

Leejam Sports Co.

TP revised to SAR175/sh; downgrade to Neutral.

Neutral

Price Target (SAR): 175.0

Current: 157.0
Upside/Downside: 11.5% above current

Valuation Multiples	24A	25E	26E
P/E (x)	18.0	22.3	18.8
P/B (x)	6.7	5.6	4.7
EV/EBITDA (x)	13.2	11.8	10.3

Major Shareholders	% Ownership
Hamad Ali Al Sagri	51.82%

Price Performance	1M	3M	YTD
Absolute	-5.3%	-15.7%	-15.3%
Relative to TASI	-5.4%	-1.5%	-2.7%

Financial Summary

(SARmn)	2024	2025E	2026E
Revenue	1,501	1,712	1,873
Revenue growth	13.3%	14.0%	9.4%
Gross profit	623	678	757
Gross margin	41.5%	39.6%	40.4%
EBITDA	740	822	898
EBITDA margin	49.3%	48.0%	47.9%
Net profit	457	368	437
Net margin	30.4%	21.5%	23.3%
Adj. Net profit	344	368	437
y-o-y growth	-3.5%	7.1%	18.7%
EPS	8.72	7.03	8.34
Adj. EPS	6.56	7.03	8.34
DPS	5.24	2.58	3.06
Payout ratio	60.1%	36.7%	36.7%
EV/EBITDA	13.2x	11.8x	10.3x
P/E	18.0x	22.3x	18.8x
RoE	39.4%	27.3%	27.2%

Source: Company data, Al Rajhi Capital

It has been a tale of two halves for Leejam in FY24, with revenue and adjusted net profit increasing by 18.7/8.0% in 1H24. In 2H24, revenue growth slowed down increasing by only 9% y-o-y and profitability took a hit declining by 14.9% y-o-y. Overall, the company maintained its growth trajectory in terms of member additions, clocking in at an impressive 486k members as of Dec end FY24, an increase of 23% y-o-y. The overall deferred revenues also jumped up to SAR503mn, up by 14% y-o-y, reflecting the healthy growth in subscriptions. However, drilling a bit deeper into the deferred revenues, the company marked a significant shift in its subscription mix. The introduction of the 4-month and 9-month subscriptions resulted in adding more members but at the expense of margins. For context, the 3-month subscription is the higher-margin product for the company, while the newly introduced subscriptions were at a significant discount. Consequently, EBITDA margins for the company took a hit, declining by 3.8 percentage points to 49.3% in FY24. In addition, the company remained true to its commitment of rapidly adding new gyms, increasing total centers by 36 to 223. This impacted the gross and net margins, which saw a contraction due to increased depreciation expense. Moreover, the new centers usually take 6-12 months to breakeven; hence, most of the gyms would have been a drag on profitability.

Going forward, we expect this trend to continue in the short term. The company does have the ability to increase pricing to offset some of the pressure witnessed in the margins; however, we flag that it might come at the expense of member addition/retention. The increase in extended membership in the mix will continue in FY25 as well, and hence we expect gross profit margins to remain subdued and expect a recovery in 2H25 once the new gyms start to ramp up. In addition, we expect the company to continue its aggressive expansion strategy, increasing its overall centers to north of ~250. Overall, we like the company in the long-term owing to its 1) expanded vast gym network, 2) state-of-the-art facilities, 3) reasonable pricing, and 4) rapid expansion in order to capture the increasing market. However, due to short-term pressure on margins, we revise our FY25/26 estimates by 23/20%. As a result, we cut our TP to SAR175/sh, providing an upside of 11.5% to the last close. We downgrade to a Neutral rating with a strategy of accumulating the company on dips.

Figure 1 EPS and TP revision

EPS (SAR/sh)	Previous	Current	Change
EPS 2025E	9.2	7.0	-23%
EPS 2026E	10.4	8.3	-20%
Target Price	210.0	175.0	-17%

Source: Company data, Al Rajhi Capital

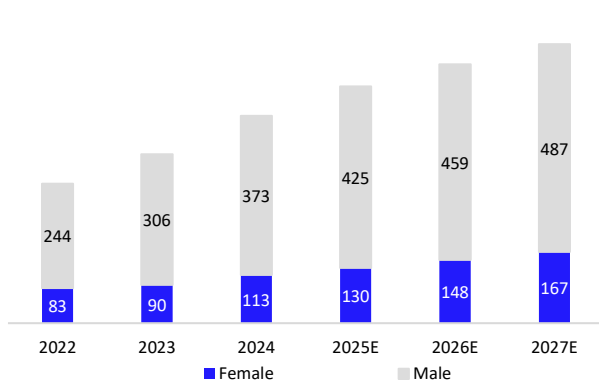
4Q24/FY24 Results: In 4Q24, Leejam's revenue grew by 2.5% y-o-y (+0.5% q-o-q) but fell short of expectations, primarily due to increase in 4- and 12-months Membership in the revenue mix to 13% each in FY24 from 5 and 10%, respectively in FY23. The total number of members declined from 509k in 3Q24 to 486k by the end of FY24, reflecting seasonal trends. Gross income dropped 9.4% y-o-y, with margins contracting to 42.6% from 48.2% in 4Q23 due to increased costs from new center additions and a shift in subscription mix. Operating profit declined 22.7% y-o-y (-7.8% q-o-q), impacted by higher personnel costs, digital transformation investments, and marketing expenses. Net income declined 20.9% y-o-y but grew 8.5% q-o-q on an adjusted basis, missing expectations by 23% due to margin pressures.

For FY24, reported earnings increased 28.1% y-o-y; however, after adjusting for one-offs—such as a SAR92mn land sale gain in 3Q24 and a SAR18mn rent renegotiation benefit in 1Q24—the adjusted EPS effectively declined by 4% y-o-y to SAR6.6/sh. The company announced a SAR1.18/sh dividend for 4Q24, bringing the total FY24 dividend to SAR5.24/sh, resulting in a 3% dividend yield based on the last closing price.

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 i.e. price to earnings (P/E) ratio. Using the above-mentioned approach, we arrive at a weighted average target price of SAR175/sh. The stock provides an upside of 11.5% from its last closing.

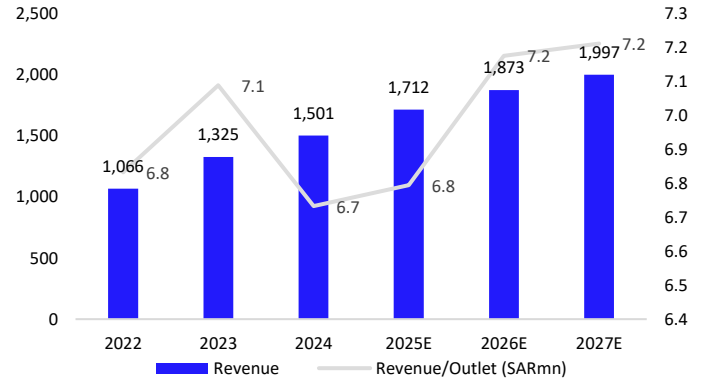
Key Risks: 1) slowdown in membership growth, 2) rising competition leading to price wars, 3) slowdown in the fitness industry and change in consumer behavior, and 4) slower than expected ramp up of new fitness centers.

Figure 2 Members (000's)



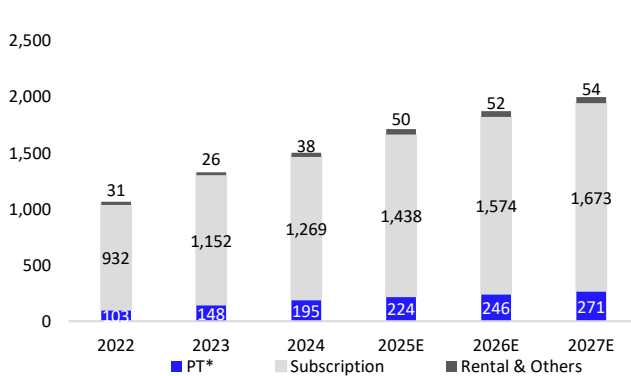
Source: Company Data, Al Rajhi Capital Estimates

Figure 3 Revenue and revenue/center (SARmn)



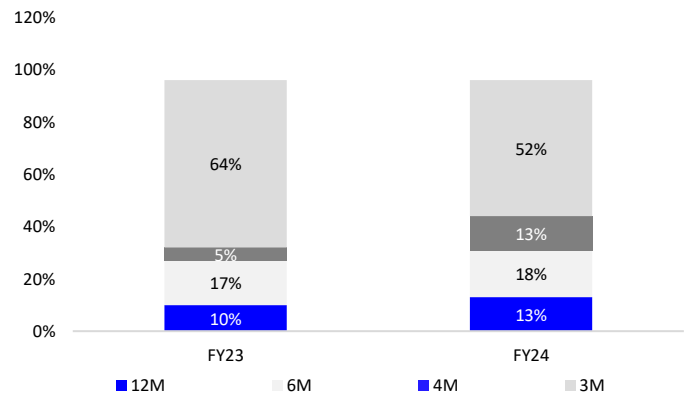
Source: Company Data, Al Rajhi Capital Estimates

Figure 4 Revenue by segment (SARmn)



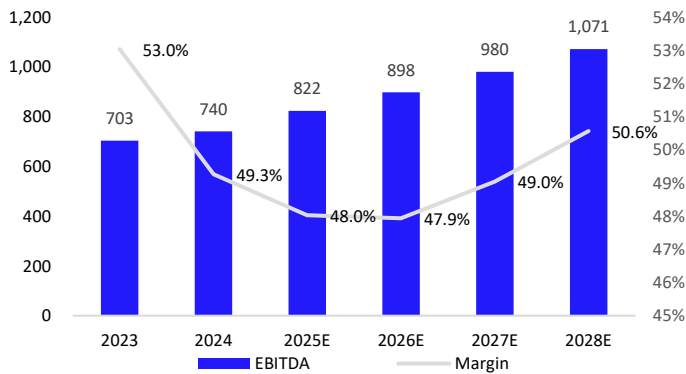
Source: Company Data, Al Rajhi Capital Estimates, *Personal Training

Figure 5 Increasing Longer term subscriptions



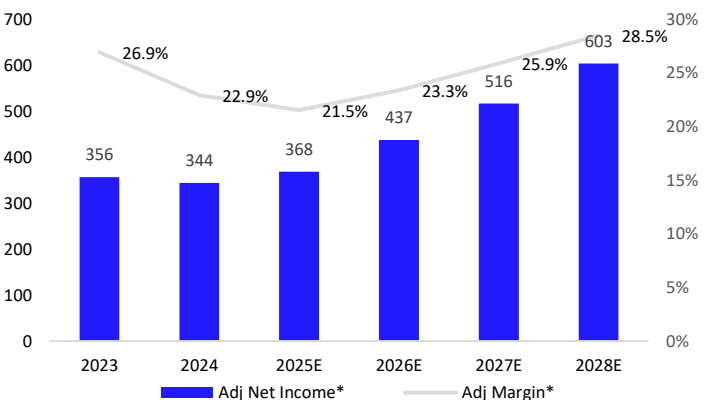
Source: Company Data

Figure 6 EBITDA (SARmn) and Margin (%)



Source: Company Data, Al Rajhi Capital Estimates

Figure 7 Net Income (SARmn) and Margin (%)



Source: Company Data, Al Rajhi Capital Estimates, *FY24 NI adjusted for multiple one-offs

Key Financials

Figure 8 Income Statement

Income Statement (SARmn)	2024	2025E	2026E
Sales	1,501	1,712	1,873
<i>y-o-y growth</i>	13.3%	14.0%	9.4%
Cost of Sales	(878)	(1,034)	(1,115)
<i>y-o-y growth</i>	18.5%	17.8%	7.8%
Gross Income	623	678	757
<i>y-o-y growth</i>	6.6%	8.7%	11.7%
<i>margins</i>	41.5%	39.6%	40.4%
Selling and distribution expenses	(150)	(178)	(197)
Administrative expenses	(25)	(30)	(34)
Operating Income	447	467	526
<i>y-o-y growth</i>	-0.7%	4.5%	12.5%
<i>margins</i>	29.8%	27.3%	28.1%
Investments and other	109	2	5
Financing Expense	(91)	(91)	(83)
Net income before tax	464	378	448
Zakat & Tax	(10)	(9)	(11)
<i>tax rate</i>	2.2%	2.5%	2.5%
Net Profit Before Minority Interest	456	368	437
Net Income	457	368	437
<i>y-o-y growth</i>	28.3%	-19.4%	18.7%
<i>margins</i>	30.4%	21.5%	23.3%
Adj. net Income	344	368	437
EPS	8.7	7.0	8.3
Adj. EPS	6.6	7.0	8.3
DPS	5.2	2.6	3.1

Source: Al Rajhi Capital estimates

Figure 10 Cash Flow Statement

Cash Flow Statement (SARmn)	2024	2025E	2026E
Net Cash Flows from Operating Activities	781	916	960
Cash Flows from Investing Activities	(454)	(416)	(195)
Cash Flows from Financing Activities	(496)	(371)	(463)
Net Change in cash & cash equivalents	(168)	129	302

Source: Al Rajhi Capital estimates

Figure 9 Balance sheet

Balance Sheet (SARmn)	2024	2025E	2026E
Cash & Cash Equivalents	106	235	536
Receivables, Net	26	31	34
Prepaid expenses and other assets	88	99	106
Inventory	24	23	25
Total Current Assets	244	388	701
Property and equipment	2,058	2,257	2,222
Right of Use Assets	1,253	1,291	1,202
Total Non-Current Assets	3,440	3,697	3,585
Total Assets	3,685	4,085	4,286
Liabilities and Equity			
Short-term Debt & Leases	206	218	188
Trade Payable	68	102	116
Accrued expenses and other liab.	113	134	144
Deferred Revenues	504	574	628
Total Current Liabilities	902	1,039	1,087
Long-Term Debt & Leases	1,502	1,522	1,389
Others	66	75	86
Total Non-Current Liabilities	1,568	1,597	1,474
Total Liabilities	2,470	2,636	2,561
Total Equity	1,233	1,466	1,743
Total liabilities and equity	3,685	4,085	4,286

Source: Al Rajhi Capital estimates

Figure 11 Key Ratios

Ratios	2024	2025E	2026E
Capex/Sales	39%	24%	10%
ROA	13%	9%	10%
ROE	39%	27%	27%
Asset turnover	0.4x	0.4x	0.4x
P/E	18.0x	22.3x	18.8x
EV/EBITDA	13.2x	11.8x	10.3x
P/BV	6.7x	5.6x	4.7x
Dividend yield	3.3%	1.6%	1.9%

Source: Al Rajhi Capital estimates

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