April 2022

Leejam Sports Co. (Fitness time)

Result Flash Note Q1-22

الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Leejam posted a net income of SAR 46.0mn for Q1-22 (SAR 0.88 EPS), below our estimate and consensus estimate of SAR 79.5mn and SAR 66.3mn, respectively. Sales increased 55.9% Y/Y, while GP Margin expanded 1,650 bps Y/Y. The company's results were significantly lower than Q4-21 due to the impact of seasonality. We expect margins to increase in H2-FY22 but remain below last year due to rent concessions in H2-FY21. We maintain our "Overweight" recommendation on the stock, with a TP of SAR 122.0/share.

- Leejam recorded a net income of SAR 46.0mn in Q1-22 (EPS of SAR 0.88), compared to a net loss of SAR 7.0mn in Q1-21, below our estimate and market estimate of SAR 79.5mn and SAR 66.3mn, respectively. The deviation from our estimates is mainly due to lower-than-expected revenue growth and GP Margins. We expect the net profit to significantly increase in FY22, driven by double-digit revenue growth partially offset by a slight decline in GP margins compared to FY21.
- The company's revenue totaled SAR 231.6mn in Q1-22, up 55.9% Y/Y, and was below our estimate of SAR 259.5mn. The rise could be attributed to the opening of new centers and a higher number of business days compared to Q1-21. On a sequential basis, revenues declined 11.3%, primarily due to seasonality and drop-in members post end of six-month membership, which kicked off during promotion offered by the company around Saudi National Day last year. We expect some of the members to enroll in the program again, resulting in an increase in the number of members and revenue in Q2-22. We expect revenue to increase in double digits in FY22, driven by store openings and business returning to normalcy.
- Gross profit stood at SAR 85.7mn in Q1-22, up 181.3% Y/Y; this was below our estimate of SAR 118.7mn. GP margin increased 1,650 bps Y/Y to 37.0% in Q1-22 (20.5% in Q1-21), below our estimate of 45.7%. The decline in GP Margin can be attributed to increased staff, utilities, and maintenance cost. We predict that GP margin will decline in FY22 due to rent concessions availed in the previous year.
- Operating profit for Q1-22 stood at SAR 58.7mn compared to SAR 4.6mn in Q1-21, below our estimate of SAR 93.4mn. Net OPEX increased 4.4% Y/Y to SAR 27.0mn, above our estimate of SAR 25.3mn.

AJC view: Leejam's overall Q1-22 results were below our expectations due to lower-than-expected revenue and GP Margins. Based on the company's earnings call, we understand that this is majorly attributed to the seasonal impact. We expect sales to increase in FY22 and GP margins to be higher than FY19 levels, but below those attained in FY21. We believe the next quarter will provide more clarity on whether the company can maintain the margins close to the ones achieved during the last year. Leejam has strong fundamentals and attractive growth prospects. Delays in expansion plans and stiff competition pose downside risks to our valuation. The company's stock is currently trading at a P/E of 21.5x based on our FY22E EPS estimate. We maintain our "**Overweight**" rating on Leejam with a TP of **SAR 122.0/share.**

Results Summary

SARmn	Q1-21	Q4-21	Q1-22	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	148.5	261.0	231.6	55.9%	-11.3%	-10.8%
Gross Profit	30.5	124.7	85.7	181.3%	-31.2%	-27.8%
Gross Margin	20.5%	47.8%	37.0%			-
EBIT	4.6	99.9	58.7	High	-41.3%	-37.2%
Net Profit	**-7.0**	**85.9**	**46.0**	NM	-46.4%	-42.2%
EPS	**-0.13**	**1.64**	**0.88**	-	-	-

Source: Company Reports, AlJazira Capital *NM: Not meaningful

Overweight

Target Price (SAR)	**122.0**
Upside / (Downside)*	**9.1%**

Source: Tadawul *prices as of 27th of April 2022

Key Financials

(in SAR mn, unless specified)	FY20	FY21	FY22E
Revenue	662.6	885.3	1,059.6
Growth %	-29.9%	33.6%	19.7%
Net Profit	-58.7	206.0	272.4
Growth %	NM	NM	32.2%
EPS	-1.12	3.93	5.20

Source: Company reports, Aljazira Capital

Key Ratios

	FY20	FY21	FY22E
Gross Margin	21.1%	42.1%	40.3%
Net Margin	-8.9%	23.3%	25.7%
P/E (x)	NM	27.7	21.5
P/B (x)	6.1	7.1	6.4
EV/EBITDA (x)	26.0	14.7	13.4
Dividend Yield	0.0%	1.1%	2.8%

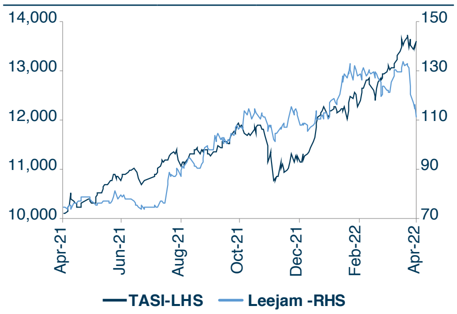
Source: Company reports, Aljazira Capital

Key Market Data

Market Cap(bn)	6.1
YTD%	6.6%
52 week (High)/(Low)	134.0/73.8
Share Outstanding (mn)	52.4

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer