Leejam Sports Co
Recreation Facilities – All Sectors
Leejam AB: Saudi Arabia
21 April 2022

الراجحي المالية
Al Rajhi Capital

US$1.729bn	40%	US$10.11mn
Market cap	Free float	Avg. daily volume

Target price	125.00	+1.1% over current
Current price	124.00	as at 20/04/2022

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Existing rating

Underweight | **Neutral** | Overweight

Performance

Earnings

Period End (SAR)	12/21A	12/22E	12/23E
Revenue (mn)	885	996	1046
Revenue growth	34%	13%	5%
EBITDA (mn)	466	520	555
EBITDA growth	133%	12%	7%
Net Profit	206	229	247
Net Profit Margin	23%	23%	24%
EPS	3.93	4.37	4.72
EPS growth	NM	11%	8%
DPS	2.10	2.62	2.83
Payout Ratio	53%	60%	60%
ROE	26%	28%	28%

Source: Company data, Al Rajhi Capital

Leejam

Lower than expected result, TP lowered to SAR125/sh

Leejam result was disappointing with the revenue at SAR232mn (+56% y-o-y on lower base due to covid-19 related shut down) vs. our expectation of SAR267mn leading to a -13% miss. The miss was primarily attributable to the seasonality impact which could more than offset the benefit from new centres and lower Covid-19 related restrictions. Moreover, the lower spending power of consumers owing to high inflation in general seems to be impacting the discretionary spends like recreation and preventive health care. Further the lower revenue and the sticky costs given the nature of the business resulted in a lower gross margin and as such the company could manage a gross profit of SAR86mn only, considerably lower than our estimate of SAR123mn. We note here that the aggressive expansion plan will have some impact on margins as typically the new centres are accompanied by higher discounts and also the ramp-up period is between 6 to 18 months which results in the costs running well ahead of the revenue generated by these new centres. We continue to believe that the plan to expand its business and gain market share is a sound strategy given the young demographics of KSA and a likely high disposable income in future, however the near-term prospects of the company will be marred by high inflation and ramp-up challenges. Accordingly, we lower our target price to SAR125/sh from the previous TP of SAR143/sh implying an upside of 0.8% from the current market price of SAR124.

Q1 2022 earnings summary:

Revenue: Leejam's 1Q'22 top-line came in at SAR232mn (+56% y-o-y), missing our estimate of SAR267mn. The miss was primarily attributable to the seasonality impact and high inflation impacting disposable income, which could more than offset the benefit of new centres and lower Covid-19 related restrictions.

Gross Profit: Lower revenue resulted in margin pressure considering the sticky costs and as such the gross profit came in at SAR86mn (+181% y-o-y), missing our estimate of SAR123mn.

Operating Profit: The margin further contracted at operating level (25.3%) and missed our estimate (37%); however, the miss was mostly due to lower than estimated top-line and gross margin as the operating expense was broadly in line with our estimate.

Net Profit: The bottom-line benefitted from the lower interest expense given the deleveraging and lower rates however the benefits were not substantial. Consequently, the company posted a net income of SAR46mn and missed our estimate of SAR90mn.

. **Figure 1 Leejam 1Q 2022 earnings summary**

(SAR mn)	1Q 2022	1Q 2021	*Y-o-Y*	4Q 2021	*Q-o-Q*	ARC est	*vs ARC*
Revenue	232	149	*56%*	261	*-11%*	267	*-13%*
Gross profit	86	30	*181%*	125	*-31%*	123	*-30%*
Gross margin	37%	21%		48%		46%	
Operating profit	59	5	*1184%*	100	*-41%*	99	*-41%*
Operating margin	25%	3%		38%		37%	
Net profit	46	-7	*-760%*	86	*-46%*	90	*-49%*
Net margin	20%	-5%		33%		34%	

Source: Company data, Al Rajhi Capital

Valuation: We value Leejam using an equal weightage given to DCF and PE based relative valuation. Our DCF based TP, with a 2% terminal growth and 7.6% WACC stands at SAR134/sh, while the relative valuation, based on 28x FY 2022e EPS, stands at SAR116/sh. Thus, the equal weightage TP stands at SAR125/sh, which implies 1.1% upside and a “Neutral” rating.

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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.

"Underweight": Our target price is more than 10% below the current share price, and we expect the share price to reach the target on a 12 month time horizon.

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