



## Leejam Sports : Positives priced in at 2024E PE of 29.1x, maintain 'Neutral' rating

Leejam posted Q4-23 net income of SAR 129mn up 22.8% Y/Y (up 40.2% Q/Q), despite increase in finance costs, more club repair & maintenance expenses and higher number of 24 hour centers. The result is inline with our and consensus expectation of SAR 126mn and SAR 122mn, respectively. On a full year basis, net income grew by 39.6% Y/Y in 2023. Leejam has significantly exceeded expectations in terms of new subscriptions with total membership count up 21 % Y/Y in 2023 to 396k. The aforementioned growth comes on the back of addition of 9 new male and female Big box centers and 11 new Xpress centers. We expect topline and net income CAGR of 12.6% and 16.6% between 2023-26, driven by new segments and club ramp ups. However, after the recent rally the stock trades at 2024E PE of 29.1x, hence we maintain our "Neutral" rating with a TP of SAR 194.0/share.

**Leejam posted inline with expectation earnings in Q4-23:** Leejam posted Q4-23 net income of SAR 129mn up 22.8% Y/Y (up 40.2% Q/Q), despite increase in finance costs (due to increase in interest rates), more club repair and maintenance expenses and additional number of 24 hour centers. The result is inline with our and consensus expectation of SAR 126mn and SAR 122mn, respectively. On a full year basis net income grew by 39.6% Y/Y in 2023, despite the aforementioned factors and asset write offs of two centres that were closed during the year due to being within the expropriated areas in favor of the Diriyah Gate Project. The fitness giant's membership subscriptions grew to record high of 396k in 2023, up 21% Y/Y. Total revenue of male centers stood at SAR 997mn in 2023 up 23% Y/Y, while revenue from female centers reached SAR 328mn, up 27% Y/Y. Paid programs revenues logged in a massive increase of 44% Y/Y and reached SAR 148mn in 2023, this increase is owed to the investments Leejam made in fitness offerings related to swimming, group exercises and special exercises.

### Notable enhancement in profitability metrics due to fixed cost business model:

Leejam has exceeded expectations in terms of new subscriptions with total membership count up 21.8% Y/Y in 2023 to 396k. The aforementioned growth comes on the back of addition of 9 new male and female Big box centers, 11 new Xpress centres and new paid programs and group exercises (the company conducted 716k paid program sessions in 2023 as compared to 337k in 2022). Since leejam has a fixed cost model (70-75% of costs are fixed), a sizable portion of the incremental revenues seeped into gross profit, enhancing gross margins by 350bps Y/Y in 2023 to 44.2%. Operating margins improved by 330bps Y/Y to 34% in 2023. The aforementioned improvement in margins and 24.3% Y/Y growth in topline resulted in a 39.6% Y/Y expansion in bottom line in 2023. After the major enhancement in margins seen in 2023, we expect GPM to decline by 93bps in 2024, due to sizable increase in number of centres. We also expect revenue per centre to decline in 2024, as new centers will take time to ramp up.

### Expanding into new segments and demographics organically and through acquisitions:

To further grow footprints in the fitness market, leejam acquired T-sport KSA in 2023, which operates 8 crossfit studios under the brand name 3days and 2 boxing concept boutiques under the brand Box12. Leejam also invested in Padel sports in 2023, and launched other sport activities like football, basketball, swimming in fitness time centres. Entering in a partnership with Burjeel holding, leejam added physiotherapy segment. The company also started an exclusive swimming academy called BLU swimming academy for children, which utilizes existing infrastructure. With its acquisition of T-Sport KSA, leejam also operates two martial arts facilities for kids. To improve customer experience the company continued to invest in its digital platforms that enable customers to buy, pay, book, sign in and rate sessions. Moreover the online platform has also improved interaction with personal trainers.

<b>Recommendation</b>	<b>Neutral</b>
<b>Target Price (SAR)</b>	<b>194.0</b>
<b>Upside / (Downside)*</b>	<b>-19.0%</b>

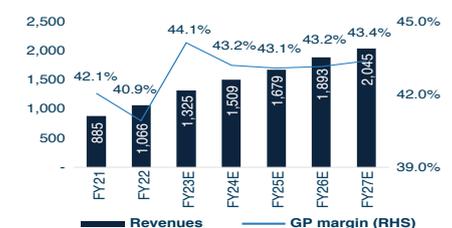
Source: Tadawul \*prices as of 20<sup>th</sup> March 2024

### Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	1,066	1,325	1,509	1,679
Growth %	20.4%	24.3%	13.9%	11.3%
Gross Profit	434	585	652	724
Net Profit	255	356	432	492
Growth %	23.8%	39.6%	21.3%	14.0%
EPS	4.87	6.80	8.24	9.40
DPS	2.46	3.67	4.45	5.17

Source: Company reports, Aljazira Capital

### Revenue (SAR mn) and GP Margin



Source: Aljazira Capital, Company reports

### Key Ratios

	FY22	FY23	FY24E	FY25E
GP Margin	40.7%	44.1%	43.2%	43.1%
Net Margin	23.9%	26.9%	28.6%	29.3%
P/E (x)	17.3	35.3	29.1	25.5
P/B (x)	4.7	11.4	9.6	8.2
EV/EBITDA (x)	9.5	19.6	17.3	15.5
Dividend Yield	2.9%	1.5%	1.9%	2.2%

Source: Company reports, Aljazira Capital

### Key Market Data

Market Cap (SAR bn)	<b>12.8</b>
YTD%	<b>19.5</b>
52 weeks (High)/(Low)	<b>246.6/96.2</b>
Share Outstanding (mn)	<b>52.4</b>

Source: Company reports, Aljazira Capital

### Price Performance



Source: Tadawul, Aljazira Capital

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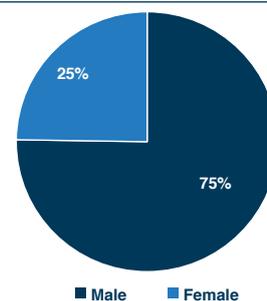


**Expect strong medium term earnings growth rate:** Overall, we expect Leejam to log in a 13.9% Y/Y growth in topline in 2024 to SAR 1,509mn and post net income growth of 20.8% Y/Y to SAR 430mn. We forecast gross margins to decline by 93bps in 2024 to 43.2% as new gyms will take time to ramp up while they would incur full expenses (management has guided 36 new centers for 2024). In the medium term (2023-26), we forecast Leejam to deliver topline CAGR of 12.6%, and net income CAGR of 16.6%. Margins are likely to remain stable in the medium term, however, revenue per center for male segment will see some contraction, as male segment will see sizable increase in share of xpress centres.

**Investment thesis and valuation:** Leejam has surpassed our anticipations in terms of new memberships (up 21% Y/Y in 2023), due to new openings, 24 hours gyms and ramping up of existing facilities. The fitness giant has also outperformed interms of margin improvement (GPM +350bps Y/Y in 2023) due to fixed cost business model. We see total sales and net income to grow at a medium term CAGR of 12.6% and 16.6%, which will be supported by favourable demographics, robust expansion plan (especially in Xpress gyms) and declining interest rates.

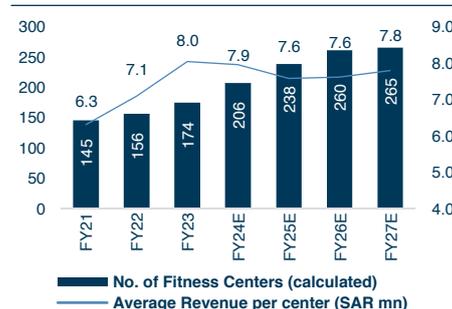
We value Leejam assigning 50% weight to DCF (2.5% terminal growth and 6.9% WACC), while we assign 50% weight to PE (23.0x based on FY24E EPS). Overall, trading at 2024E PE of 29.1x we maintain our rating to **“Neutral”** on Leejam with target price of **SAR 194.0/share**, implying **19.0%** downside.

#### Revenue by gender 2023



Source: Company reports, AlJazira Capital

#### No. of centers & revenue per center



Source: Company reports, AlJazira capital

DCF	FY22	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	556.9	681.1	778.3	856.2	962.1	1,047.8	1,086.2
Working capital chg	-111.9	-74.1	-76.8	-68.1	-93.2	-63.1	-62.8
<b>CFO</b>	<b>668.8</b>	<b>755.2</b>	<b>855.1</b>	<b>924.2</b>	<b>1,055.4</b>	<b>1,110.9</b>	<b>1,149.0</b>
Capex	280.7	377.7	648.8	394.7	549.0	583.0	615.2
FCFF	388.0	377.5	206.3	529.6	506.4	527.9	533.7
Present value of FCFF	388.0	356.7	195.9	471.8	423.6	413.6	391.5
Sum of the PV							1,896.5
PV of terminal value							9,555.9
Enterprise Value							11,452.4
Cash							277.0
Debt							1,342.0
FV							10,387.4
Fair value per share							SAR 198.3

Source: Company reports, AlJazira capital

#### Blended Valuation

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	198.3	50%	99.2
Relative Valuation - P/E	189.6	50%	94.8
<b>Weighted average 12-month price target</b>			<b>194.0</b>
Current Price (SAR/share)			<b>239.6</b>
<b>Expected Capital Gain</b>			<b>-19.0%</b>

Source: Company reports, AlJazira capital

### Key Financial Data

Amount in SAR mn, unless otherwise specified	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
<b>Income statement</b>							
Revenues	663	885	1,066	1,325	1,509	1,679	1,893
Y/Y	-29.9%	33.6%	20.4%	24.3%	13.9%	11.3%	12.7%
Cost of Sales	(523)	(513)	(630)	(740)	(857)	(955)	(1,076)
<b>Gross profit</b>	<b>140</b>	<b>372</b>	<b>434</b>	<b>585</b>	<b>652</b>	<b>724</b>	<b>817</b>
General & administrative expenses	(77)	(88)	(93)	(116)	(128)	(143)	(162)
Advertising and marketing expenses	(16)	(14)	(14)	(17)	(22)	(23)	(22)
Other income, net	-	-	7	11	12	13	15
<b>Operating profit</b>	<b>(6)</b>	<b>258</b>	<b>327</b>	<b>450</b>	<b>512</b>	<b>570</b>	<b>647</b>
Y/Y	NM	NM	26.6%	37.7%	13.7%	11.3%	13.5%
Finance cost	(53)	(46)	(59)	(83)	(69)	(64)	(61)
<b>Profit before zakat</b>	<b>(59)</b>	<b>212</b>	<b>268</b>	<b>367</b>	<b>443</b>	<b>505</b>	<b>586</b>
Zakat	-	(6)	(7)	(10)	(12)	(13)	(15)
<b>Net income</b>	<b>(59)</b>	<b>206</b>	<b>255</b>	<b>356</b>	<b>432</b>	<b>492</b>	<b>570</b>
Y/Y	NM	NM	23.8%	39.6%	21.3%	14.0%	15.9%
<b>EPS (SAR)</b>	<b>-1.12</b>	<b>3.93</b>	<b>4.87</b>	<b>6.80</b>	<b>8.24</b>	<b>9.40</b>	<b>10.89</b>
<b>DPS (SAR)</b>	<b>0.00</b>	<b>1.23</b>	<b>2.46</b>	<b>3.67</b>	<b>4.45</b>	<b>5.17</b>	<b>5.99</b>
<b>Balance sheet</b>							
<b>Assets</b>							
Cash & bank balance	258	180	301	482	432	652	819
Other current assets	67	70	61	80	92	106	114
Property & Equipment	1,448	1,513	1,538	1,638	1,968	2,023	2,201
Other non-current assets	794	831	798	847	901	956	1,013
<b>Total Assets</b>	<b>2,567</b>	<b>2,594</b>	<b>2,698</b>	<b>3,047</b>	<b>3,394</b>	<b>3,737</b>	<b>4,147</b>
<b>Liabilities &amp; owners' equity</b>							
Total current liabilities	664	648	719	817	902	973	1,068
Total non-current liabilities	1,239	1,141	1,041	1,128	1,191	1,241	1,301
Paid -up capital	524	524	524	524	524	524	524
Statutory reserves	56	77	102	138	181	181	181
Retained earnings	85	204	312	441	596	818	1,074
Total owners' equity	664	805	939	1,102	1,301	1,522	1,779
<b>Total equity &amp; liabilities</b>	<b>2,567</b>	<b>2,594</b>	<b>2,698</b>	<b>3,047</b>	<b>3,394</b>	<b>3,737</b>	<b>4,147</b>
<b>Cashflow statement</b>							
Operating activities	330	438	669	659	771	843	975
Investing activities	(110)	(228)	(180)	(265)	(528)	(269)	(416)
Financing activities	(30)	(289)	(369)	(212)	(293)	(355)	(392)
Change in cash	190	(78)	121	182	(50)	220	167
<b>Ending cash balance</b>	<b>258</b>	<b>180</b>	<b>301</b>	<b>482</b>	<b>432</b>	<b>652</b>	<b>819</b>
<b>Key fundamental ratios</b>							
<b>Liquidity ratios</b>							
Current ratio (x)	0.5	0.4	0.5	0.7	0.6	0.8	0.9
Quick ratio (x)	0.5	0.4	0.5	0.7	0.6	0.8	0.9
<b>Profitability ratios</b>							
GP Margin	21.1%	42.1%	40.7%	44.1%	43.2%	43.1%	43.2%
Operating Margins	-0.9%	29.2%	30.7%	34.0%	33.9%	33.9%	34.2%
EBITDA Margin	30.1%	52.6%	52.2%	51.4%	51.6%	51.0%	50.8%
Net Margins	-8.9%	23.3%	23.9%	26.9%	28.6%	29.3%	30.1%
Return on assets	-2.3%	8.0%	9.6%	12.4%	13.4%	13.8%	14.5%
Return on equity	-8.5%	28.0%	29.3%	34.9%	35.9%	34.9%	34.6%
<b>Market/valuation ratios</b>							
EV/sales (x)	7.8	7.7	4.9	10.1	8.9	7.9	6.9
EV/EBITDA (x)	26.0	14.7	9.5	19.6	17.3	15.5	13.7
EPS (SAR)	(1.1)	3.9	4.9	6.8	8.2	9.4	10.9
BVPS (SAR)	12.7	15.4	17.9	21.0	24.8	29.1	34.0
Market price (SAR)*	77.3	109.0	84.0	239.6	239.6	239.6	239.6
Market-Cap (SAR mn)	4,049.0	5,709.4	4,399.9	12,550.2	12,550.2	12,550.2	12,550.2
Dividend yield	0.0%	1.1%	2.9%	1.5%	1.9%	2.2%	2.5%
P/E ratio (x)	(68.9)	27.7	17.3	35.3	29.1	25.5	22.0
P/BV ratio (x)	6.1	7.1	4.7	11.4	9.6	8.2	7.1

Source: Company financials, ALJazira Capital research





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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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