



US\$1.050bn Market cap
40% Free float
US\$3.807mn Avg. daily volume

Target price **76.00** +3% over current
 Current price **74.00** as at 25/4/2021

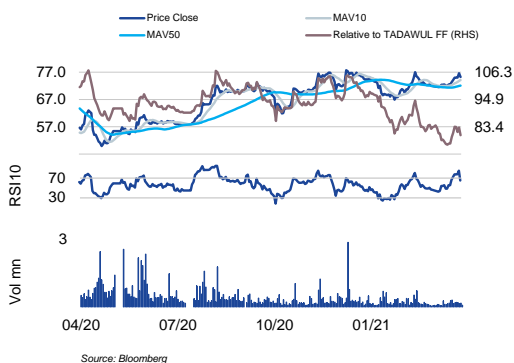
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Existing rating

Underweight **Neutral** **Overweight**

Performance



Earnings

Period End (SAR)	12/20A	12/21E	12/21E
Revenue (mn)	660	760	998
Revenue growth	-30%	15%	31%
EBITDA (mn)	200	365	488
EBITDA growth	-57%	83%	33%
Net Profit	-59	88	196
Net Profit Margin	-9%	12%	20%
EPS	(1.12)	1.68	3.75
EPS growth	0%	NM	NM
DPS	NM	1.01	2.25
Payout Ratio	NM	60%	60%
ROE	-9%	14%	28%

Source: Company data, Al Rajhi Capital

Leejam Sports Co

Concerns over spike in COVID cases remains a near term risk; Downgrade to “Neutral”

Leejam’s Q1 2021 numbers came slightly better than our forecast. The quarter was impacted by clubs shutdown from 5th Feb-6th March 2021 for approx. a month which led to a decline in the overall top-line. Revenue declined 25% y-o-y due to decline in membership revenue, personal training and rental income. The cost of revenue declined 17% y-o-y due to 22% y-o-y decline in salaries & related benefits, 28% y-o-y decline in operating expenses and 31% y-o-y decline in utilities expenses. G&A declined ~5% y-o-y while advertisement and marketing expenses reduced 57% y-o-y due to lower campaign amid lockdown. The company reported an impairment of SAR0.87mn due to closure of certain fitness clubs and received a rent concession of SAR3mn that was recorded in other income. Overall, the company reported a net loss of SAR7mn v/s 6mn profit in Q1 2021 better than our expectation of a loss of SAR11mn.

Fig1: Summary of Q1 2021 earnings

(SAR mn)	1Q 2021	1Q 2020	Y-o-Y	4Q 2020	Q-o-Q	ARC est	vs ARC
Revenue	149	198	-25%	228	-35%	145	2%
Gross profit	27	52	-47%	76	-64%	27	1%
Gross margin	18%	26%		33%		19%	
Operating profit	5	21	-78%	12	-61%	3	74%
Operating margin	3%	11%		5%		2%	
Net profit	(7)	6	-212%	(1)	1267%	(11)	-37%
Net margin	-5%	3%		0%		-8%	

Source: Company data, Al Rajhi Capital

Valuation and Outlook: Leejam numbers were broadly in-line with our expectations, we expect the fitness industry to consolidate and market leaders to gain significant market share by opening new clubs in medium term. That said the temporary spike in COVID cases could lead to a reduction in new subscription and 2021e EPS. We remain optimistic on long-term story of Leejam specially the express gym format expansion which being a margin accretive segment would improve Leejam’s return on incremental capital employed. We value Leejam using equal weightage given to DCF and PE based relative valuation. Our DCF based tp is SAR80/sh (WACC 8.35% and 2% terminal growth) while PE based relative valuation based on 22x FY2022EPS of SAR3.7 discounted to current value is SAR72/sh. Thus equal weighted tp stands at SAR76/sh (earlier SAR83/sh) which implies ~3% upside from CMP of SAR 74/sh.

Key Downside risk: 1) COVID cases are rising globally and locally and if there is any further lockdown then it will impact the company’s revenue and therefore poses a downside risk to our valuation

2) Rising competition from online fitness applications and other clubs in the region. (Abdulmohsen Alhokair group announced its intention to open fitness clubs in KSA). This in turn will affect the company’s margins, ROCE and our valuation

Key Upside Risk: 1) Faster roll out of vaccines will improve the overall sentiments of the residents. This should lead to a surge in subscription and will have a positive impact on Leejam’s revenue 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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