



One-off income from sale of three lands results in a major earnings surprise; normalized income is below expectations.

Leejam posted net income of SAR 187mn in Q3-24 (up 102.9% Y/Y) sizably above AJC estimate of SAR 112.4mn. The result had a one-off income of SAR 92mn due to the sale of 3 lands in Riyadh. Taking out the impact of this one-off, the net income drops to SAR 95mn (up 3.1% Y/Y), 13.5% and 15.5% lower than consensus and AJC Research estimate of SAR 109mn and SAR 112.4mn, respectively. The company posted 16.6% Y/Y increase in revenues, compared to AJC estimate of SAR 386.7mn (+ 5.0% deviation). This improvement was driven by increase in number of members and operating centers, as 30 fitness time centers were added since Q3-23. After 44.5% stock price increase in last twelve months Leejam trades at 2025E PE of 22.2x, hence we maintain our "Neutral" recommendation with TP of SAR 219/share.

- Leejam posted net income of SAR 187mn in Q3-24, up 102.9% Y/Y (up 156.5% on a sequential basis), compared to AJC estimate of SAR 112.4mn. The result had a one off other income of SAR 92mn due to the sale of 3 lands in Riyadh. Taking out the impact of this one-off, the net income drops to SAR 95mn (up 3.1% Y/Y), 15.5% and 13.6% lower than AJC Research and consensus estimate of SAR 112.4mn and SAR 109.9mn respectively. The lower than estimated normalized profits are owed to higher operating expenses (+28.4% deviation to AJC estimate).
- The company posted 16.6% Y/Y increase in revenues to SAR 406mn in Q3-24 (18.1% on a sequential basis), compared to AJC estimate of SAR 386.7mn (+ 5.0% deviation). This improvement was driven by increase in number of members and operating centers as 30 fitness time centers were added since Q3-23. The subscriptions and membership revenue increased by 12% compared to Q3-23 and paid programs revenue - including personal training and swimming grew by 43% Y/Y. The male segment grew by 13% and number of active male members reached 393,000. While female segment grew by 21% Y/Y and the number of female members reached 116,000. Number of male and female centers reached 137 and 55, respectively.
- Leejam's gross margins contracted by 332bps Y/Y to 42.6% in Q3-24, the margin contraction can be owed to addition of 30 new centers in last 12 months, 50% of which opened during Q3-24. Overall gross profit of SAR 173mn was 0.2% above AJC estimate and gross margin was 203bps below AJC estimate.
- Operating profit stood at SAR 129mn up 8.4% Y/Y (31.4% Q/Q) (-6.8% deviation to AJC estimate of SAR 138.4mn). Operating margin declined by 239bps Y/Y to 31.8% (+322bps Q/Q) and 401bps below AJC estimate. The decline is owed to more investment in IT and personnel and the increase in marketing and sales campaigns.

AJC view and valuation: Leejam has grown membership count above half a million members. The company is undergoing rapid expansion and upgradation of existing facilities. Leejam is well placed (being the largest fitness provider in organized sector) to benefit from increasing fitness trend and governments focus on sports infrastructure development. We forecast Leejam to deliver topline CAGR of 12.4%, and net income CAGR of 12.6% in the medium term (2023-28). The supernormal earnings growth seen over 2021-23 (31.5% CAGR) is expected to slowdown in the medium term. We maintain our "Neutral" recommendation with TP of SAR 219/ share.

Results Summary

SAR mn	Q3-23	Q2-24	Q3-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	348.2	343.7	406.0	16.6%	18.1%	5.0%
Gross Profit	159.9	135.4	173.0	8.2%	27.7%	0.2%
Gross Margin	45.9%	39.4%	42.6%	-3.3%	3.2%	-2.0%
EBIT	118.97	98.14	129.0	8.4%	31.4%	-6.8%
Net Profit	92.2	72.9	187.0	102.9%	156.5%	66.4%
EPS	1.76	1.39	3.57			

Source: Tadawul, Aljazira Capital Research

Recommendation	Neutral
Target Price (SAR)	219.0
Upside / (Downside)*	6.3%

Source: Tadawul *prices as of 28th Oct 2024

Key Financials

SARmn (unless specified)	FY22	FY23	FY24E	FY25E
Revenue	1,066	1,325	1,541	1,756
Growth %	20.4%	24.3%	16.2%	14.0%
Gross Profit	434	585	661	744
Net profit	255	356	525	487
Growth %	23.8%	39.6%	47.5%	-7.2%
EPS	4.87	6.80	10.01	9.29
DPS	2.5	3.70	4.50	5.10

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24E	FY25E
Gross Margin	40.7%	44.1%	42.9%	42.4%
Net Margin	23.9%	26.9%	28.1%	27.7%
P/E (x)	17.3	29.8	20.6	22.2
P/B (x)	4.7	9.8	8.4	7.2
EV/EBITDA (x)	9.5	17.0	17.0	13.3
Dividend Yield	2.9%	1.8%	2.2%	2.5%

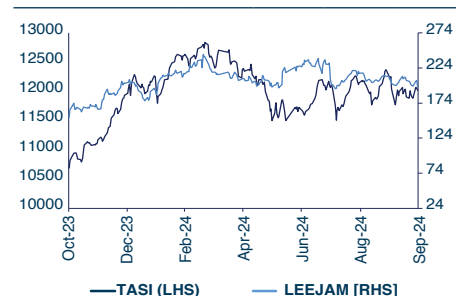
Source: Company reports, Argaam, Aljazira Capital Research

Key Market Data

Market Cap(bn)	10.4
YTD%	1.3%
52 week (High)/(Low)	246.6/148
Share Outstanding (mn)	52.4

Source: Company reports, Bloomberg, Aljazira Capital Research

Price Performance



Source: Bloomberg, Aljazira Capital Research

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RESEARCH
DIVISION

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RATING
TERMINOLOGY

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.
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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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