

Leejam Sports Co.

Target Price: SAR 89.00

Upside/ (Downside): 11.3%

Recommendation

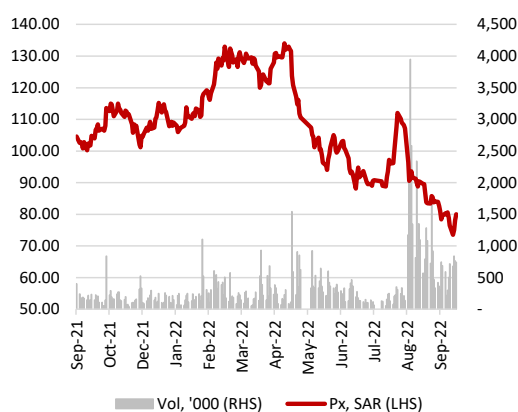
Bloomberg Ticker	LEEJAM AB
Current Market Price (SAR)	80.00
52wk High / Low (SAR)	138.00/72.40
12m Average Vol. ('000)	355.0
Mkt. Cap. (USD/SAR Mn)	10,896/4,191
Shares Outstanding (mn)	52.4
Free Float (%)	48%
3m Avg Daily Turnover (SAR '000)	54,279.4
6m Avg Daily Turnover (SAR '000)	48,047.8
P/E'22e (x)	19.3
EV/EBITDA'22e (x)	10.4
Dividend Yield '22e (%)	2.6%

Price Performance:

1 month (%)	(4.2)
3 month (%)	(13.0)
12 month (%)	(18.3)

Source: Bloomberg, valued as of 21 September 2022

Price-Volume Performance



Source: Bloomberg

- **Leejam is facing cost pressures as a change in customers' spending patterns amid the current inflationary conditions is hindering the ramp-up of new fitness centers.**
- **Accordingly, we lower our expectations for the addition of new centers, average revenue generation per center as well as margins**
- **Yet, we remain cautiously optimistic about Leejam's prospects over the medium-term with its market-leading position and the expansion plans remaining intact. Hence, at the current market price, we assign an Accumulate rating**

Leejam Sports has continued to expand its fitness centers, in line with its long-term expansion strategy, which has aided its revenue growth (1H 2022: +25.4% YoY). Net income in 1H 2022 also jumped 86.8% YoY, mainly aided by 1Q 2022 performance when Leejam posted net profit vs. net loss during 1Q 2021 which was marred by COVID. However, 2Q 2022 earnings performance surprised us, as, despite the largely improved operating conditions, net profit declined YoY. Leejam is witnessing a change in customers' spending behavior, which we attribute to the current uncertain macroeconomic environment. The rising inflation and interest rates are eroding consumers' purchasing power and affordability of products and services, in our view. This is constraining the ramp-up of the company's new fitness centers, thereby adding pressure on margins.

2Q 2022 earnings synopsis: Leejam Sports' 2Q 2022 top-line grew 5% YoY, driven by an across the board increase in different segment's revenue (subscriptions: +2.2%; personal training: +8.4%; rental income: +176.3%). However, total revenue fell ~9% short of our forecast of SAR 256.5mn, primarily attributable to an 11% miss in the subscriptions & membership income (85.3% of 2Q 2022 top line). Subscriptions revenue of female centers slid 9.8% YoY (our estimate: +30% YoY), which mainly weighed on the revenue growth of this segment, as the subscriptions & membership receipts of the male centers rose 6% YoY. Costs outpaced revenue growth with new centers continuing to be in the ramp-up phase and a decrease in rent concessions as the situation normalizes post-COVID. Consequently, operating, and net profit fell c. 22% and 29% YoY, missing our estimate by 35% and 43%, respectively.

Valuation and risks: We continue to value Leejam based on blended valuation methodologies – (i) Discounted Cash Flow (DCF) and (ii) Relative Valuation (using P/E and EV/EBITDA multiples) with equal weights assigned to each of them. While the addition of new gyms has matched our expectations till now (151 by 1H 2022-end), we lower our forecasts for new gym additions during 2H 2022. We now expect total new gyms at the end of FY 2022 to be at the lower end of the company's target of 157-164 (vs. 160 forecasted, previously), whereas the FY 2022 average per center revenue is estimated at ~SAR 6.4mn (~SAR 6.9mn, previously). We also expect the ramp-up of new centers to remain slow amid the persistent inflationary pressures, and hence reduce our FY 2022 EPS estimate by ~24% to SAR 4.14. Yet, with the company remaining committed to its expansion plan, a market leading position, and around 25% correction in the stock price since the release of the company's 2Q results, we assign an **Accumulate** rating on it with a target price of SAR 89.00, implying c.11% upside. Currently, the stock trades at 19.3x P/E and 10.4x EV/EBITDA, based on our FY 2022 estimates. Downside risks to our valuation include less than expected addition of new centers, below-estimated average realization per center, and lower-than-estimated margins. Key upside risks to our valuation include more than expected addition of new centers, better than estimated average per center revenue, and higher than forecasted profitability.

Valuation

	Leejam Sports
(Currency)	SAR
DCF (Equal weight)	
PV of Free Cash Flow (mn)	
Year 1	302
Year 2	334
Year 3	308
Year 4	326
Year 5	333
Terminal	7,019
PV of Terminal Value	4,861
Assumptions	
Risk Free Rate (%)	3.9%
Adjusted Beta	1.06
Risk Premium (%)	7.1%
Cost of Equity (COE) (%)	11.4%
WACC (%)	9.0%
Equity value (mn)	5,298
Outstanding Shares (mn)	52.4
Target Price	101.14
P/E based Relative Valuation (Equal weight)	
Target P/E multiple for 2022e	20.0
EPS 2022e	4.14
Target Price	82.77
EV/EBITDA based Relative Valuation (Equal weight)	
Target EV/EBITDA Multiple for 2022e	11.0
EBITDA FY22e (mn)	503
Target Price	83.28
Weighted Average Target Price	89.01
<i>Current Market Price</i>	<i>80.00</i>
Upside/(Downside), %	11.3%
Recommendation	Accumulate

Key financials

In SAR mn, except stated otherwise	FY19	FY20	FY21	Prev. FY22e	FY22e	Prev. FY23e	FY23e	Prev. FY24e	FY24e
Income Statement									
Revenues	945	663	885	1,100	999	1,313	1,099	1,549	1,196
Cost of revenue	(585)	(523)	(513)	(635)	(613)	(736)	(671)	(865)	(730)
Gross profit	360	140	372	464	387	577	428	684	466
General and Administrative Expenses	(74)	(77)	(88)	(110)	(97)	(131)	(108)	(154)	(118)
Advertising and Marketing Expenses	(19)	(16)	(14)	(19)	(16)	(22)	(19)	(26)	(20)
Other Income, net	7	-	-	-	-	-	-	-	-
Operating profit	264	(6)	258	336	273	424	301	504	328
Finance Cost, net	(52)	(53)	(46)	(47)	(51)	(60)	(63)	(57)	(58)
Income before zakat and income tax	212	(59)	212	289	222	364	239	447	269
Zakat	(6)	-	(6)	(7)	(5)	(9)	(6)	(11)	(7)
Net income for the period	206	(59)	206	282	217	356	233	436	263
Balance Sheet									
Cash and cash equivalents	68	258	180	268	180	410	263	546	327
Trade Receivables	25	21	24	33	29	32	29	38	31
Advances to contractors, suppliers and others	17	13	34	35	32	37	34	43	37
Right-of-Use Assets	840	771	787	756	738	731	706	705	669
Property, plant and equipment	1,512	1,446	1,510	1,549	1,551	1,620	1,584	1,679	1,599
Total assets	2,516	2,567	2,594	2,722	2,598	2,921	2,693	3,124	2,752
Borrowings	425	488	365	291	280	232	224	186	179
Lease Liabilities	956	921	941	915	903	885	864	853	819
Accounts Payable	29	53	81	87	78	101	87	118	95
Total liabilities	1,795	1,903	1,789	1,799	1,715	1,855	1,716	1,906	1,684
Share Capital	524	524	524	524	524	524	524	524	524
Retained Earnings	142	85	204	294	261	401	331	539	396
Equity Attributable to Shareholders	722	664	805	923	883	1,065	976	1,218	1,068
Cash Flow Statement									
Net cash generated from operating activities	531	330	438	643	532	812	639	896	647
Net cash generated from investing activities	(208)	(110)	(228)	(244)	(222)	(309)	(258)	(342)	(263)
Net cash (used in) provided by financing activities	(274)	(30)	(289)	(310)	(310)	(362)	(297)	(418)	(319)
Cash and cash equivalents at the end of the period	68	258	180	268	180	410	263	546	327
Key Ratios									
Gross margin (%)	38.1%	21.1%	42.1%	42.2%	38.7%	44.0%	38.9%	44.2%	39.0%
EBITDA margin (%)	49.1%	30.5%	52.6%	51.3%	50.3%	51.7%	50.1%	51.7%	50.6%
Operating margin (%)	27.9%	-0.9%	29.2%	30.6%	27.4%	32.3%	27.4%	32.5%	27.4%
Net margin (%)	21.8%	-8.9%	23.3%	25.7%	21.7%	27.1%	21.2%	28.2%	22.0%
ROA	10.0%	-2.3%	8.0%	10.6%	8.4%	12.6%	8.8%	14.4%	9.6%
ROE	28.7%	-8.5%	28.0%	32.7%	25.7%	35.8%	25.1%	38.2%	25.7%
Current Ratio (x)	0.2x	0.5x	0.4x	0.5x	0.4x	0.6x	0.5x	0.7x	0.6x
Capex/Sales	22.0%	16.6%	25.7%	22.2%	22.2%	23.5%	23.5%	22.1%	22.0%
Debt-Equity Ratio	1.9x	2.1x	1.6x	1.3x	1.3x	1.0x	1.1x	0.9x	0.9x
EPS	3.9	(1.1)	3.9	5.4	4.1	6.8	4.4	8.3	5.0
BVPS	13.8	12.7	15.4	17.6	16.9	20.3	18.6	23.3	20.4
DPS	1.4	-	2.1	2.7	2.1	4.1	2.7	5.4	3.3
Dividend Payout Ratio	35.6%	0.0%	53.4%	50.6%	50.6%	60.0%	60.0%	65.0%	65.0%
Dividend Yield (%)	1.7%	0.0%	1.9%	2.5%	2.6%	3.8%	3.3%	5.1%	4.1%
P/E (x)	20.6	-69.0	27.7	19.9	19.3	15.8	18.0	12.9	16.0
P/BV (x)	5.9	6.1	7.1	6.1	4.7	5.3	4.3	4.6	3.9
EV/EBITDA (x)	12.0	25.8	14.7	11.6	10.4	9.3	9.1	7.6	8.1
Price as at period end*	81.1	77.3	109.0	107.2	126.0	107.2	126.0	107.2	126.0

Source: Company Reports, U Capital Research

*Current market price is used for forecast periods

Disclaimer

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%