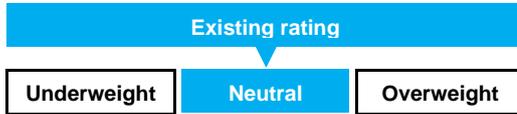




**US\$1.304bn** Market cap  
**40%** Free float  
**US\$8.89mn** Avg. daily volume

Target price **85.00** -7.2% over current  
 Current price **91.60** as at 11/8/2022

Research Department  
**Mazen AlSudairi, CFA**  
 Tel +966 11 836 5468, alsudairim@alrajhi-capital.com



**Performance**



**Earnings**

Period End (SAR)	12/21A	12/22E	12/23E
Revenue (mn)	885	985	1014
Revenue growth	34%	11%	3%
Gross Profit (mn)	372	354	373
Gross Profit Margin	42%	36%	37%
Operating Profit (mn)	258	236	255
Operating Profit Margin	29%	24%	25%
Net Profit	206	181	199
Net Profit Margin	23%	18%	20%
EPS	3.93	3.46	3.79
EPS growth	NM	-12%	10%
DPS	2.10	2.08	2.28
Payout Ratio	53%	60%	60%
ROE	26%	23%	23%

Source: Company data, Al Rajhi Capital

# Leejam Sports Co

## Q2: Earnings miss; TP reduces to SAR85/sh. due to near-term headwinds

Leejam reported revenue of SAR233mn (+5% y-o-y), broadly in line with our estimate of SAR240mn. The quarter saw a moderate comeback in terms of member count which increased to 274k vs. a seasonal drop to 245k in Q1 2022 (280k in Q2 2021) and could be an indicator of a gradual ramp-up of newly opened centers (151 current vs. 145 and 136 at FY21 and FY20 end respectively). Nevertheless, the top-line growth was subdued as expected and has impacted the profitability given the high operating leverage of the company. The gross margin for Q2 2022 came in at 33% (275 bps lower than expected), a significant drop compared to previous quarters. Operating margin (21% vs. 24% estimated) and net profit margins (15% vs. 19% estimated) too reflected the impact of higher costs and further accentuated the importance of ramping up the facilities as early as possible. We see the elevated costs, higher depreciation due to aggressive expansion capex, pricing pressure due to change in customer behaviour, and the flattish revenue outlook to continue to impact the margins going forward. However, the company has been guided to open 157 to 164 centers by the FY22 end, which bodes well for the company over the medium term once these facilities ramp up and start operating at full capacity.

**Outlook:** Estimated cost for new centers to be added in 2H could be in the range of SAR140 to SAR180mn. Considering the cash in hand (SAR100mn currently), high leverage (SAR1,225mn including lease), and subpar cashflow generating capacity (compared to pre-COVID), the expansion could be at the lower end of the guidance. We see EBITDA margin (45.9% in Q2 2022) as a better measure of performance given the high capex cycle and here we see the trend to improve post normalization of the operating activity, which will be achieved once all centers ramp up successfully. Nevertheless considering the near-term headwinds such as i) High leverage (Debt/Equity at 1.5x including lease), ii). Rising rate environment impacting interest cost, iii). Pricing pressure due to change in customer behaviour and iv) Ramp-up challenges, the stock is likely to stay under pressure in the near term. As such, we reduce our TP to SAR85/sh (SAR125/sh. earlier) and assign a Neutral rating to Leejam.

**Figure 1 Summary of Q2 2022 result**

(SAR mn)	2Q 2022	2Q 2021	Y-o-Y	1Q 2022	Q-o-Q	ARC est	vs ARC
Revenue	233	222	5.0%	232	1%	240	-3%
Gross profit	78	89	-12.0%	86	-9%	87	-10%
Gross margin	33%	40%		37%		36%	
Operating profit	50	64	-22%	59	-15%	58	-14%
Operating margin	21%	29%		25%		24%	
Net profit	36	51	-29%	46	-22%	45	-20%
Net margin	15%	23%		20%		19%	

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 factoring a 2% terminal growth and 9.4% WACC stands at SAR91/sh, while the relative valuation, based on 22x FY 2022e EPS, stands at SAR79/sh. Thus, the equal weightage TP stands at SAR85/sh, which implies a downside of 7.2% from the CMP of SAR91.6 and a "Neutral" rating.



**Key upside risks to our valuation include:**

- 1) Reduced competition leading to lower discounts can aid margin expansion
- 2) Faster than expected ramp-up of new centers can add significantly to the company's top line and will have a positive impact on our valuation.



## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not "beneficially own," as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

### Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.



## Disclaimer and additional disclosures for Equity Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### Explanation of Al Rajhi Capital's rating system

Al Rajhi Capital uses a three-tier rating system based on absolute upside or downside potential for all stocks under its coverage except financial stocks and those few other companies not compliant with Islamic Shariah law:

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

"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.

"Target price": We estimate target value per share for every stock we cover. This is normally based on widely accepted methods appropriate to the stock or sector under consideration, e.g. DCF (discounted cash flow) or SoTP (sum of the parts) analysis.

Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations.

### Contact us

**Mazen AlSudairi, CFA**  
Head of Research  
Tel : +966 11 836 5468  
Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.