Equity Research report
LEEJAM AB Equity
9 May 2024

Target Price: SAR230/share
Current Price: SAR207.4/share
Upside: 11% (+Div. Yield: 2.1%)
Rating: Overweight

Leejam Sports (Fitness Time)

Strong 1Q; TP revised to SAR230/share on revised outlook

- 1Q top-line grew by 24% y/y, driven by the gym expansion (+18) and robust memberships growth (+20%).
- Revise our 2024-25 top-line estimate upwards by 12-15% on faster-than-expected gym center/membership expansion and bottom-line by 21%, mainly due to better margins.
- Post strong 1Q results, we raise our TP to SAR230/share (SAR162/sh. earlier), based on equal weightage valuation using DCF and EV/EBITDA (14x on 2025e EBITDA).

1Q24 results: Leejam reported 1Q top-line at SAR344mn, increasing 24.2% y/y, slightly above our estimate, driven by a 20% growth in memberships (reaching 399k in 1Q24 vs. 359K expected) and +4% y/y growth in revenue per member. Personal training revenues also grew by 49% y/y. COGS grew at a slightly slower pace at 22% y/y, primarily due to the opening of new centers (+11% y/y) and higher traffic during the quarter. Accordingly, gross and operating profits were in line with gross and operating margins improving by 116bps y/y and 75bps. During the quarter, the company reported a one-off gain worth SAR18mn (after favorable rent negotiation in UAE), pushing net income by 49% q/q to SAR94mn. Nonetheless, adjusted net income grew ~21% to SAR76mn (slightly above our estimate of ~SAR72mn).

Gym expansion and robust membership growth: One of the key drivers for the company is the gym centers expansion, which we expect to increase from 178 in 2023 to reach 214 in 2024e (2024e guidance: 205-217) and further to 245 gym centers (vs 250 guidance) by 2025. The second driver is memberships. The first quarter usually has the lowest memberships due to seasonality. However, in 1Q24, the company reported 399K members, even higher than the 4Q23 (396K). Post robust membership growth, we expect it to continue to expand, reaching over 500K by the end of 2025. Robust centers expansion and higher memberships would lead to a 15.6% top-line CAGR over 2023-26e. Further, the healthy demand for personal training is expected to grow the segment at a CAGR of 20% over 2023-26. As ~70% of the company's costs are fixed, higher top-line would translate into higher bottom-line. Accordingly, we expect Leejam's earnings to grow at a CAGR of 20% over 2023-26e.

Figure 1: Key financial metrics

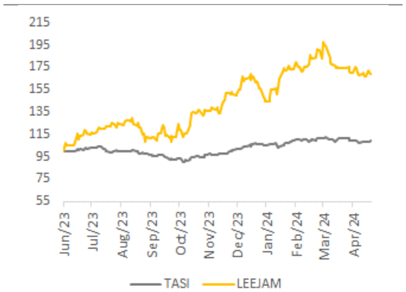
SARmn	2022a	2023a	2024e	2025e
Revenue	1,066	1,325	1,592	1,797
Revenue growth	*20%*	*24%*	*20%*	*13%*
Gross Profit	436	585	698	812
Gross Profit margin	*41%*	*44%*	*44%*	*45%*
EBITDA	547	694	811	945
Op. income	317	448	525	624
Net profit	257	356	429	499
Net profit margin	*24.1%*	*26.8%*	*26.9%*	*27.8%*
EPS (SAR)	4.9	6.8	8.2	9.5
DPS (SAR)	2.7	3.7	4.4	5.2
P/E	42.2x	30.5x	25.3x	21.8x

Source: Company, GIB Capital

Stock data	
TASI ticker	1830
Mcap (SARmn)	10,864
Trd. Val (3m) (SARmn)	37.0
Free float	48.2%
QFI holding	14.4%
TASI FF weight	0.22%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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Figure 2: 1Q24 results summary

SAR mn	1Q24	1Q23	y/y %	4Q24	q/q %	GIBCe	Variance %
Revenues	**344.0**	**277.0**	**24.2%**	**398.0**	**-13.6%**	**329.0**	**4.6%**
Cost of Goods	205.0	168.0	22.0%	206.0	-0.5%	192.5	6.5%
Gross Profit	**139.0**	**109.0**	**27.5%**	**192.0**	**-27.6%**	**136.5**	**1.8%**
Operating Expenses	40.0	31.0	29.0%	38.0	5.3%	37.5	6.7%
Operating Profit	**99.0**	**78.0**	**26.9%**	**154.0**	**-35.7%**	**99.0**	**0.0%**
Net Income	**94.0**	**63.0**	**49.2%**	**129.0**	**-27.1%**	**71.8**	**31.0%**
Net Income Adj.*	**76.0**	**63.0**	**20.6%**	**129.0**	**-41.1%**	**71.8**	**5.9%**
Gross Margin	40.4%	39.4%		48.2%		41.5%	
Operating Margin	28.8%	28.2%		38.7%		30.1%	
Net Profit Margin	27.3%	22.7%		32.4%		21.8%	
Adj. Net profit Margin	22.1%	22.7%				21.8%	

*Source: Tadawul, GIB Capital. *Adjusted for one-off*

Valuation and Risks: Based on DCF (9.2% WACC) and EV/EBITDA valuation (14x on 2025e EBITDA), we revise our TP to SAR230/sh. (SAR162/sh. earlier), implying an Overweight rating. The main factors to track are the pace of expansions in the coming quarters, and the number of centers/members by the end of 2024-25e. The risks include higher-than-expected increase in competition, the cannibalization of centers due to over-expansion, and a change in discretionary spending by the consumers.

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