



**US\$0.899bn** Market cap  
**40%** Free float  
**US\$7.03mn** Avg. daily volume

Target price **77.00** +15% over current  
 Current price **67.00** as at 9/11/2020

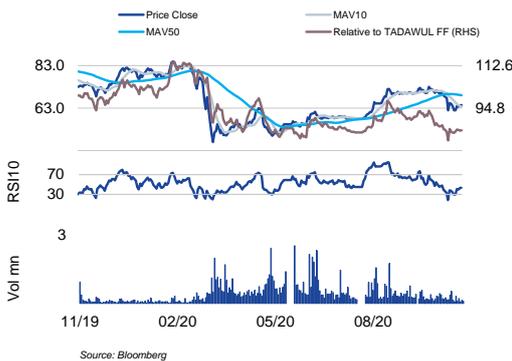
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**Existing rating**

**Underweight** **Neutral** **Overweight**

**Performance**



**Earnings**

Period End (SAR)	12/19A	12/20E	12/21E
Revenue (mn)	942	667	990
Revenue growth	18%	-29%	48%
EBITDA (mn)	468	291	496
EBITDA growth	52%	-38%	70%
Net Profit	206	-19	213
Net Profit Margir	22%	-3%	21%
EPS	3.93	(0.36)	4.06
EPS growth	14.2%	NM	NM
DPS	1.85	-0.22	2.44
Payout Ratio	67.0%	60.0%	60.0%
ROE	28.53%	-2.89%	28.56%

Source: Company data, Al Rajhi Capital

**Leejam Sports Co**  
**Expect steep recovery amid vaccine optimism; Reiterate Buy**

Leejam reported a net profit of SAR27mn (-46% y-o-y) in Q3 2020 beating our estimates of SAR15mn. The top-line came in at SAR210mn (-12% y-o-y) above our estimates of SAR165mn. Revenue was broadly impacted by double digit decline in the subscriber base as people in general decided to take a precautionary measure during initial weeks of gym re-opening. Number of male subscribers declined 12% y-o-y to 191,180 while female subscribers dropped 32% y-o-y to 51,820. The average realized fee for male segment during Q3 was SAR731 (-5% y-o-y) while for female segment it was SAR861 (+33% y-o-y). Personal training revenue increased 7% y-o-y to SAR23mn in Q3 2020 as more centres started providing this service during the quarter. COGS reduced 5% y-o-y mainly due to lower salaries and benefit from SANED program for Saudi employees. Accordingly, net profit declined 46% y-o-y to SAR27mn due to lower revenue. The company has 135 clubs currently and intends to open 2 more this year. Leejam recently announced opening of a new “express” format gym with smaller area and lower subscription fees. This will help the company to penetrate further in tier 2 cities and increase their market share. We remain optimistic on the Leejam’s recovery as Pfizer confirms successful trial of vaccine for COVID19 which will drive people back to health clubs. We also expect market consolidation to help market leaders like Leejam substantially. We remain “overweight” on company with a tp of SAR77/sh which implies 15% upside from CMP of SAR67/sh.

**Figure 1 Earnings Summary**

(SAR mn)	Q3 2020	Q2 2020	Q3 2019	% chg y-o-y	% chg q-o-q	ARC est
Revenue	210	24	238	-12%	781%	165
Gross profit	64	(63)	85	-26%	NM	48
Gross margin	30%	NM	36%			29.1%
Operating profit	41	(77)	65	-38%	NM	28
Net profit	27	(91)	49	-46%	NM	15
Net Margin	13%	-383%	20%			9%

Source: Company data, Al Rajhi Capital

**Valuation and Key Risk:** We value Leejam using equal weightage given to DCF and PE based relative valuation. Our DCF based tp based on 9.8%WACC and 2% terminal growth stands at SAR76.4/sh while PE based relative valuation based on 19x FY2021 EPS stands at SAR77.2/sh thus equal weighted target price stands at SAR77/sh (earlier SAR74/sh) which implies 15% upside from CMP of SAR67/sh. We remain “Overweight” on Leejam.

**Downside Risk:**

Key downside risk to our valuation include:

- 1)The company intends to open new express format clubs aggressively this will lead to an increase in the cost initially therefore if the clubs don’t ramp up in 2-2.5 years then it will have a negative impact on our valuations.
- 2)There might be a cannibalization if the current subscribers downgrade to express format which will have a negative impact on company’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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