

Aggressive expansions to pressure margins in near term; however, medium term earnings growth is decent; valuations are attractive after the 42.3% price drop

Leejam in its latest earnings call stated that it might add 130-150 centers over the next 5 years, these aggressive center additions and weaker membership trends are expected to further pressure margins in the near term due to the fixed cost model. That said, the company offers a decent 8.8/8.6% revenue/income CAGR over medium term (2025-29), driven by ramping up of gyms to more efficient levels. Moreover, Leejam's long term structural story remains intact, reflected by Saudi's low gym density of 4 gyms per 100,000 people. Being the largest fitness provider in organized sector the company is set to benefit from increasing fitness trends and government's focus on sports infrastructure development. We highlight that the 42.3% stock price drop over the last 12 months has opened up valuations as the company trades at 2026/27e PE of 15.3/13.9x vs 5 year average PE of 20.6x. We maintain our "Overweight" rating on Leejam with revised price target of SAR 112.2/share.

Impairments on investments/subsidiaries resulted in a 23.1% Y/Y decline in Q4-25 earnings; profits down 18% adjusted for one offs: Leejam reported earnings of SAR 78.7mn in Q4-25 down 23.1% Y/Y (-4.0% Q/Q). Adjusted for one off impairments on investments/subsidiaries net income was 12.5% below our expectations and 4.9% below market's expectation. The company reported sales of SAR 431mn in Q4-25 (AJBC estimate SAR 432mn -0.2% deviation), which translates to an Y/Y increase of 2.6% as compared to 8.1/9.3% Y/Y increase seen in Q3-25/Q2-25, respectively. Topline growth was much slower than previous quarters due to a decline in membership count down 3.7% Y/Y. Segment wise subscription and membership revenue grew by 3% Y/Y, while paid program revenue remained unchanged. Male segment revenue increased by 3% Y/Y to SAR 306mn, while female segment revenue grew by 5% Y/Y to SAR 120mn. The addition of 16 fitness time centers over the last 12 months pressured gross margins to 42.1% in Q4-25 (down 85bps Y/Y and 73bps above AJBC estimate of 41.3%). Operating margins declined by 3.4ppts Y/Y to 26.2% Y/Y in Q4-25 (-280bps deviation to AJBC of 29%), due to impairments on investments/subsidiaries.

Aggressive center additions (possibly 130-150 till 2030) & weaker membership trends to pressure margins in near term; however a decent 8.8/8.6% revenue/income CAGR is expected over mid-term (2025-29):

Leejam in its latest earnings call stated that it might add 130-150 centers over the next 5 years on the recommendation of its consultants (numbers not finalized yet). The company has guided opening 24 big box centers in 2026, equally divided between the male and female centers. We build in another 24 new centers in 2027, and total of 120 new openings over 2026-30. Previously, we had built in ~60 new centers till 2030, with sizable additions expected in 2026/27. Due to the fixed cost model, we expect these new centers to result in 192/10bps Y/Y compression in gross margins for 2026/27. Note that the expected margin compression in 2027 is much smaller than 2026, due to ramping up of the 45 gyms added in 2024/25 - we see margin recovery from 2028. Overall, incorporating the recent weak membership trends (total QE members declined by 3.7% on Y/Y basis in 2025) we revise down our revenue estimates by 5.4/7.4% for 2026/27 to SAR 1,695/1,875mn. Moreover, we revise down our 2026/27 earnings expectations by 16.3/29.9% to SAR 290/319mn; this implies that earnings will decline by 4.2% in 2026 and then improve by 9.9% in 2027. That said we see revenue and earnings to record a medium term (2025-29) CAGR of 8.8/8.6%, as gyms ramp up to better utilization levels.

The 42.3% stock price drop over the last 12 months has opened up valuations; company trades at attractive discounts on both absolute & comparative basis: Leejam has seen successive declines in normalized profits over the last two years (reasons discussed in detail below), moreover recent results have significantly undershot management guidance. As a result stock price has dropped by 42.3% over the last twelve months and valuations are at a sizable discount on historical and comparative basis. The company is trading at 2026/27e PE of 15.3/13.9x (AJBC estimate), vs 5 year average PE of 20.6x. Bloomberg consensus forward PE ratio stands at 12.7x implying a 38% discount to its historical average. Moreover, on comparative basis Leejam trades at a 54% discount to peer companies vs 5 year average discount of 40%. Overall, the stock trades at a discount on most of the valuation ratios (see table below).

	Historical avg			Premium/-discount to Peers		
	2026 Fwd	5 year avg	Diff	2026 Fwd	5 year avg	Diff
PE	15.3	20.6	-26%	-54%	-40%	-14%
EV/EBITDA	8.3	11.9	-30%	-51%	-31%	-20%
EV/EBIT	15.8	19.6	-19%	-42%	-32%	-10%
EV/REV	3.9	5.8	-33%	-9%	29%	-38%
P/BV	3.4	7	-51%	-50%	27%	-77%

Source: Bloomberg, Aljazeera capital research

Recommendation	Overweight
Target Price (SAR)	112.2
Upside / (Downside)*	32.7%

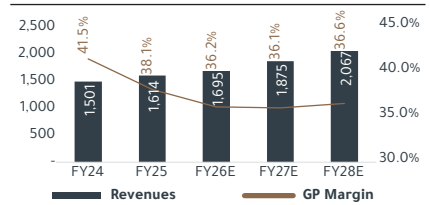
Source: Tadawul *prices as of 7th April 2026

Key Financials

SAR mn (unless specified)	FY24	FY25	FY26E	FY27E
Revenue	1,501	1,614	1,695	1,875
Growth %	13.3%	7.5%	5.0%	10.6%
Gross Profit	623	615	613	676
EBIT	556	417	415	458
Net Profit*	454	303	290	319
Growth %	27.6%	-33.3%	-4.2%	9.9%
EPS	8.67	5.78	5.53	6.08
DPS	5.20	3.50	3.50	3.90

Source: Company reports, Aljazeera Capital Research, FY24 has one-off gain of SAR 92mn

Fig 1: Revenue (SAR mn) and GP Margin



Source: Tadawul, Aljazeera Capital Research

Key Ratios

	FY24	FY25	FY26E	FY27E
GP Margin	41.5%	38.1%	36.2%	36.1%
EBIT Margin	37.0%	25.9%	24.5%	24.4%
Net Margin	30.2%	18.7%	17.1%	17.0%
P/E (x)	21.3	21.3	15.3	13.9
P/B (x)	7.9	5.4	3.4	3.2
EV/EBITDA (x)	13.3	11.0	8.3	7.6
Div Yield (%)	2.8%	2.8%	4.2%	4.6%

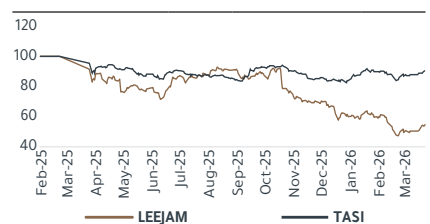
Source: Company reports, Aljazeera Capita Research

Key Market Data

Market Cap (bn)	4.6
YTD%	-15.0%
52 week (High)/(Low)	151.7/75.7
Share Outstanding (mn)	52.4

Source: Company reports, Aljazeera Capital Research

Price Performance



Source: Tadawul, Aljazeera Capital Research

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The massive center additions of last two years pressured gross margins due to the high fixed costs and slow ramp up of gyms: Leejam aggressively expanded its foot print by 45 centers (or by 26%) over the last two years, these expansions pressured margins as newer gyms are yet to ramp up to full capacity, while expenses are being incurred in full due to high fixed cost nature of the business. Overall, gross margins have contracted by a cumulative 600bps over the last two years from 44.1% in 2023 to 38.1% in 2025. Non-LFL centers (centers added after 01-Jan-2024) have per-center revenue of SAR 4.17mn, half the per center revenue of SAR 8.38mn for LFL centers. Memberships per center have declined by 13/18% Y/Y for male/female category to SAR 2.4/1.8 thousand in 2025. Total male members at the year end 2025 were down 5.1% Y/Y to 354,000, while female members were up just 0.9% Y/Y. We believe that higher membership fee, entry of new international gym franchises, branch expansions by local gyms, and growing cost of living pressures might have a big part to play in the weakening membership trends.

Gym additions have increased OPEX intensity, leverage and finance costs, resulting in further margin compression as you move down the income statement: In a bid to support membership growth Leejam has almost doubled its advertising and membership spend to SAR 34mn over 2023-25; G&A expenses have grown by 36% over the same period; company's operating intensity has increased by 185bps to 11.9%. The aforementioned has resulted in 784bps contraction in Leejam's operating margins over 2023-25 to 26.2%. A significant portion of the SAR ~1bn CAPEX made in 2024/25 was financed through bank loans, which have increased by 45% over 2023-25 to SAR 548mn (leases are up 14.8% to SAR 1,484mn), subsequently finance costs (loans and leases) have grown by 32% to SAR 109.5mn over the same period. Overall, Debt to equity ratio has increased from 28% in 2023 to 46% in 2025. Due to higher finance cost intensity net margins have eroded by 811bps to 18.7% over 2023-25.

Capex to stay elevated in medium term with 23 gyms under construction; strong balance sheet and healthy cashflow generation would help sustain dividends: Leejam opened net 16 new fitness centers in 2025 (16 Bigbox and 0 Xpress centers); total capital expenditure stood at 27.6% of revenues (SAR 445mn). The company has 18 gyms under design and 23 under construction as of Q4-25. We expect the company to open 24 gyms in 2026, which are likely to drive capital expenditure to SAR 583mn (34.4% of revenue) up 31.0% Y/Y in 2026. That said, with 2026E operating cash flow of SAR 693mn and Debt to equity ratio of 0.56, the company is expected to continue paying out dividends. On our estimates the company offers 2026/27E DY of 4.2/4.6% respectively.

AJBC view and valuation: The aggressive center additions (possibly 130-150 till 2030) & weaker membership trends are expected to pressure margins in the near term; however, the company offers a decent 8.8/8.6% revenue/income CAGR over medium term (2025-29). The 42.3% stock price drop over the last 12 months has opened up valuations as the company trades at 2026/27e PE of 15.3/13.9x (AJBC estimate) vs 5 year average PE of 20.6x. Leejam's long term structural story remains intact, reflected by Saudi's low gym density of 4 gyms per 100,000 people. Being the largest fitness provider in organized sector the company is set to benefit from increasing fitness trends and government's focus on sports infrastructure development.

We value Leejam assigning 50% weight to DCF (2.5% terminal growth and 8.8% WACC), while we assign 50% weight to PE (20.0x based on FY26E EPS). We maintain our "Overweight" rating on Leejam with target price of **SAR 112.2/share**, implying **32.7%** upside.

Key downside risk to our investment thesis are higher than expected gym additions, delayed recovery in memberships and slower than expected ramp up of new gyms.

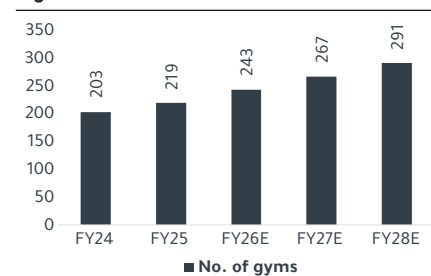
Upside risks include, less than expected gym additions increase in share of high margin shorter memberships, better cost controls, and faster ramp ups.

Blended valuation summary

All figures in SAR, unless specified	Fair value	Weights	Weighted average
DCF based value	113.7	50%	56.9
Relative Valuation - P/E (20x)	110.7	50%	55.3
Weighted average price target			112.2
Upside / (Downside)*			32.7%

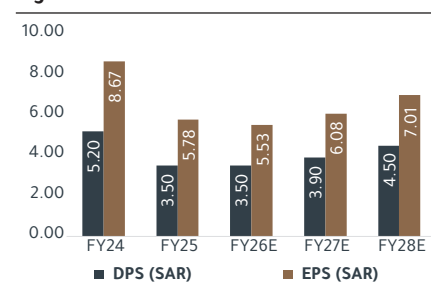
Source: Company reports, Aljazeera capital Research, prices as of 7th April 2026

Fig 2: Number of fitness centers



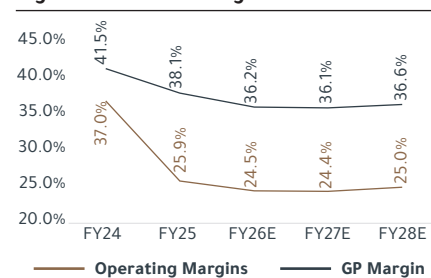
Source: Company reports, Aljazeera Capital Research

Fig 3: EPS and DPS trend



Source: Company reports, Aljazeera Capital Research

Fig 4: GP and EBIT margins



Source: Company reports, Aljazeera Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	FY24	FY25	FY26E	FY27E	FY28E	FY29E	FY30E
Income statement							
Revenues	1,501	1,614	1,695	1,875	2,067	2,265	2,475
Y/Y	13.3%	7.5%	5.0%	10.6%	10.2%	9.6%	9.3%
Cost of Sales	(878)	(999)	(1,082)	(1,199)	(1,311)	(1,426)	(1,541)
Gross profit	623	615	613	676	756	838	934
GPM	41.5%	38.1%	36.2%	36.1%	36.6%	37.0%	37.7%
General & administrative expenses	(150)	(158)	(164)	(179)	(195)	(211)	(227)
Advertising and marketing expenses	(25)	(34)	(36)	(41)	(45)	(50)	(56)
Other income, net	117	(17)	3	4	4	5	5
Operating profit	556	417	415	458	518	580	654
OPM	37.0%	25.9%	24.5%	24.4%	25.0%	25.6%	26.4%
Y/Y	23.7%	-24.9%	-0.6%	10.4%	13.0%	12.0%	12.7%
Finance cost	(91)	(109)	(118)	(131)	(141)	(148)	(151)
Profit before zakat	464	308	297	327	376	432	502
Zakat	(10)	(5)	(7)	(8)	(9)	(11)	(13)
Net income	454	303	290	319	367	421	490
Y/Y	27.6%	-33.3%	-4.2%	9.9%	15.2%	14.7%	16.3%
EPS (SAR)	8.67	5.78	5.53	6.08	7.01	8.04	9.35
DPS (SAR)	5.20	3.50	3.50	3.90	4.50	5.10	5.90
Balance sheet							
Assets							
Cash & bank balance	106	170	105	16	(15)	(70)	(59)
Other current assets	138	123	133	148	162	176	191
Property & Equipment	2,058	2,296	2,635	2,949	3,236	3,490	3,710
Other non-current assets	1,383	1,388	1,464	1,553	1,654	1,767	1,891
Total Assets	3,721	4,011	4,337	4,666	5,036	5,363	5,733
Liabilities & owners' equity							
Total current liabilities	902	928	1,034	1,132	1,237	1,329	1,427
Total non-current liabilities	1,568	1,868	2,016	2,131	2,262	2,344	2,438
Paid-up capital	524	524	524	524	524	524	524
Statutory reserves	-	(161)	(153)	(121)	(84)	(42)	6
Retained earnings	709	837	913	998	1,095	1,206	1,335
Total owners' equity	1,233	1,200	1,284	1,400	1,534	1,687	1,865
Total equity & liabilities	3,721	4,011	4,337	4,666	5,036	5,363	5,733
Cashflow statement							
Operating activities	781	773	693	807	917	1,035	1,174
Investing activities	(454)	(366)	(583)	(602)	(622)	(641)	(660)
Financing activities	(496)	(344)	(176)	(295)	(326)	(449)	(503)
Change in cash	(168)	63	(66)	(90)	(31)	(55)	11
Ending cash balance	108	171	105	16	(15)	(70)	(59)
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Quick ratio (x)	0.2	0.3	0.2	0.1	0.1	0.1	0.1
Profitability ratios							
GP Margin	41.5%	38.1%	36.2%	36.1%	36.6%	37.0%	37.7%
Operating Margins	37.0%	25.9%	24.5%	24.4%	25.0%	25.6%	26.4%
EBITDA Margin	56.6%	46.8%	46.9%	47.5%	48.7%	49.9%	51.3%
Net Margins	30.2%	18.7%	17.1%	17.0%	17.8%	18.6%	19.8%
Return on assets	12.8%	7.8%	6.9%	7.1%	7.6%	8.1%	8.8%
Return on equity	39.1%	24.9%	23.3%	23.7%	25.0%	26.1%	27.6%
Leverage							
Debt to asset	0.09	0.14	0.16	0.17	0.17	0.16	0.15
Debt to equity	0.27	0.46	0.56	0.56	0.56	0.51	0.46
Market/valuation ratios							
EV/sales (x)	7.5	5.2	3.9	3.6	3.4	3.1	2.9
EV/EBITDA (x)	13.3	11.0	8.3	7.6	6.9	6.3	5.7
EPS (SAR)	8.7	5.8	5.5	6.1	7.0	8.0	9.4
BVPS (SAR)	23.5	22.9	24.5	26.7	29.3	32.2	35.6
Market price (SAR)*	185.0	123.2	84.6	84.6	84.6	84.6	84.6
Market-Cap (SAR mn)	9,690.3	6,453.2	4,428.7	4,428.7	4,428.7	4,428.7	4,428.7
Dividend yield	2.8%	2.8%	4.2%	4.6%	5.3%	6.0%	7.0%
P/E ratio (x)	21.3	21.3	15.3	13.9	12.1	10.5	9.0
P/BV ratio (x)	7.9	5.4	3.4	3.2	2.9	2.6	2.4

Source: Company reports, Aljazeera capital Research, prices as of 7th April 2026

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TERMINOLOGY

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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.

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