



US\$1.278bn Market cap
40% Free float
US\$7.22mn Avg. daily volume

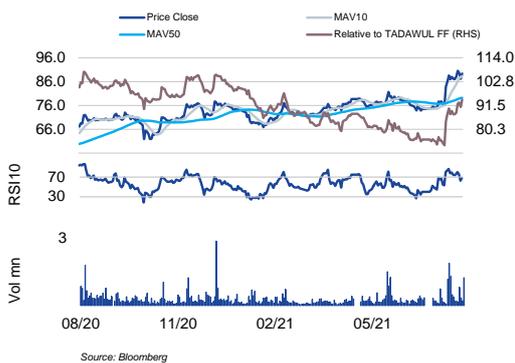
Target price **105.00** +15% over current
 Current price **91.50** as at 24/8/2021

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Existing rating

Underweight Neutral **Overweight**

Performance



Earnings

Period End (SAR)	2020A	2021E	2022E
Revenue (mn)	660	786	1006
Revenue growth	-30%	19%	28%
Operating profit	(6)	159	302
Op. profit growth	NM	NM	90%
Net Profit	-59	107	249
Net Profit Margin	-9%	14%	25%
EPS	(1.12)	2.05	4.75
EPS growth	NM	NM	132%
DPS	NM	1.23	2.85
Payout Ratio	NM	60%	60%
P/E	NM	44.7x	19.3x
EV/EBITDA	25.5x	13.0x	9.0x
ROE	-9%	16%	34%

Source: Company data, Al Rajhi Capital

Leejam Sports Co

Robust performance; Upgrade to Overweight

Leejam reported a robust set of numbers for Q2 2021; the reported net income of SAR51mn beat our estimates of SAR40mn by a huge margin. Though the reported revenue of SAR222mn came below our estimates of SAR234mn, the gross margins increased significantly to 39% (highest ever recorded margins in Q2, generally margins are the highest in Q4 due to mega campaign). The company added 30k new members during Q2 2021. The company added 4 new clubs during the quarter, taking the total count to 135 clubs (126 large formats while 9 Xpress format clubs). The company aims to end FY 2021 with 150-167 clubs, with rapid expansion of Xpress format. We like Leejam, as the new format is margin accretive, which will drive the overall ROIC of the company. With vaccination drive in full swing, we expect the mega campaign on national day to be pretty strong in Q3 2021. Accordingly, post Q2 2021 earnings, we revise our forecast and raise our tp to SAR105/Sh from SAR78/sh, which implies 15% upside from cmp of SAR91.5/sh. Leejam is our top pick in the consumer discretionary sector.

Figure 1 Earnings Summary

(SAR mn)	Q2 2021	Q1 2021	Q2 2020	% chg y-o-y	% chg q-o-q	ARC est
Revenue	222	149	24	811%	49%	234
Gross profit	86	27	(63)	NM	213%	77
Gross margin	39%	18%	NM	NM	NM	33%
Operating profit	64	5	(78)	NM	NM	53
Net profit	51	(7)	(91)	NM	NM	40
Net Margin	23%	-5%	NM	NM	NM	17%

Source: Company data, Al Rajhi Capital

- Revenues:** Top-line increased 811% y-o-y to SAR222mn albeit on a low base last year, driven mainly by subscription income, which rose 752% y-o-y and 50% q-o-q. The personal training segment witnessed a 1651% y-o-y and 40% q-o-q growth during Q2 2021. The rental income also rebounded as it grew 78% q-o-q and turned profitable compared to a loss in Q2 2020.
- EBITDA:** EBITDA came in at SAR115mn at a margin of 52% in Q2 2021 v/s an EBITDA loss of 25mn in Q2 2020; the EBITDA margin reached to pre-pandemic level of ~52% reported in Q2 2019.
- Net profit:** The company turned profitable compared to Q2 2020. It reported a net income of SAR51mn V/S a net loss of SAR91mn in Q2 2020 and a net loss of SAR7mn in Q1 2021.

Valuation: We value Leejam using an equal weightage given to DCF and PE based relative valuation. Our DCF based tp, based on 2% terminal growth and 8.35% WACC stands at SAR107.5/sh, while relative valuation based on 25x FY 2022e EPS stands at SAR103.3/sh; thus equal weightage tp stands at SAR105/sh, which implies 15% upside from cmp of SAR91.5/sh. We change our rating from "Neutral" to "Overweight" on Leejam.



Key Downside risks to our valuation: Key downside risks to our valuation includes:

- 1) Any further restrictions, limiting the number of footfalls inside the gym, will hurt the company's top-line and our valuations.
- 2) Competition from online fitness application, which are cheaper compared to gym subscription, might lead to a leakage of some members, which in turn might impact the company's profitability and our valuation.



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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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