
Zakat payable	5	5	5	5	5	5
Total current liabilities	**577**	**369**	**728**	**788**	**845**	**904**
Employee benefit obligations	13	17	22	29	38	49
Loans and Borrowings	365	1,072	1,128	1,251	1,312	1,344
Lease liabilities	46	46	46	46	46	46
Total non-current liabilities	**424**	**1,135**	**1,196**	**1,326**	**1,396**	**1,440**
Shareholders' equity						
Capital	550	550	550	550	550	550
Statutory and other reserve	29	29	29	29	29	29
Retained earnings	264	510	840	1,271	1,791	2,401
Equity attributable to shareholders of the Parent Company	**844**	**1,089**	**1,419**	**1,851**	**2,370**	**2,980**
Non-controlling interest	0	0	0	0	0	0
Total equity	**844**	**1,089**	**1,419**	**1,851**	**2,370**	**2,980**
Total liabilities	**1,844**	**2,593**	**3,343**	**3,965**	**4,612**	**5,324**

Source: Company Data, Al Rajhi Capital

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

Contact us

Mazen AlSudairi, CFA
Head of Research
Tel : +966 11 836 5468
Email: alsudairim@alrajhi-capital.com

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com
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