Equity Research report
LEEJAM AB Equity
9 August 2023

GIB CAPITAL
جي آي بي كابيتال

Target Price: SAR162/share
Current Price: SAR151/share
Upside: 7.6% (+Div. Yield: 3.1%)
Rating: Neutral

Leejam Sports (Fitness Time)

TP raised to SAR162/share on robust membership growth.

- 2Q23 net income more than doubled y/y, driven by strong membership growth (+34%) due to the gym expansion (+12) and improved margins (+7.6pps).
- Earnings to grow at a CAGR of 17% over 2022-25e, driven by significant growth in membership on aggressive gym expansion, and improvement in margins.
- We raise our target price (TP) to SAR162/share, based on equal weightage valuation using DCF and EV/EBITDA (12x on 2024e EBITDA).

Robust 2Q23 results: Leejam reported a 30% y/y growth in revenue, aided by increased memberships. This, along with the controlled expenses, pushed gross profit higher by 59% y/y, with the margin expanding by ~7.6pps to 41% in 2Q23. Overall, net profit more than doubled with net margin reaching 24% (~8.6pps rise). FCF grew 49% y/y, aided by strong cash generation from operations, which enabled the company in raising the quarterly DPS to SAR0.75 (~55% payout) in 2Q23 compared to SAR0.37 in 2Q22.

Expanding gym centers/membership to drive growth: Total membership grew by 34% y/y in 2Q23, reaching 367k (higher than our expectation of 309K), largely due to expanding corporate members (+71% y/y). The company has opened 12 additional centers since 2Q22, taking the total number of centers to 173 at the end of 2Q23. Going forward, we expect Leejam to continue expanding its footprint in the Kingdom with a total number of centers likely to reach 186 (181-191 guidance including concept studios) by 2023e and further to 220 by 2025e (assumed lower than the guidance of 250 centers on a conservative basis). Leejam has already secured 50 locations for expansions, and construction has already started on 17 locations, giving us clarity on the median-term growth prospects. Accordingly, we expect a robust membership growth in the coming periods, resulting into an upward revision in our medium-term estimates. Leejam's top line is largely driven by volumes, and it operates on a mostly fixed cost model (almost 70% of COGS is fixed). So, any rise in the top line directly translates into an increase in the bottom line. Overall, we expect Leelam's earnings to grow at a CAGR of 17% over 2022-25e.

Figure 1: Key financial metrics

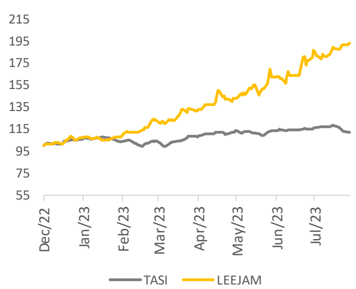
SARmn	2021a	2022a	2023e	2024e
Revenue	885	1,066	1,295	1,426
Revenue growth	*34%*	*20%*	*21%*	*10%*
Gross Profit	372	436	543	602
Gross Profit margin	*42%*	*41%*	*42%*	*42%*
EBITDA	466	547	648	712
Op. income	258	317	402	445
Net profit	206	257	320	356
Net profit margin	*23.3%*	*24.1%*	*24.7%*	*24.9%*
EPS (SAR)	3.9	4.9	6.1	6.8
DPS (SAR)	2.1	2.7	3.7	4.8
P/E	38.1x	30.5x	24.8x	22.2x

Source: Company, GIB Capital

Stock data	
TASI ticker	1830
Mcap (SARmn)	7,909
Trd. Val (3m) (SARmn)	26.9
Free float	48.2%
QFI holding	15.0%
TASI FF weight	0.19%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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Risks: The main factor to track are the pace of expansions in the next quarters, and the number of members by the end of 3Q23. Higher than-expected increase in competition, cannibalization of centers due to over-expansion, and change in discretionary spending by the consumers are some of the key risks to our investment view.

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We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

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