Leejam Sports Co.

Investment Update

We anticipate current expansion-led margin compression to transition to significant profit acceleration. Upgrading to "Overweight"

Leejam has seen a substantial decline in revenue momentum and profitability margins; revenue growth for the trailing 12 months (TTM) ended Q1-25 slowed down to 9.7% Y/Y, compared to 25.3% Y/Y for Q1-24. Gross margins for TTM contracted by 4.0ppts Y/Y to 40.2%. The company reported earnings of SAR 71mn in Q1-25, down 24.6% Y/Y; normalized earnings are down 12.5% Y/Y over TTMs. The deterioration is owed to additional costs from rapid gym expansions, change in subscription mix and growing contribution of Xpress gyms. A look back on the expansion cycle of 2021-22, suggests that the expansion led margin compression will be followed by soaring profits due to high operating leverage. We estimate normalized earnings to decline by 7.8% Y/Y in 2025, remain stable in 2026, and grow at a 25.9% CAGR over 2026-29. Most of the incremental revenues will seep into the bottom line after the end of expansion cycle in 2026. Companies long term structural story remains intact, reflected by Saudi's low gym density of 4 gyms per 100,000 people and increasing trend towards fitness. After the 43.3% decline in stock price in last twelve months, we upgrade our rating to "Overweight" on Leejam with revised price target of SAR 163.4/share.

Full Ramadan season and increase in cost from fitness centre additions placed Q1-25 earnings underpressure: Leejam reported earnings of SAR 71mn in Q1-25 down 24.6% Y/Y (-30.4% Q/Q). Net income was in-line with our expectations (-5.1% deviation), however was below market's expectation (-13.5% deviation). Q1-25 earnings were down 17.4% Y/Y excluding one off gains. The company reported sales of SAR 369mn in Q1-25 (AJC estimate SAR 349mn +5.6% deviation), which translates to an Y/Y increase of 8.4% as compared to 24.0/19.6% Y/Y increase seen in Q1-24/Q1-23, respectively. Topline growth was much slower than previous years due to full Ramadan season in Q1-25 vs ~20 days in Q1-24. Segment wise subscription and membership revenue grew by 10% Y/Y, while paid program revenue grew by just 1% Y/Y in Q1-25. Male segment revenue increased by 7.6% Y/Y to SAR 264.7mn, while female segment revenue grew by 12.8% Y/Y to SAR 97.4mn. Growth in revenue for female segment comes despite a 5.8% Y/Y decline in memberships as revenue per member saw a massive increase. The addition of 27 fitness time centers over the last 12 months pressured gross margins to 35.1% in Q1-25 (down 543bps Y/Y and 390bps below AJC estimate of 39.0%). Operating margins declined by 10.5ppts Y/Y to 24.1% Y/Y in Q1-25, due to absence of SAR 18mn one off gain in Q1-24. We expect sequential improvement of margins in Q2-25/Q3-25, however margins will remain depressed on an Y/Y basis.

Revenue momentum has slowed down; due to change in subscription mix, more Xpress centres and promotions: Leejam has seen a sizable decline in revenue momentum; revenue growth for the trailing 12 months (TTM) ended Q1-25 slowed down to 9.7% Y/Y, compared to 25.3% Y/Y for Q1-24. Revenue for Q1-25 grew by 8.4% Y/Y to SAR 368.9mn, amidst a 15.2% Y/Y increase in number of centres to 205. Revenue per centre declined by 12.1/6.8% Y/Y to SAR 2.01/1.80mn in Q4-24/Q1-25, respectively. The decline in revenue per center in Q1-25 is owed to (1) lower activity in freshly launched stores (24% of the gyms have a life span of less than 24 months) that are yet to ramp up to optimal levels and (2) 3.9% Y/Y decrease in revenue per member to SAR 827 thanks to (i) increasing share of lower priced Xpress centres - Express customers growing by 36% compared to a 4% increase in the large centers, (ii) extended promotion of newly launched gyms, and (iii) change in subscription mix towards longer tenure (lower yielding) memberships - share of 3 month membership decreased to 50% in Q1-25 from 62% in Q1-24.

Recommendation	Overweight
Target Price (SAR)	163.4
Upside / (Downside)*	32.6%

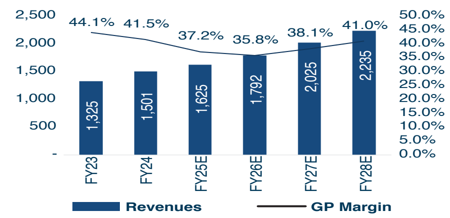
Source: Tadawul *prices as of 15th June 2025

Key Financials

in SAR mn, (unless specified)	FY23	FY24	FY25E	FY26E
Revenue	1,325	1,501	1,625	1,792
Growth %	24.3%	13.3%	8.2%	10.3%
Gross Profit	585	623	604	642
EBIT	449	556	437	458
Net Profit*	356	454	334	346
Growth %	39.6%	27.6%	-26.5%	3.7%
EPS	6.80	8.67	6.37	6.61
DPS	3.67	5.24	3.82	4.16

Source: Company reports, AlJazira Capital Research, *FY24 has one-off gain of SAR 92mn

Fig 1: Revenue (SAR mn) and GP Margin



Source: AlJazira Capital Research, Company reports

Key Ratios

	FY23	FY24	FY25E	FY26E
GP Margin	44.1%	41.5%	37.2%	35.8%
EBIT Margin	33.9%	37.0%	26.9%	25.6%
Net Margin	26.9%	30.2%	20.6%	19.3%
P/E (x)	29.8	21.3	19.3	18.6
P/B (x)	9.8	7.9	4.6	4.3
EV/EBITDA (x)	17.0	13.3	10.7	10.0
Dividend Yield	1.8%	2.8%	3.1%	3.4%

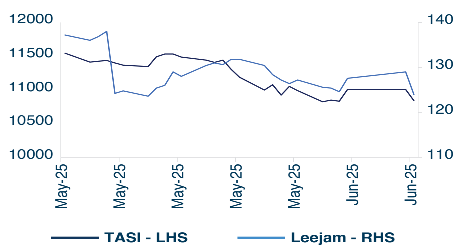
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (bn)	6.4
YTD%	-33.5%
52 weeks (High)/(Low)	238/121
Share Outstanding (mn)	52.3

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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A look back on the expansion cycle of 2021-22, suggests earnings will remain depressed in 2025/26, and grow in double digits over 2026-29 due to high operating leverage: Due to very high degree of operating leverage any addition/expansion results in an immediate and sizable erosion of profitability margins for Leejam. However, margins make a rapid recovery as revenues slowly catchup the incremental costs. We bring into notice how profit margins moved in quarters following Leejam's previous expansion cycle which began in Q2-21 and ended in Q1-22, and saw 19 branch additions (14.5% increase). We highlight that Q2-22/Q3-22 (quarters immediately following the expansion) saw a 6.5/10.1ppts Y/Y decline in gross margins to 33.5/40.5%, due to 6.1/5.4% Y/Y decline in revenue per gym. However, over the next 12 months revenue per gym had exceeded pre-expansion levels and margins had recovered most of the decline, up 7.6/5.4ppts Y/Y in Q2-23/Q3-23 to 41.2/45.9%, respectively. We believe similar phenomenon is under play, the company has seen a 15.2% Y/Y increase in its footprint in Q1-25, concurrently revenue per gym has fallen by 6.8% Y/Y (decline is amplified by full Ramadan effect) and gross margins have taken a hit of 5.4ppts Y/Y to stand at 35.1%. Since current expansion cycle is expected extend uptill 2026, we see margins to remain underpressure over the next 24 months (down 4.32/1.39ppts Y/Y in 2025/2026). A notable gross margin recovery of 2.34/2.87ppts Y/Y is expected in 2027/28, since most of the incremental revenues will directly seep into the bottom line after expansions normalise. In this back drop, we expect leejam to suffer a 7.8% Y/Y decline in normalised earnings in 2025 (+ 3.7% Y/Y in 2026). We forecast 2027 to be the inflection point for earnings, with net income expected to grow at a CAGR of 25.9% over 2026-29.

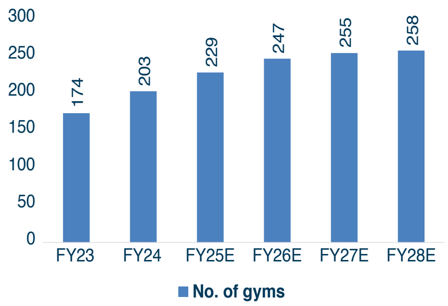
Capex to stay elevated in 2025 with 22 gyms under construction; strong balance sheet and healthy cashflow generation would help sustain dividends: Leejam opened net 29 fitness centres in 2024 (21 Bigbox and 8 Xpress centers), total capital expenditure grew by 63.4% Y/Y to SAR 595mn. The company has 35 gyms under design and 22 under construction as of Q1-25, we expect the company to open 29 gyms in 2025, which are likely to drive capital expenditure to SAR 528mn. Capex is estimated to see a notable decline of 20.3% Y/Y in 2026 and 42.3% decline in 2027 as the company nears its no. of gyms target. With 2025E operating cash flow of SAR 696mn and Debt to equity ratio of 0.29, the company will continue paying out dividends. On our estimates the company offers 2025/26E DY of 3.1/3.4% respectively.

Investment thesis and valuation: We reiterate that two years of depressed earnings will be followed by an inflection in 2027, from whereon company would deliver double digit growth. Current underperformance is more self-inflicted and less due to external factors such as increased competition or changing consumer trends. Companies long term structural story remains intact, reflected by Saudi's low gym density of 4 gyms per 100,000 people. Being the largest fitness provider in organized sector the company is set to benefit from increasing fitness trend and governments focus on sports infrastructure development. We believe that the recent deterioration in margins is well reflected in stock price after the 43.3% decline seen in last 12-months.

We value Leejam assigning 50% weight to DCF (2.5% terminal growth and 10.1% WACC), while we assign 50% weight to PE (22.0x based on FY25E EPS). We upgrade our rating to "**Overweight**" rating on Leejam with target price of **SAR 163.4/share**, implying 32.6% upside.

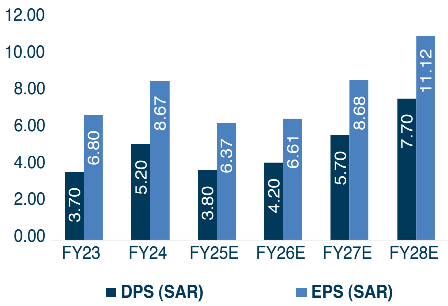
Key downside risk to our investment thesis are higher than expected gym additions, delayed recovery in female memberships and slower than expected ramp up of new gyms. **Upside risks** include increase in share of high margin shorter memberships, better cost controls, and faster ramp ups.

Fig 2: Number of fitness centers



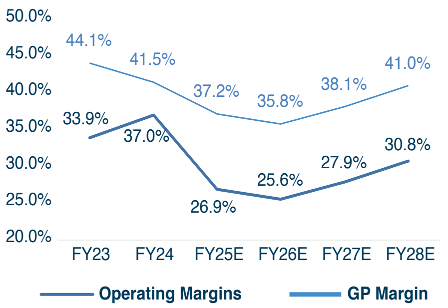
Source: Company reports, AlJazira capital Research

Fig 3: Earnings and dividend trend



Source: Company reports, AlJazira capital Research

Fig 4: GP and EBIT margins



Source: Company reports, AlJazira capital Research

Blended Valuation

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	186.5	50%	93.2
Relative Valuation - P/E (22x)	140.2	50%	70.1
Weighted average price target			**163.4**

Source: Company reports, AlJazira capital Research, prices as of 15th June 2025

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E
Income statement							
Revenues	1,325	1,501	1,625	1,792	2,025	2,235	2,420
Y/Y	**24.3%**	**13.3%**	**8.2%**	**10.3%**	**13.0%**	**10.4%**	**8.3%**
Cost of Sales	(741)	(878)	(1,020)	(1,150)	(1,252)	(1,318)	(1,374)
Gross profit	**585**	**623**	**604**	**642**	**772**	**916**	**1,046**
GPM	**44.1%**	**41.5%**	**37.2%**	**35.8%**	**38.1%**	**41.0%**	**43.2%**
General & administrative expenses	(116)	(150)	(161)	(175)	(196)	(214)	(229)
Advertising and marketing expenses	(17)	(25)	(22)	(21)	(26)	(31)	(35)
Other income, net	12	117	16	14	16	18	19
Operating profit	**449**	**556**	**437**	**458**	**565**	**688**	**799**
OPM	**33.9%**	**37.0%**	**26.9%**	**25.6%**	**27.9%**	**30.8%**	**33.0%**
Y/Y	**37.4%**	**23.7%**	**-21.4%**	**4.8%**	**23.4%**	**21.7%**	**16.1%**
Finance cost	(83)	(91)	(94)	(102)	(98)	(90)	(90)
Profit before zakat	**366**	**464**	**343**	**355**	**467**	**598**	**709**
Zakat	(11)	(10)	(9)	(9)	(12)	(16)	(18)
Net income	**356**	**454**	**334**	**346**	**455**	**582**	**690**
Y/Y	**39.6%**	**27.6%**	**-26.5%**	**3.7%**	**31.4%**	**28.0%**	**18.5%**
EPS (SAR)	**6.80**	**8.67**	**6.37**	**6.61**	**8.68**	**11.12**	**13.18**
DPS (SAR)	**3.70**	**5.20**	**3.80**	**4.20**	**5.70**	**7.70**	**9.50**
Balance sheet							
Assets							
Cash & bank balance	277	106	125	105	260	543	829
Other current assets	148	138	157	172	188	200	210
Property & Equipment	1,706	2,058	2,374	2,552	2,529	2,400	2,265
Other non-current assets	1,271	1,383	1,497	1,578	1,635	1,617	1,607
Total Assets	**3,401**	**3,721**	**4,154**	**4,406**	**4,611**	**4,760**	**4,911**
Liabilities & owners' equity							
Total current liabilities	901	902	1,066	1,155	1,245	1,333	1,387
Total non-current liabilities	1,408	1,568	1,696	1,732	1,691	1,572	1,476
Paid -up capital	524	524	524	524	524	524	524
Total owners' equity	1,089	1,233	1,389	1,518	1,672	1,853	2,046
Total equity & liabilities	**3,401**	**3,721**	**4,154**	**4,406**	**4,611**	**4,760**	**4,911**
Cashflow statement							
Operating activities	686	781	696	770	927	1,065	1,184
Investing activities	(379)	(454)	(482)	(421)	(243)	(156)	(169)
Financing activities	(331)	(496)	(198)	(369)	(530)	(625)	(728)
Change in cash	(24)	(168)	17	(20)	154	283	286
Ending cash balance	**277**	**108**	**125**	**105**	**260**	**543**	**829**
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	0.5	0.3	0.3	0.2	0.4	0.6	0.7
Quick ratio (x)	0.5	0.2	0.2	0.2	0.3	0.5	0.7
Profitability ratios							
GP Margin	44.1%	41.5%	37.2%	35.8%	38.1%	41.0%	43.2%
Operating Margins	33.9%	37.0%	26.9%	25.6%	27.9%	30.8%	33.0%
EBITDA Margin	52.9%	56.6%	47.4%	46.3%	47.6%	49.3%	50.9%
Net Margins	26.9%	30.2%	20.6%	19.3%	22.5%	26.1%	28.5%
Return on assets	11.7%	12.8%	8.5%	8.1%	10.1%	12.4%	14.3%
Return on equity	35.1%	39.1%	25.5%	23.8%	28.5%	33.0%	35.4%
Leverage							
Debt to asset	0.09	0.09	0.10	0.09	0.06	0.05	0.04
Debt to equity	0.28	0.27	0.29	0.25	0.17	0.12	0.08
Market/valuation ratios							
EV/sales (x)	9.0	7.5	5.1	4.6	4.0	3.5	3.0
EV/EBITDA (x)	17.0	13.3	10.7	10.0	8.4	7.0	5.9
EPS (SAR)	6.8	8.7	6.4	6.6	8.7	11.1	13.2
BVPS (SAR)	20.8	23.5	26.5	29.0	31.9	35.4	39.1
Market price (SAR)*	202.8	185.0	123.2	123.2	123.2	123.2	123.2
Market-Cap (SAR mn)	10,622.7	9,690.3	6453.2	6453.2	6453.2	6453.2	6453.2
Dividend yield	1.8%	2.8%	3.1%	3.4%	4.7%	6.2%	7.7%
P/E ratio (x)	29.8	21.3	19.3	18.6	14.2	11.1	9.3
P/BV ratio (x)	9.8	7.9	4.6	4.3	3.9	3.5	3.2

Source: Company reports, 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.
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.

Disclaimer