



## The supernormal earnings growth seen over 2021-23 (31.5% CAGR) to slowdown in the medium term; reiterate Neutral

Leejam posted Q2-24 net income of SAR 72.9mn up 0.6% Y/Y (down 22.6% Q/Q), the result was below our and consensus expectation. Leejam has accelerated fitness centre openings and refurbishment of existing gyms to improve customer experience. The aforementioned expansions have pressured margins, a trend which will reverse once new facilities ramp up. The company has grown membership count by 17% Y/Y to 428 thousand. The company continues to expand into new categories like swimming, mixed martial arts (MMA), physiotherapy and basketball etc. Leejam is well placed to benefit from increasing trend towards fitness and government's focus on developing sports infrastructure in the kingdom. We forecast Leejam to deliver topline CAGR of 12.4%, and net income CAGR of 12.6% over 2023-28 (compared to 31.5% earnings CAGR seen over 2021-23). We maintain "Neutral" rating on leejam with upwards revised price target of SAR 219/share.

**Leejam's earnings remained stable (up 0.6% Y/Y) in Q2-24:** Leejam posted Q2-24 net income of SAR 72.9mn up 0.6% Y/Y (down 22.6% Q/Q), the result was below our and consensus expectation of SAR 90.7mn and SAR 89.3mn, respectively. Leejam's revenue for Q2-24 amounted to SAR 343.7mn up 13.9% Y/Y, Subscriptions and membership revenue increased by 11% Y/Y, whereas paid programs saw a 36% increase in revenues. The aforementioned growth was driven by new member additions and addition of 17 new fitness centres. Gross profit increased by 9.1% Y/Y to SAR 135.4mn, however gross margins declined by 174bps Y/Y to 39.4% (down 116bps sequentially). There was a 3.9% decline seen in subscription and membership income per centre in male category, while female category saw a 8.1% Y/Y increase. A 10% growth in revenue was seen in LFL clubs. Revenue per centre is expected to continue to decline due to addition of more xpress centers. Moreover, ongoing club refurbishments under the "Your Club Has Changed" program also resulted in a decline in gross margins. Operating income improved by 3.0% Y/Y (declined by 17.6% Q/Q) to SAR 98.1mn, while operating margins declined by 3.01% Y/Y to 28.6%. The company also booked a one off SAR 2.9mn expense due to closure of two branches in Jeddah. Overall the number of male members grew by 20% Y/Y to 336 thousand and number of female members increased by 6% Y/Y to 92 thousand by the end of Q2-24.

**Rapid expansions in fitness centres has impacted margins; recovery expected once new gyms ramp up:** Leejam is undergoing a rapid expansion phase (organically and through acquisitions) and is also simultaneously upgrading its existing facilities. Due to the aforementioned Leejam has seen some pressure in margins, gross margins down 174bps Y/Y. We see sequential improvement in margins in H2-24 due to seasonality (offers/promotions, national day sales etc), however, on an Y/Y basis margins are expected to remain under pressure due to elevated costs related to previously mentioned expansions and refurbishments. Overall, we expect gross margins to decline by 123/52bps Y/Y in 2024/25 and begin improving in 2026 due to ramping up of new gyms. We don't expect new categories to have any meaningful contribution to profits in the medium term.

**Expanding into new segments and accelerating growth in core business organically and through acquisitions:** Leejam opened two new academies for swimming and MMA in Q2-24, and continued to open more physiotherapy clinics in its fitness centres. The company also acquired 55% stake in Sports Hub a company that specializes in sports event management. The company also signed a MOU with Saudi Olympics and Paralympic committee for sports initiatives in the Judo, Karate, Rowing, wrestling and various other sports. For its core business the company has 43 projects under construction and 33 under the design phase. Overall, the company expects to add 25-35 big box centres and 3-5 express centres in the H2-24. We expect total fitness time centres to reach 210 by 2024 end, and grow to 274 gyms by 2028.

<b>Recommendation</b>	<b>Neutral</b>
<b>Target Price (SAR)</b>	<b>219</b>
<b>Upside / (Downside)*</b>	<b>7.6%</b>

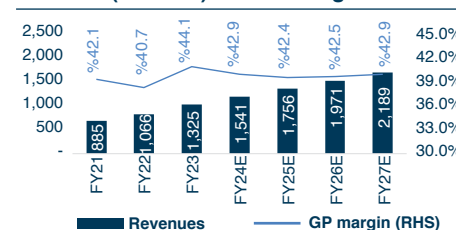
Source: Tadawul \*prices as of 12<sup>th</sup> September 2024

### Key Financials

in SAR mn, (unless specified)	FY22	FY23	FY24E	FY25E
Revenues	1,066	1,325	1,541	1,756
Growth %	20.4%	24.3%	16.2%	14.0%
Gross Profit	434	585	661	744
Net Income	255	356	433	487
Growth %	23.8%	39.6%	21.7%	12.3%
EPS	4.87	6.80	8.27	9.29
DPS	2.50	3.70	4.50	5.10

Source: Company reports, Aljazira Capital Research

### Revenue (SAR mn) and GP Margin



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	17.3	29.8	24.6	21.9
P/B	4.7	9.8	8.3	7.1
EV/EBITDA (x)	9.5	17.0	14.6	13.2
Dividend Yield	2.9%	1.8%	2.2%	2.5%

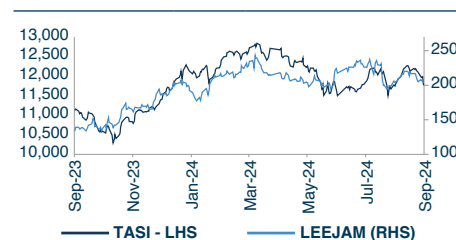
Source: Company reports, Aljazira Capital Research

### Key Market Data

Market Cap (SAR bn)	10.7
YTD%	0.1%
52 weeks (High)/(Low)	246.6/130.8
Share Outstanding (mn)	52.4

Source: Company reports, Aljazira Capital Research

### Price Performance



Source: Bloomberg, Aljazira Capital Research

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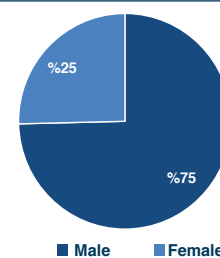


**Earnings are expected to grow in double digits in the medium term:** Leejam is well placed to benefit from increasing trend towards fitness, and government's focus on developing sports infrastructure in the kingdom. Government plan's on hosting key sporting events such as Asian winter games and FIFA world cup are to benefit leejam as it is the biggest fitness player in the organized sector. The company's wide presence across kingdom and strong brand recognition places it as the leader in the exercise and fitness industry. Overall, we expect Leejam to log in a 16.2% Y/Y growth in topline in 2024 to SAR 1,541mn and post net income growth of 21.7% Y/Y to SAR 433.1mn. We forecast gross margins to decline by 123bps in 2024 to 42.9% as new gyms will take time to ramp up while they would incur full expenses. In the medium term (2023-28), we forecast Leejam to deliver topline CAGR of 12.4%, and net income CAGR of 12.6%.

**Investment thesis and valuation:** Leejam has grown membership count to 428 thousand, and is on its way to achieve 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.

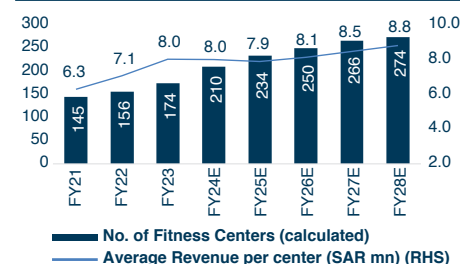
We value Leejam assigning 50% weight to DCF (2.5% terminal growth), while we assign 50% weight to PE (23.0x based on FY25E EPS). We maintain our "**Neutral**" rating on Leejam with target price of **SAR 219/share**, implying 7.6% upside.

Revenue by gender Q2-24



Source: Company reports, Aljazira Capital Research

Revenue per centre



Source: Company reports, Aljazira Capital Research

## DCF Valuation

	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	850.4	953.6	1,060.6	1,159.8	1,195.3
Working capital chg	-83.4	-82.7	-86.8	-83.1	-74.0
CFO	767.0	870.9	973.7	1,076.7	1,121.3
Capex	539.2	439.0	394.2	262.7	238.2
Lease payments	171.1	193.9	212.9	239.8	258.8
FCFF	56.6	238.0	366.6	574.2	624.3
<b>Present value of FCFF</b>	<b>55.6</b>	<b>218.3</b>	<b>315.6</b>	<b>463.2</b>	<b>466.9</b>
Sum of the PV					1,519.6
PV of terminal value					10,454.8
<b>Enterprise Value</b>					<b>11,974.4</b>
Cash					203.4
Debt					432.2
FV					11,745.6
<b>Fair value per share</b>					<b>SAR 224.2</b>

Source: Company reports, Aljazira Capital research

## Blended Valuation

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	224	50%	112
Relative Valuation - P/E	214	50%	107
<b>Weighted average 12-month price target</b>			<b>219</b>
Current Price (SAR/share)			204
<b>Expected Capital Gain</b>			<b>7.6%</b>

Source: Company reports, Aljazira Capital research





## Key Financial Data

Amount in SAR mn, unless otherwise specified	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
<b>Income statement</b>									
Revenues	663	885	1,066	1,325	1,541	1,756	1,971	2,189	2,382
Y/Y	-29.9%	33.6%	20.4%	24.3%	16.2%	14.0%	12.2%	11.1%	8.8%
<b>Cost of Sales</b>	<b>(523)</b>	<b>(513)</b>	<b>(630)</b>	<b>(741)</b>	<b>(880)</b>	<b>(1,012)</b>	<b>(1,133)</b>	<b>(1,250)</b>	<b>(1,358)</b>
Gross profit	140	372	434	585	661	744	838	939	1,025
General & administrative expenses	(77)	(88)	(93)	(116)	(128)	(144)	(160)	(176)	(189)
Advertising and marketing expenses	(16)	(14)	(14)	(17)	(26)	(28)	(28)	(34)	(39)
Other income, net	-	-	7	12	24	14	16	18	19
<b>Operating profit</b>	<b>(6)</b>	<b>258</b>	<b>327</b>	<b>449</b>	<b>529</b>	<b>584</b>	<b>663</b>	<b>745</b>	<b>813</b>
Y/Y	NM	NM	26.6%	37.4%	17.6%	10.5%	13.6%	12.3%	9.2%
Finance cost	(53)	(46)	(59)	(83)	(84)	(85)	(93)	(93)	(93)
<b>Profit before zakat</b>	<b>(59)</b>	<b>212</b>	<b>268</b>	<b>366</b>	<b>445</b>	<b>499</b>	<b>570</b>	<b>652</b>	<b>720</b>
Zakat	-	(6)	(7)	(11)	(12)	(13)	(15)	(17)	(19)
<b>Net income</b>	<b>(59)</b>	<b>206</b>	<b>255</b>	<b>356</b>	<b>433</b>	<b>487</b>	<b>556</b>	<b>635</b>	<b>701</b>
Y/Y	NM	NM	23.8%	39.6%	21.7%	12.3%	14.2%	14.3%	10.5%
<b>EPS (SAR)</b>	<b>-1.12</b>	<b>3.93</b>	<b>4.87</b>	<b>6.80</b>	<b>8.27</b>	<b>9.29</b>	<b>10.61</b>	<b>12.12</b>	<b>13.39</b>
<b>DPS (SAR)</b>	<b>0.00</b>	<b>1.20</b>	<b>2.50</b>	<b>3.70</b>	<b>4.50</b>	<b>5.10</b>	<b>5.80</b>	<b>6.70</b>	<b>7.40</b>
<b>Balance sheet</b>									
<b>Assets</b>									
Cash & bank balance	258	180	301	277	169	199	349	670	997
Other current assets	67	70	61	148	174	200	218	241	262
Property & Equipment	1,448	1,513	1,538	1,706	2,044	2,256	2,400	2,397	2,401
Other non-current assets	794	831	798	1,271	1,634	1,913	1,980	2,023	2,032
<b>Total Assets</b>	<b>2,567</b>	<b>2,594</b>	<b>2,698</b>	<b>3,401</b>	<b>4,021</b>	<b>4,569</b>	<b>4,948</b>	<b>5,331</b>	<b>5,692</b>
<b>Liabilities &amp; owners' equity</b>									
Total current liabilities	664	648	719	901	1,078	1,182	1,296	1,408	1,517
Total non-current liabilities	1,239	1,141	1,041	1,408	1,652	1,877	1,893	1,878	1,814
Paid-up capital	524	524	524	524	524	524	524	524	524
Statutory reserves	56	77	102	136	179	179	179	179	179
Retained earnings	85	204	312	430	586	805	1,055	1,340	1,656
Total owners' equity	664	805	939	1,089	1,288	1,507	1,757	2,043	2,359
<b>Total equity &amp; liabilities</b>	<b>2,567</b>	<b>2,594</b>	<b>2,698</b>	<b>3,401</b>	<b>4,021</b>	<b>4,569</b>	<b>4,948</b>	<b>5,331</b>	<b>5,692</b>
<b>Cashflow statement</b>									
Operating activities	330	438	669	686	822	922	1,025	1,119	1,145
Investing activities	(110)	(228)	(180)	(379)	(539)	(439)	(394)	(263)	(238)
Financing activities	(30)	(289)	(369)	(331)	(390)	(453)	(481)	(535)	(580)
Change in cash	190	(78)	121	(24)	(108)	31	150	321	326
<b>Ending cash balance</b>	<b>258</b>	<b>180</b>	<b>301</b>	<b>277</b>	<b>169</b>	<b>199</b>	<b>349</b>	<b>670</b>	<b>997</b>
<b>Key fundamental ratios</b>									
<b>Liquidity ratios</b>									
Current ratio (x)	0.5	0.4	0.5	0.5	0.3	0.3	0.4	0.6	0.8
Quick ratio (x)	0.5	0.4	0.5	0.5	0.3	0.3	0.4	0.6	0.8
<b>Profitability ratios</b>									
GP Margin	21.1%	42.1%	40.7%	44.1%	42.9%	42.4%	42.5%	42.9%	43.0%
Operating Margins	-0.9%	29.2%	30.7%	33.9%	34.3%	33.3%	33.7%	34.0%	34.1%
EBITDA Margin	30.1%	52.6%	52.2%	52.9%	55.2%	54.3%	53.8%	53.0%	50.2%
Net Margins	-8.9%	23.3%	23.9%	26.9%	28.1%	27.7%	28.2%	29.0%	29.4%
Return on assets	-2.3%	8.0%	9.6%	11.7%	11.7%	11.3%	11.7%	12.3%	12.7%
Return on equity	-8.5%	28.0%	29.3%	35.1%	36.4%	34.8%	34.0%	33.4%	31.9%
<b>Market/valuation ratios</b>									
EV/sales (x)	7.8	7.7	4.9	9.0	8.0	7.2	6.3	5.5	4.9
<b>EV/EBITDA (x)</b>	<b>26.0</b>	<b>14.7</b>	<b>9.5</b>	<b>17.0</b>	<b>14.6</b>	<b>13.2</b>	<b>11.7</b>	<b>10.5</b>	<b>9.8</b>
EPS (SAR)	(1.1)	3.9	4.9	6.8	8.3	9.3	10.6	12.1	13.4
BVPS (SAR)	12.7	15.4	17.9	20.8	24.6	28.8	33.6	39.0	45.0
Market price (SAR)	77.3	109.0	84.0	202.8	203.6	203.6	203.6	203.6	203.6
Market-Cap (SAR mn)	4,049.0	5,709.4	4,399.9	10,622.7	10,664.6	10,664.6	10,664.6	10,664.6	10,664.6
Dividend yield	0.0%	1.1%	2.9%	1.8%	2.2%	2.5%	2.9%	3.3%	3.6%
P/E ratio (x)	(68.9)	27.7	17.3	29.8	24.6	21.9	19.2	16.8	15.2
P/BV ratio (x)	6.1	7.1	4.7	9.8	8.3	7.1	6.1	5.2	4.5

Source: Company financials, Aljazira Capital research





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TERMINOLOGY

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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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