

Leejam Sports Co.

TP revised to SAR210/sh; maintain OW.

Overweight

Price Target (SAR): 210.0

Current: 188.4
Upside/Downside: 11.5% above current

Valuation Multiples	23E	24E	25E
P/E (x)	28.0	23.8	20.5
P/B (x)	9.0	7.7	6.6
EV/EBITDA (x)	15.4	13.8	12.2

Major Shareholders	% Ownership
Hamad Ali Saud Al-Saqrillah	51.12%

Price Performance	1M	3M	YTD
Absolute	12.3%	37.7%	124.3%
Relative to TASI	7.6%	32.6%	113.6%

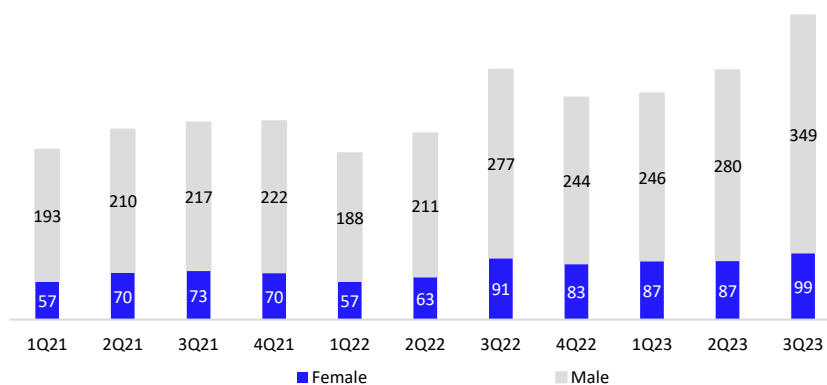
Leejam experienced robust growth in 3Q23, displaying notable y-o-y and q-o-q advancements in both the top and bottom line. Despite maintaining the same number of centers in 3Q23 as the previous quarter (with two new centers opening and two closures), the company exhibited compelling growth, with total members soaring to a historic high of 448k, marking a substantial 22% increase q-o-q. The growth in members exceeded our expectations by 7.5%. As the majority of the company's costs are fixed, any increase in volume directly benefits the bottom line, and hence the gross level margins were up by 5.4 percentage points YoY to 46%. We expect the company to maintain its strong earnings momentum in 4Q23 as well, which is usually the strongest quarter for the company. Leejam has consistently managed to beat our expectations when it comes to new member additions. Therefore, we revise our earnings for FY23/24/25e to SAR6.7/7.9/9.2 per share. Our positive outlook is supported by several factors, including 1) the gradual ramp-up of new centers, 2) the strategic introduction of express centers and 24/7 gyms, and 3) ongoing industry consolidation. Consequently, we revise our target price upward by 17% to SAR210/sh, signifying a 11.5% upside potential based on the last closing price. Hence, we maintain our Overweight rating on the stock.

Earnings

(SARmn)	2022	2023E	2024E
Revenue	1,066	1,322	1,481
Revenue growth	20.4%	24.0%	12.0%
Gross profit	436	581	646
Gross margin	40.9%	43.9%	43.6%
EBITDA	547	694	759
EBITDA margin	51.3%	52.5%	51.3%
Net profit	257	352	415
Net margin	24.1%	26.7%	28.0%
EPS	4.91	6.73	7.91
DPS	2.65	3.63	4.35
Payout ratio	54.0%	53.9%	55.0%
EV/EBITDA	19.7x	15.4x	13.8x
P/E	38.4x	28.0x	23.8x
RoE	29.5%	34.7%	34.9%

Source: Company data, Al Rajhi Capital

Figure 1 Number of members by category ('000s)



Source: Company data, Al Rajhi Capital

3Q23/9M23 Results: In 3Q23, Leejam experienced a substantial 32% y-o-y increase in revenue, coupled with a notable rise in gross margins from 41% in 3Q22 to 46%. The rise in members helped improve margins as majority of costs are fixed in nature. Operating profits soared by 48% y-o-y, expanding the margin to 36% from the previous 32%. Although net income grew by 35% to SAR92 million, the net margin remained stagnant, largely due to a one-off expense from the closing of two centers in 3Q23, which was partially offset by Murabaha income from short-term deposits. Over the nine-month period ending in 2023 (9M23), Leejam witnessed strong growth, with a 27% increase in revenue and a remarkable 51% surge in operating income, resulting in a widened net income of SAR227mn, marking a 51% rise and a boosted margin of 25% compared to 21% in 9M22.

Figure 2 **Earnings Summary Q3 2023**

SARmn	Q3 2023	Q3 2022	y-o-y	Q2 2023	q-o-q	9M23	9M22	y-o-y
Revenue	348	264	32%	302	15%	927	729	27%
Gross Profit	160	107	49%	124	29%	393	271	45%
Gross Margin	46%	41%		41%		42%	37%	
Operating Profit	126	86	48%	91	39%	296	197	51%
Operating Margin	36%	32%		30%		32%	27%	
Net Profit	92	68	35%	72	27%	227	150	51%
Net Margin	26%	26%		24%		25%	21%	

Source: Company data, Al Rajhi Capital.

Figure 3 **EPS and Target Price Revision**

EPS (SAR/sh)	Previous	Current	Change
EPS 2023E	6.0	6.7	11%
EPS 2024E	6.9	7.9	14%
EPS 2025E	8.0	9.2	15%
Target Price	180.0	210.0	17%

Source: Al Rajhi Capital

Valuations: Our preferred valuation approach is DCF, where we assign a weight of 60% to it while the remaining 40% is assigned to the relative valuation approach. Using the above-mentioned approach, we arrive at a weighted average target price of SAR210/sh. The stock provides an upside of 11.5% from its last closing.

Key Risks: 1) slowdown in membership growth, 2) rising competition leading to price wars, 3) slowdown in the fitness industry and change in consumer behavior, and 4) slower than expected ramp up of new fitness centres.

Key Financials

Figure 4 Income Statement

Income Statement (SARmn)	2023E	2024E	2025E
Sales	1,322	1,481	1,626
y-o-y growth	24.0%	12.0%	9.8%
Cost of Sales	(741)	(835)	(903)
y-o-y growth	17.7%	12.7%	8.1%
Gross Income	581	646	723
y-o-y growth	33.1%	11.2%	12.1%
margins	43.9%	43.6%	44.5%
Selling and distribution expenses	(119)	(143)	(157)
Administrative expenses	(14)	(16)	(18)
Operating Income	446	486	549
y-o-y growth	40.7%	9.0%	12.8%
margins	33.7%	32.8%	33.7%
Investments and other	3	10	12
Financing Expense	(87)	(69)	(66)
Net income before tax	363	427	495
Zakat & Tax	(10)	(12)	(14)
tax rate	2.8%	2.8%	2.8%
Net Profit Before Minority Interest	352	415	481
Net Income	352	415	481
y-o-y growth	37.0%	17.7%	16.0%
margins	26.7%	28.0%	29.6%
EPS	6.7	7.9	9.2
DPS	3.6	4.4	5.0

Source: Al Rajhi Capital estimates

Figure 6 Cash Flow Statement

Cash Flow Statement (SARmn)	2023E	2024E	2025E
Net Cash Flows from Operating Activities	761	819	899
Cash Flows from Investing Activities	(221)	(353)	(353)
Cash Flows from Financing Activities	(396)	(287)	(332)
Net Change in cash & cash equivalents	144	179	214

Source: Al Rajhi Capital estimates

Figure 5 Balance sheet

Balance Sheet (SARmn)	2023E	2024E	2025E
Cash & Cash Equivalents	445	624	838
Receivables, Net	30	37	40
Prepaid expenses and other assets	48	52	56
Inventory	16	13	15
Total Current Assets	539	726	948
Property and equipment	1,558	1,584	1,598
Right of Use Assets	895	948	993
Total Non-Current Assets	2,572	2,665	2,733
Total Assets	3,111	3,391	3,681
Liabilities and Equity			
Short-term Debt & Leases	177	159	148
Trade Payable	79	87	94
Accrued expenses and other liab.	96	108	116
Deferred Revenues	474	531	583
Total Current Liabilities	833	891	949
Long-Term Debt & Leases	1,138	1,167	1,176
Others	45	52	59
Total Non-Current Liabilities	1,183	1,219	1,235
Total Liabilities	2,016	2,110	2,183
Total Equity	1,095	1,281	1,498
Total liabilities and equity	3,111	3,391	3,681

Source: Al Rajhi Capital estimates

Figure 7 Key Ratios

Ratios	2023E	2024E	2025E
Capex/Sales	12%	24%	22%
ROA	12%	13%	14%
ROE	35%	35%	35%
Asset turnover	0.5x	0.5x	0.5x
P/E	28.0x	23.8x	20.5x
EV/EBITDA	15.4x	13.8x	12.2x
P/BV	9.0x	7.7x	6.6x
Dividend yield	1.9%	2.3%	2.7%

Source: Al Rajhi Capital estimates

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"Neutral": We expect the share price to settle at a level between 10% below the current share price and 10% above the current share price on a 12 month time horizon.

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