



Earnings up 50% Y/Y in Q1-24 driven by increase in subscriptions, margin expansion and one off gains.

Leejam posted net income of SAR 94mn in Q1-24, up 50% Y/Y (-26.8% on a sequential basis). Earnings were 12.2% and 25.1% above our and consensus estimates due to one off gain. Excluding the one off SAR 18mn income, arising from a favorable rent negotiation of a previously impaired center, normalized net income is up 21.3% Y/Y (-40.9% Q/Q). The company posted 24.2% Y/Y growth in revenues led primarily by 19% Y/Y increase in subscriptions & membership revenues and 49% increase in paid training programs. Leejam's gross margins expanded 116bps Y/Y to stand at 40.4% in Q1-24, the improvement in margins is attributable to the increase in revenues amidst the fixed costs operating model. After 82.9% stock price increase in last twelve months Leejam trades at 2024E PE of 25x, hence we maintain our "Neutral" recommendation with TP of SAR 194/ share.

- Leejam posted net income of SAR 94mn in Q1-24, up 50% Y/Y (-26.8% on a sequential basis), compared to AJC estimate of SAR 83.8mn and consensus estimate of SAR 75.2mn. Excluding the one off SAR 18mn income, arising from a favorable rent negotiation of a previously impaired center in UAE, normalized net income is up 21.3% Y/Y (-40.9% Q/Q). The improvement in earnings is owed to 24.2% growth in revenues and 116bps expansion in gross margins. Note that the improvement comes despite higher spending on IT, human resource, and bank finances.
- The company posted 24.2% Y/Y growth in revenues (4.1% above AJC estimate) led primarily by 19% Y/Y increase in subscriptions & membership revenues and 49% increase in paid training programs. Male segment revenue grew by 19% Y/Y driven by increase in members (296,000) and number of gyms (total count for male centers is 128). Revenue for female segment increased by 27% Y/Y in Q1-24, this growth is driven by increase in number of centers, subscriptions, new fitness programs and group classes. At the end of Q1-24 number of female subscribers stood at 103,000 and number of female gyms stood at 50. Total number of operational clubs reached 194 in Q1-24, after opening four gyms and acquiring 'Champs', which operates four basketball academies in Dubai.
- Leejam's gross margins expanded 116bps Y/Y to stand at 40.4% in Q1-24, the improvement in margins is attributable to the increase in revenues amidst the fixed cost operating model. Cost increases remain limited and move in correlation to the increase in gyms. Overall, gross profit was 3.1% below AJC estimate.
- Operating margins improved by 75bps Y/Y to 27.5% in Q1-24, however EBITDA margins remained flat at 49% on Y/Y basis, due to the impact of investee companies that are still in the ramp up phase. Overall, operating income came in 11.1% below our expectations. Net margins widened by 470bps, due to above mentioned one-off gain.

AJC view and valuation: Leejam posted a strong set of results growing Q1-24 earnings by 50% Y/Y. The company has surpassed our expectations in terms of new memberships, due to new openings, 24 hours' gyms and ramping up of existing facilities. However, after 82.9% stock price increase in last twelve months, Leejam trades at 2024E PE of 25x, hence we maintain our "Neutral" recommendation with TP of SAR 194/ share.

Results Summary

SAR mn	Q1-23	Q4-23	Q1-24	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	277.0	398.4	344	24.2%	-13.7%	4.1%
Gross Profit	108.7	191.7	139	27.9%	-27.5%	-3.1%
<i>Gross Margin</i>	<i>39.2%</i>	<i>48.1%</i>	<i>40.4%</i>			
EBIT	77.6	157.6	99	27.5%	-37.2%	-11.1%
Net Profit	62.7	128.5	94.0	50.0%	-26.8%	12.2%
EPS	1.20	2.45	1.79			

Source: Tadawul, Aljazira Capital Research

Recommendation	Neutral
Target Price (SAR)	194.0
Upside / (Downside)*	-5.8%

Source: Tadawul *prices as of 6th May 2024

Key Financials

SARmn (unless specified)	FY21	FY22	FY23	FY24E
Revenue	885	1,066	1,325	1,509
Growth %	33.6%	20.4%	24.3%	13.8%
Gross Profit	372	434	585	652
Net profit	206	255	356	432
Growth %	NM	23.8%	39.6%	21.4%
EPS	3.93	4.87	6.80	8.24
DPS	2.1	2.65	3.67	4.45

Source: Company reports, Aljazira Capital

Key Ratios

	FY21	FY22	FY23	FY24E
Gross Margin	42.1%	40.7%	44.1%	43.2%
Net Margin	23.3%	23.9%	26.9%	29.3%
P/E (x)	27.7	17.3	29.9	25.0
P/B (x)	7.1	4.7	9.7	8.2
EV/EBITDA (x)	14.7	9.5	16.8	14.7
Dividend Yield	1.1%	2.9%	1.8%	2.2%

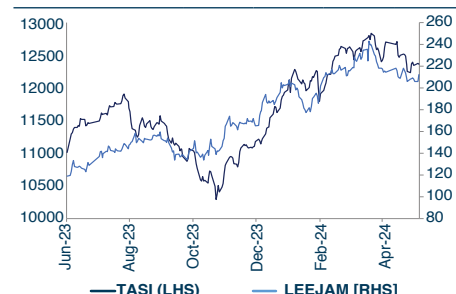
Source: Company reports, Argaam, AJC research

Key Market Data

Market Cap(bn)	11.1
YTD%	1.3%
52 week (High)/(Low)	246.6/110
Share Outstanding (mn)	52.4

Source: Company reports, Bloomberg, Aljazira Capital

Price Performance



Source: Bloomberg, AJC 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.
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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