

Leejam Sports : Exceeding expectations on all fronts.

Leejam has sizably exceeded expectations with total membership count up 21.8% Y/Y in Q3-23 to 448k. The revenue per center improved by 25% Y/Y to SAR 2.2mn in Q3-23; since a large (~70%) portion of leejam's costs are fixed, a sizable portion of the aforementioned incremental revenue seeped into gross profit, enhancing gross margins by 539bps Y/Y in Q3-23 to 45.9%. The company plans on expanding to 250 fitness centres by 2025. We have built in 243 centres till 2025, and topline and net income CAGR of 16.3% and 23.6% between 2022-25. With 63% of Saudi's under age 30,GDP per capita of USD59,065 and improving share of women in workforce, leejam enjoys favourable demographics. However, after the recent rally in stock price we maintain our "Neutral" rating on the stock with a TP of SAR 174.8/share.

Leejam posted major positive earnings surprise on account of higher sales and gross margins: Leejam posted Q3-23 net income of SAR 92.2mn up 35.4% Y/Y (up 27.2% Q/Q), despite increase in finance costs, club refurbishment expenses, increase in 24 hour centers and asset write offs from two centers that were closed due to being within the expropriated areas in favor of the Diriyah Gate Project (write off of non-financial assets stood at SAR 11.4mn in Q3-23). The result is above our and consensus expectation of SAR 74.1mn and SAR 72.2mn, respectively. The deviation is mainly attributable to higher than expected sales (+31.6% Y/Y vs our estimate of +16.4%) and gross margins (which stood at 45.9% vs our expectation of 41.9%). Note that, due to the large fixed cost component a sizable porion of increase in topline, seeped into companies margins. The fitness giant's membership subscriptions grew to record high of 448k in Q3-23, up 21.8% Y/Y. Total revenue of male centers stood at SAR 263mn in 3Q-23 up 33% Y/Y, while revenue from female centers reached SAR 84mn, up 31% Y/Y. Personal training revenues logged in a massive increase of 63% Y/Y and reached SAR 37mn (10.6% of total revenue) in Q3-23, this increase is owed to the investments Leejam made in training programs related to swimming, group exercise and special exercises.

Major improvement in profitibility metrices due to increasing subscriptions: Leejam has significantly exceeded expectations in terms of new subscriptions with total membership count up 21.8% Y/Y in Q3-23 to 448k; female/male subscriptions grew by 26/21% Y/Y to 99/349k respectively. The aforementioned growth comes on the back of addition of 9 new fitness time centres (total no. of centres including concept studio stand at 173 vs 153 in Q2-22) and 15.0% Y/Y improvement in memberships per gym to 2,767. The revenue per center improved by 25% Y/Y to SAR 2.2mn in Q3-23, for male/female centres revenue per center grew by 26.3/22.5% Y/Y to SAR 2.3/1.8mn respectively. Since a large (~70%) portion of leejam's costs are fixed, a sizable portion of the aforementioned incremental revenues seeped into gross profit, enhancing gross margins by 539bps Y/Y in Q3-23 to 45.9%. Operating margins improved by 401bps Y/Y to 36.3% in Q3-23. The previously mentioned improvement in margins and 31.7% Y/Y growth in topline resulted in a 35.4% Y/Y expansion in bottom line in Q3-23. After the major improvement in margins seen in 2023, we expect GPM to remain stable in 2024, due to upcoming gym additions. We also expect revenue per centre to decline in 2024, as a sizable portion of new centres would be smaller Xpress centres.

Recommendation	Neutral
Target Price (SAR)	174.8
Upside / (Downside)*	5.4%

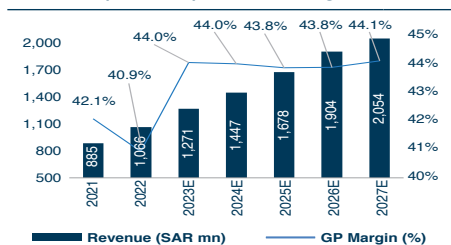
Source: Tadawul *prices as of 14th November 2023

Key Financials

SARmn (unless specified)	FY22	FY23E	FY24E	FY25E
Revenue	1,066	1,271	1,447	1,678
Growth %	20.4%	19.2%	13.8%	16.0%
Gross Profit	436	559	635	734
Net Profit	257	333	409	486
Growth %	24.9%	29.6%	22.6%	18.7%
EPS	4.91	6.37	7.81	9.27
DPS	2.5	3.2	3.9	5.1

Source: Company reports, Aljazira Capital

Revenue (SAR mn) and GP Margin



Source: AlJazira Capital, Company reports

Key Ratios

	FY22	FY23E	FY24E	FY25E
GP Margin	40.9%	44.0%	43.9%	43.7%
Net Margin	24.1%	26.2%	28.3%	28.9%
ROE	29.5%	32.6%	33.9%	34.2%
P/E (x)	17.1	26.0	21.2	17.9
P/B (x)	4.7	7.9	6.6	5.7
EV/EBITDA (x)	9.5	14.4	12.6	11.0
Dividend Yield	2.9%	1.9%	2.4%	3.1%

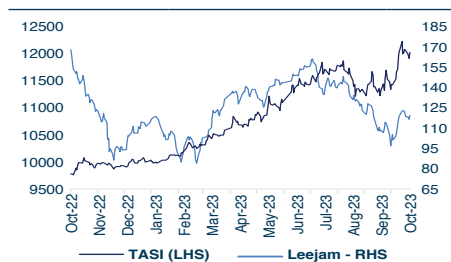
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap (SAR bn)	8.7
YTD%	97.4
52 weeks (High)/(Low)	180.0/78.1
Share Outstanding (mn)	52.4

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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Management plans to expand Fitness Time centres to 250 by 2025, with focus on Xpress centres: Leejam plans on increasing total number of fitness centres from 173 (Sept-2023) to 181-191 by Dec-2023. According to the management the company plans on expanding to 250 fitness centres by 2025 under the Leejam brand. We remain conservative and built in 243 centres till 2025; Xpress stores are going to be the key focus in terms of expansion. The company has already obtained 50 sites for expansion (mostly in Riyadh). Moreover, The management has also revealed the completion of setting up Integrated Medical Care Services Co., a joint venture (JV) with Burjeel Gulf Medical Care Co; under whose umbrella management is targeting opening three physiotherapy centers in the near future. The company has also invested in Padel through Padel X (51% ownership). Leejam has signed various agreements with municipalities and private developers for the development of fitness facilities. The company recently completed acquisition of Al-Tatheer Sports Company (Tsports) (Tsports operates 10 studios) for total transaction value of SR 12 million, through its investment subsidiary.

Favourable demographics to benefit Leejam, expect mid teen medium term earnings growth rate: 63% of Saudi's are under age 30 (median age of population is 29) and there is increasing share of women in workforce. Under Vision 2030 there is focus on upliftment of quality of life and new entertainment avenues. Overall, consumer outlook in Saudi is promising, as shown by the increasing POS spending (up 10.2% Y/Y in 9M23) and high purchasing power (GDP per capita USD59,065). In this backdrop, Leejam is best placed to expand and capture the increasing focus on health and fitness. Overall, we expect Leejam to log in a 19.2% Y/Y growth in top-line in 2023 to SAR 1,271mn and post net income growth of 29.6% Y/Y to SAR333.4mn. We forecast gross/operating margins to improve by ~309bps Y/Y in 2023 to 44.0/33.5% respectively. In the medium term (2022-25), we forecast Leejam to deliver topline CAGR of 16.3%, and net income CAGR of 23.6% (22.6% in 2024E). 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 xpress centres.

Investment thesis and valuation: Leejam has surpassed our anticipations in terms of new memberships (up 21.8% Y/Y in 3Q-23). The fitness giant has also outperformed in terms of margin improvement (GPM +539bps in Y/Y in 3Q-23). We see total sales and net income to grow at a medium term CAGR of 16.3% and 23.6%, which will be supported by favourable demographics and the robust expansion plan (especially in Xpress gyms). The company has healthy leverage ratio of ~26.96% (D/E) and times interest earned of 4.43x, this gives it room to leverage its balance sheet if needed for expansion.

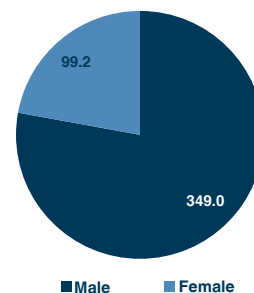
We value Leejam assigning 50% weight to DCF (2.5% terminal growth and 7.3% WACC), while we assign 25% weight each to PE (22.0x based on FY24E EPS) and EV/EBITDA (13.5x based on FY24E EBITDA). Overall, after the recent rally in stock prices, we maintain our rating to **“Neutral”** on Leejam with target price of **SAR 174.8/share**, implying **5.4%** upside

Blended Valuation

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	177.1	50%	88.5
Relative Valuation - EV/EBITDA	173.1	25%	43.3
Relative Valuation - P/E	171.8	25%	42.9
Weighted average 12-month price target			174.8
Current Price (SAR/share)			165.8
Expected Capital Gain			5.4%

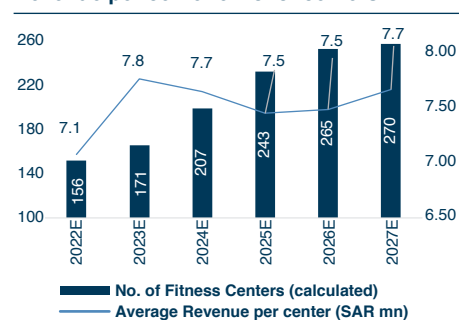
Source: Bloomberg, AlJazira capital

Breakup of subscriptions (000s)



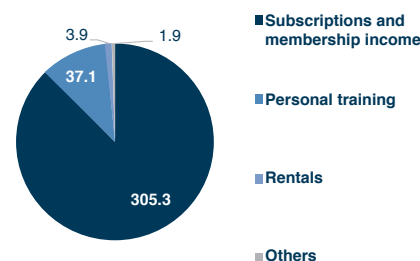
Source: Company reports, AlJazira Capital

Revenue per center & no. of centers



Source: Company reports, AlJazira capital

Break up of revenue Q3-23 (SAR mn)



Source: Company reports, AlJazira capital

Key Financial Data

Amount in SAR mn, unless otherwise specified	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Income statement								
Revenues	945	663	885	1,066	1,271	1,447	1,678	1,904
Y/Y	18.1%	-29.9%	33.6%	20.4%	19.2%	13.8%	16.0%	13.5%
Cost of Sales	(585)	(523)	(513)	(630)	(712)	(812)	(944)	(1,071)
Gross profit	360	140	372	436	559	635	734	833
General & administrative expenses	(74)	(77)	(88)	(93)	(116)	(136)	(158)	(179)
Advertising and marketing expenses	(19)	(16)	(14)	(14)	(16)	(19)	(20)	(19)
Other income, net	7	-	-	7	11	12	13	15
Operating profit	264	(6)	258	324	426	490	568	648
Y/Y	30.0%	NM	NM	25.5%	31.4%	15.1%	15.8%	14.2%
Finance cost	(52)	(53)	(46)	(59)	(83)	(70)	(69)	(69)
Profit before zakat	212	(59)	212	265	343	420	498	579
Zakat	(6)	-	(6)	(7)	(9)	(11)	(13)	(15)
Net income	206	(59)	206	257	333	409	486	564
Y/Y	14.3%	NM	NM	24.9%	29.6%	22.6%	18.7%	16.2%
EPS (SAR)	3.93	(1.12)	3.93	4.91	6.37	7.81	9.27	10.77
DPS (SAR)	1.9	-	1.2	2.5	3.2	3.9	5.1	5.9
Balance sheet								
Assets								
Cash & bank balance	68	258	180	301	476	628	762	914
Other current assets	69	67	70	61	77	88	100	114
Property & Equipment	1,512	1,448	1,513	1,538	1,627	1,768	1,946	2,150
Other non-current assets	867	794	831	798	883	983	1,086	1,182
Total Assets	2,516	2,567	2,594	2,698	3,064	3,466	3,895	4,360
Liabilities & owners' equity								
Total current liabilities	574	664	648	719	791	875	979	1,085
Total non-current liabilities	1,220	1,239	1,141	1,041	1,168	1,282	1,387	1,493
Paid -up capital	524	524	524	524	524	524	524	524
Statutory reserves	56	56	77	102	136	177	177	177
Retained earnings	142	85	204	312	446	609	828	1,082
Total owners' equity	722	664	805	939	1,105	1,310	1,528	1,782
Total equity & liabilities	2,516	2,567	2,594	2,698	3,064	3,466	3,895	4,360
Cashflow statement								
Operating activities	531	330	438	669	616	738	870	978
Investing activities	(208)	(110)	(228)	(180)	(254)	(326)	(386)	(438)
Financing activities	(274)	(30)	(289)	(369)	(187)	(262)	(349)	(388)
Change in cash	49	190	(78)	121	176	151	134	152
Ending cash balance	68	258	180	301	476	628	762	914
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	0.2	0.5	0.4	0.5	0.7	0.8	0.9	0.9
Quick ratio (x)	0.2	0.5	0.4	0.5	0.7	0.8	0.9	0.9
Profitability ratios								
GP Margin	38.1%	21.1%	42.1%	40.9%	44.0%	43.9%	43.7%	43.8%
Operating Margins	27.9%	-0.9%	29.2%	30.4%	33.5%	33.9%	33.8%	34.0%
EBITDA Margin	49.1%	30.1%	52.6%	52.0%	51.8%	51.9%	51.2%	51.1%
Net Margins	21.8%	-8.9%	23.3%	24.1%	26.2%	28.3%	28.9%	29.6%
Return on assets	10.0%	-2.3%	8.0%	9.7%	11.6%	12.5%	13.2%	13.7%
Return on equity	28.7%	-8.5%	28.0%	29.5%	32.6%	33.9%	34.2%	34.1%
Market/valuation ratios								
EV/sales (x)	5.9	7.8	7.7	4.9	7.5	6.5	5.6	4.9
EV/EBITDA (x)	12.0	26.0	14.7	9.5	14.4	12.6	11.0	9.6
EPS (SAR)	3.9	(1.1)	3.9	4.9	6.4	7.8	9.3	10.8
BVPS (SAR)	13.8	12.7	15.4	17.9	21.1	25.0	29.2	34.0
Market price (SAR)	81.1	77.3	109.0	84.0	165.8	165.8	165.8	165.8
Market-Cap (SAR mn)	4,248	4,049	5,709	4,400	8,685	8,685	8,685	8,685
Dividend yield	2.4%	0.0%	1.1%	2.9%	1.9%	2.4%	3.1%	3.6%
P/E ratio (x)	20.6	(68.9)	27.7	17.1	26.0	21.2	17.9	15.4
P/BV ratio (x)	5.9	6.1	7.1	4.7	7.9	6.6	5.7	4.9

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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