

Leejam Sports Co. (Fitness Time)

Despite short term COVID disruptions, Leejam's unique business model and financial strength will enable a fast return to normality post COVID. While the short-term outlook may be challenging, the company's long-term fundamentals will remain robust.

21 Feb 2021

Recommendation	Overweight
Current Price (18-02-2021)	SAR68.6
Target Price (52 Weeks)	SAR76.0
Upside/ (Downside)	10.8%
Shariah Compliance	Pass

Key Points

We initiate our coverage for Leejam Sports with an **Overweight recommendation and 52 weeks target price at SAR76.0; this represents an upside potential of 10.8%.**

- Leejam Sports (Fitness Time) is the largest operator of fitness centers in Saudi Arabia and the MENA region with a network of 136 fitness centers under the "Fitness Time" brand and a subscriber base of around 265k members as of December 2020.
- Although the company was hit hard by COVID-19, we believe that current short-term COVID disruptions do not change the positive long-term outlook of Leejam. We expect a relatively fast return to normality for Leejam post gyms re-opening thanks to: (i) possible market share gains amid continued plans for aggressive expansion, and industry consolidation (ii) Leejam's launch of a highly demanded low-cost brand, (iii) its unique selling points and diversified service offerings which cannot be replicated at home. Leejam's strong liquidity position, despite COVID disruptions, enables it to survive current gyms closure and continue forward with its expansion. We expect the company to recover to FY2019 revenues during FY2022, as the current year will remain pressured by Q1 2021 gyms closures, but at lower margins.
- The KSA fitness services has an immense potential for growth amid the infancy of the female fitness market which only opened up 3 years ago, government support, and favorable demographics. Being the market leader with a healthy cash flow position, an aggressive expansion strategy, and a high capacity for CAPEX spending, Leejam will be able to capitalize the most on the industry's growth.

Key Growth Catalysts

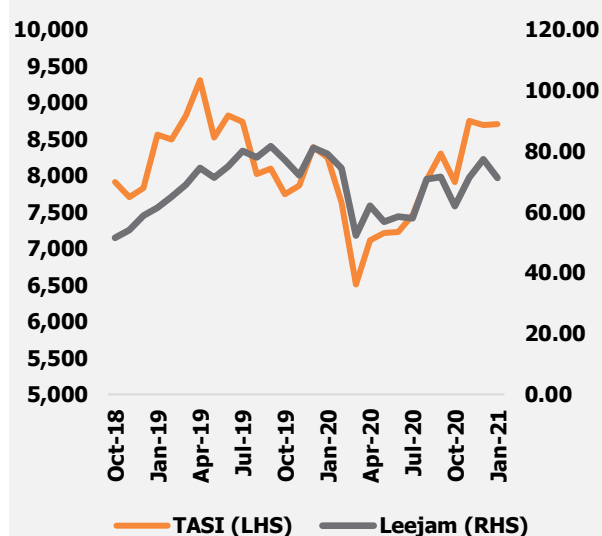
- Attractive industry growth prospects on the long term
- Leejam's recent focus on low-cost gyms
- Leejam's unique business model
- Strong cash position to withstand current disruptions

Key Risk Factors

- Short-term COVID disruptions
- Pressure on margins
- Slow recovery in the corporate segment

Reuters Code	1830.SE
Bloomberg Code	LEEJAM: AB
52 Weeks High	SAR84.0
52 Weeks Low	SAR46.1
Market Cap	SAR3.5bn
P/E (TTM)	N/A
EPS (TTM)	SAR (1.1)
Last Dividend	N/A
AVG Value Traded	SAR621mn

Leejam Share Price vs TASI



Company Overview

Leejam's Establishment

- Leejam Sports Co. was established in May 2008 as a Saudi closed joint stock company with a capital of SAR10mn. Meanwhile, the Fitness Time brand was launched in 2005 by Fitness Time Establishment for Trading company. Upon its incorporation in 2008, Leejam Sports acquired the trademark "Fitness Time" and has since grown to be the largest operator of fitness centers in KSA and the MENA region. The company was listed on Tadawul in September 2018. Leejam's share capital currently stands at SAR523.8mn.
- As of December 2020, Fitness Time operated a total of 136 centers; 131 centers in KSA and 5 centers in the UAE. The company ended FY2020 with 265k active members. Fitness Time is currently operating 8 different fitness center brands, catering to a wide range of customer demographics.

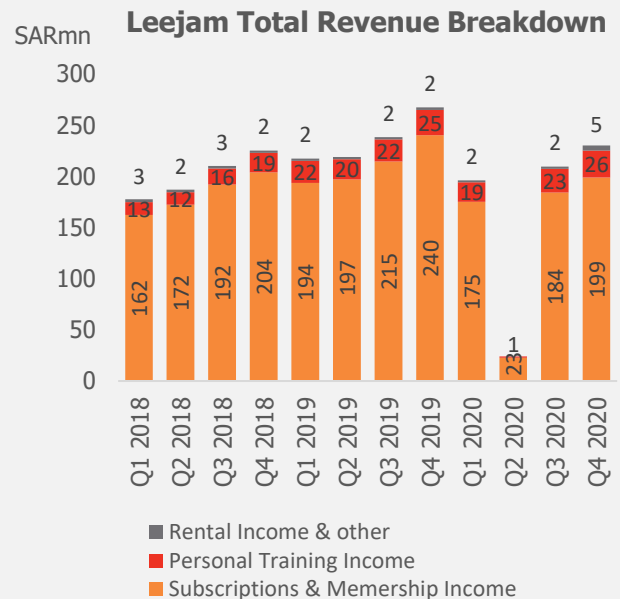
Leejam's Revenue at Glimpse

- Leejam generates revenue from three key sources; subscriptions & membership income, personal training income, and rental income. Subscriptions & membership income includes the membership fees paid by individual members as well as corporates. This segment represents the majority of Leejam's revenues, accounting for 88% of total revenues.
- Personal training was launched by the company in 2015 and includes one-on-one coaching from professional trainers. The segment contributes around 11% to total revenues. The segment's contribution to total revenues is increasing since 2015 as fitness centers offering personal training increased to almost 100 locations (70% of centers).
- Rental income accounts for around 1% of total revenues and operates as a secondary line of revenues. It is generated by leasing space at the fitness centers to vendors (typically food and beverage outlets).
- Around 93% of membership subscriptions is generated from individuals' subscriptions (whether in the form of memberships or personal training) while 7% is generated from corporates' memberships which relates to agreements with private sector clients that offer gym membership to their employees.
- On a geographical basis, Leejam's geographical revenue segmentation has been very stable historically with KSA's revenues accounting for 98% of total revenues, while the remaining 2% is generated from UAE.
- On a gender basis, female centers currently account for around 25% of total revenues vs 10% in Q1 2018.

Key Shareholders

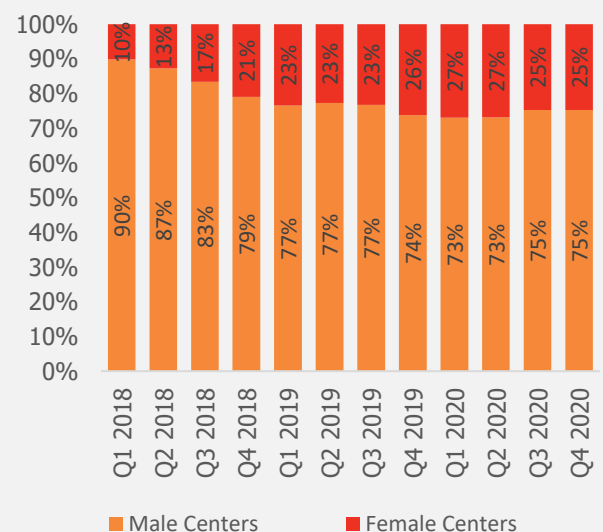
Name	Ownership (%)
Hamad Ali Al-Saqri	60.5%
Free float	38.8%

Source: Tadawul



Source: company financials, Itqan Capital research

Total Revenue Segmentation by Gender Contribution



Source: company financials, Itqan Capital research

Company Overview

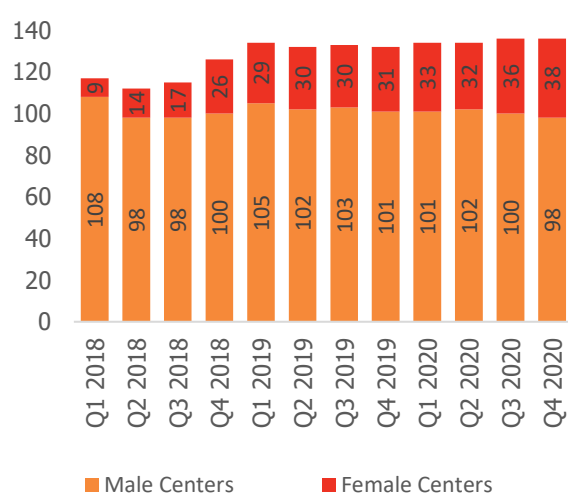
Leejam: A Closer Look

Subsidiaries and Associates

Name	Type	Country	Ownership (%)	Business Activity
Fitness Time for Trading Company	Subsidiary	KSA	95.0%	Operation of fitness centers

Fitness Centers Expansion and Active Members

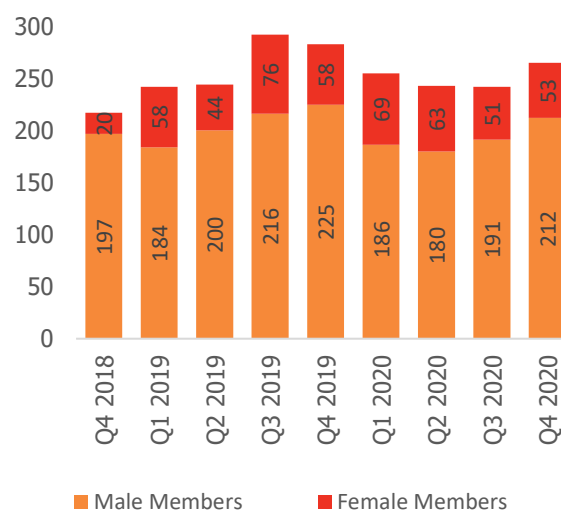
Leejam's No. of Fitness Centers



Source: Company data, Itqan Capital research

*Note: decrease in no. of male centers is a result of replacement of male centers with female centers.

Leejam's No. of Active Members (in thousands)



Source: Company data, Itqan Capital research

Leejam's Fitness Center Brands

Brand Name	Target Market	No. of Locations
Fitness Time	High-end fitness center for males aged 16+	53
Fitness Time Ladies	High-end fitness center for females aged 16+	30
Fitness Time Pro	Positioned at lower price than Fitness Time	40
Fitness Time Pro - Ladies	Positioned at lower price than Fitness Time	5
Fitness Time Plus	Designed for high net-worth males aged 25+	2
Fitness Time Plus - Ladies	Designed for high net-worth females aged 25+	1
Fitness Time Xpress	Low-cost 24-hour gym for males	4
Fitness Time Xpress - Ladies	Low-cost 24-hour gym for females	1

Company Analysis

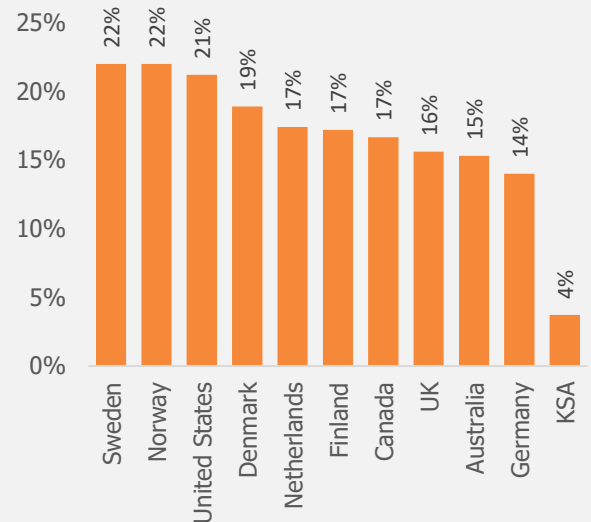
Key Growth Catalysts

Attractive Growth Prospects on the Long Term

- While growth may be dampened for the fitness services industry in the short-term as a result of COVID-19, the KSA industry is bound to witness significant growth in the medium and long term.
- (i) The KSA fitness membership penetration is estimated to be around 4% vs 15-20% penetration in western countries. This represents an immense growth potential for the industry and Leejam on the long term. There are currently only 1.25mn gym members in the Kingdom, meanwhile around 54% of the Saudi population is aged 15-44 representing a total target market of 16mn¹.
- (ii) Granting of licenses to female fitness centers starting July 2017 was a game changer for the Saudi fitness services industry, as the addressable market doubled overnight thanks to the new regulation. This means that the female market is still in its infancy, leaving much potential for growth, which will more than offset any flattish growth in the male segment. Additionally, higher female employment and lifting of driving bans will further support growth in the female segment.
- (iii) The fitness services industry is among those highly supported by the government which aims to make gyms more accessible and increase the number of Saudis that participate in physical activities from 13% to 40% by 2030.
- (iv) Leejam is efficiently capitalizing on the strong growth potential of the industry with a heavy pipeline of new openings despite the current COVID situation, implying that the company is still eyeing a strong growth potential in the market despite current challenges. The company is aiming to have 250 fitness centers and 500k members by 2025. We view those specific targets as highly optimistic yet an aggressive expansion strategy in general, especially in the female segment, is expected to add value to the company amid a fast-growing industry.
- Given low penetration, infancy of the female segment, and favorable demographics, the Saudi fitness centers market size has the potential to double to 3.3mn members. Being the market leader with the widest geographic dispersion across KSA with a heavy pipeline on the way, Leejam is a key beneficiary of the industry's high growth potential.

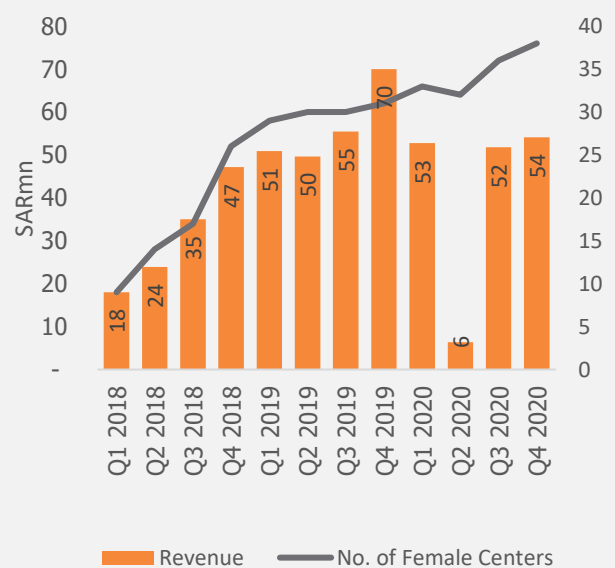
¹ Source: IHRSA, GASTAT

Gym Membership Penetration Rate by Country



Source: International Health, Racquet, and Sports club Association (IHRSA), Itqan Capital research

Leejam's Female Centers Revenue & Expansion



Source: company data, Itqan Capital research

Company Analysis

Key Growth Catalysts

Leejam's Recent Focus on Low-Cost Gyms

- During Q4 2020, Leejam announced the launch of the new fitness center brand Fitness Xpress, a low-cost 24-hour fitness center that offers more flexible membership terms. This gym category is currently in high demand in the Saudi fitness industry as it comes during a time of lower disposable income in the Kingdom, which is expected to aid Leejam with customer attraction and retention.
- The launch of Fitness Xpress also provides an opportunity for market share grabs from smaller players operating boutique gyms, especially during a time when smaller players were hit hard by COVID and forced out of the market. Leejam's management reported that few competitors already reached out for possible M&A agreement. The move is expected to fill a market need as a wide base of potential customers, including women, are currently deterred from joining gyms due to the high prices or lack of proximity to a fitness center.
- While various competitors are offering similar competitive prices to Xpress brand, few will have the required capex to fund an aggressive expansion, especially post COVID, providing Leejam with an edge over smaller players in this regard given its strong cash position and healthy free cash flow.

Leejam's Unique Business Model

- Leejam positions itself in the market as a full-service fitness club rather than just a "gym". Its centers encompass various fitness services from regular fitness classes to swimming pools and sports courts under one roof. We believe that Leejam's diversified product offerings will enable it to recover faster than competitors from the repercussions of COVID-19 as the customer experience in Leejam's fitness centers cannot be replicated at home through apps, which will encourage members to return to Leejam's facilities after the lockdown.
- Additionally, the company is always looking into adding incremental services in its fitness centers such as healthy F&B retail, sports clothing retail, and even spas in the women fitness centers. This provides Leejam with a unique selling point among competition and is helping it unlock new value from its existing fitness centers network.
- Fitness Time centers cater to a wide variety of customers with different demographics in terms of age, gender, and income. The company's strategy of operating 8 different fitness center brands allows it to customize each center to the specific needs of the target customer, creating a unique experience for each customer group.

Fitness Time Subscription Prices

Subscription	FT Xpress	FT Pro	FT	FT Plus
1-day pass	SR100	N/A	N/A	N/A
1-month	SR300	SR570	SR760	N/A
3-months	SR600	SR1,100	SR1,750	N/A
6-months	SR1,000	SR1,850	SR2,850	SR4,900
12-months	SR1,600	SR3,100	SR4,750	SR9,500

Source: Company data, Itqan Capital research

Fitness Time Service Offerings

Service	FT Plus	FT	FT Pro
Cardio	•	•	•
Body building	•	•	•
Rowing	•	•	-
Swimming pool	•	•	•
Jacuzzi	•	•	•
Sauna	•	•	•
Basketball	•	•	•
Volleyball	•	•	•
Football	•	•	•
Squash	•	•	-
Tennis	•	-	-
Lounge	•	•	•
Running track	•	•	•

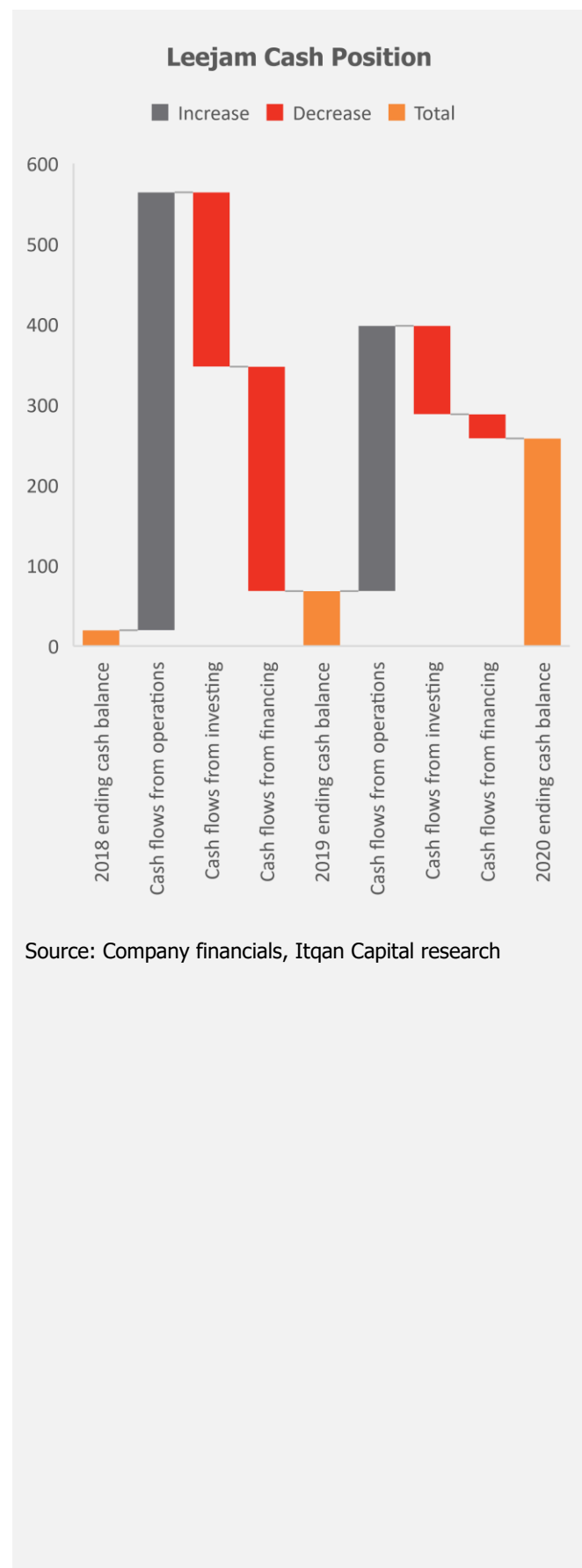
Source: Company data, Itqan Capital research

Company Analysis

Key Growth Catalysts

Strong Cash Position to Withstand Current Disruptions

- It is worth mentioning that Leejam ended FY2020 with a strong liquidity position that would enable it to withstand the repercussions of the current gyms closure. Leejam had a record high cash balance of SAR258mn as of December 2020. During FY2020, and despite the COVID situation, the company managed to preserve cash and generate positive operating cash flows that fully covered its CAPEX and debt repayment requirements. Additionally, the company has access to around SAR250mn of unutilized credit facilities to meet its short term and long-term liquidity requirements.
- Additionally, the company's leasing model enables it to fund its CAPEX requirements using its Free Cash Flow. The company leases most of the land parcels on which it operates its gyms rather than owning them, which enables it to finance future CAPEX requirements using its Free Cash Flow, thus keeping debt at a minimum level. This also helps the company in servicing its interest and debt repayments on time while maintaining high net margins.
- Advance receipt of subscriptions income is also supporting the company's cash flow position. As of Q4 2020, the company had SAR326mn in deferred revenues which represent advance receipt of subscriptions income. This reduces Leejam's working capital needs and helps it maintain positive cash flow, which in turn supports future expansion and healthy dividend payout. Currently, the company is facing a new trend towards monthly subscriptions and 1 day-pass subscriptions, yet it still has low working capital requirements.



Company Analysis

Key Risk Factors

Short-term COVID Disruptions

- In compliance with the government's regulations, Leejam Sports had to close down its fitness centers for 80 days during FY2020 and is currently closed down again for 30 days until the end of February. We expect the company to report losses during Q1 2021 due to the halt of operations for 30 days, with a possible extension if COVID cases do not drop sufficiently. In arriving at our estimates for FY2021, we assume 45 days of operations during Q1 2021, but if the closure period is higher, this poses considerable downside to our estimates.

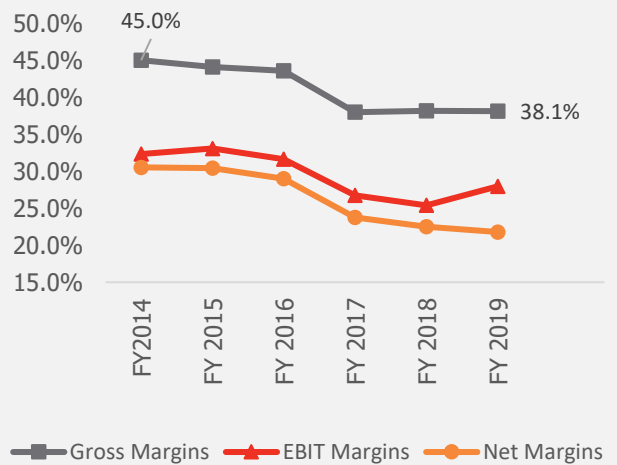
Pressure on Margins

- While we're optimistic about Leejam's top-line recovery thanks to the fast growth of the female segment and Leejam's aggressive expansion, we expect margins to remain under pressure over the forecast period.
- Starting 2017, Leejam's gross margins dropped to 38% vs an average of 44% pre-2017 as a result of higher operating costs per center and lower average revenue per center. During FY2021-2022, we see further tightening of gross margins compared to FY2019 levels as a result of (i) higher subscriptions discounts offered by Leejam in an attempt to gain back customers post COVID and (ii) aggressive expansion which will pressure margins until the new centers turn to profitability. On the longer term, (iii) tightening of female centers margins as the segment draws more competition, pressuring the segment's currently high margins. On the other hand, cost optimization currently undertaken by the company and lower headcount should ease the impact.

Slow Recovery in the Corporate Segment due to Challenging Economic Conditions

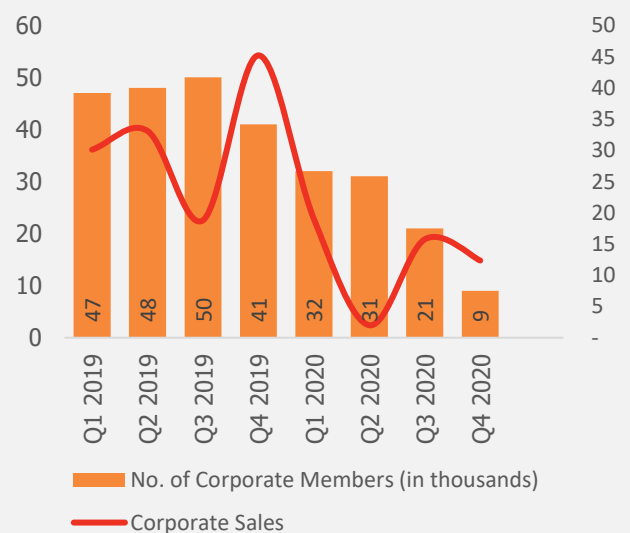
- During FY2019 and pre-COVID, the corporate segment accounted for around 13% of Leejam's revenues. As a result of the challenging economic conditions post COVID, fringe benefits provided to employees (including free gym memberships) are likely to be cut. Leejam's corporate members dropped by 78% to 9k in Q4 2020 vs 41k in Q4 2019. We expect a slow recovery for the corporate segment on the back of cost cutting initiatives by a wide base of corporate customers in the coming years. While we expect full recovery to FY2019 revenues during FY2022 in the individuals membership segment (FY2021 will still be impacted by Q1 2021 gyms closure) thanks to Leejam's agile strategy and expected market share grabs from smaller players, full recovery in the corporate segment may take much longer, in our view.

Fitness Time Gross Margins



Source: Company data, Itqan Capital research

Number of Corporate Members and Corporate Sales



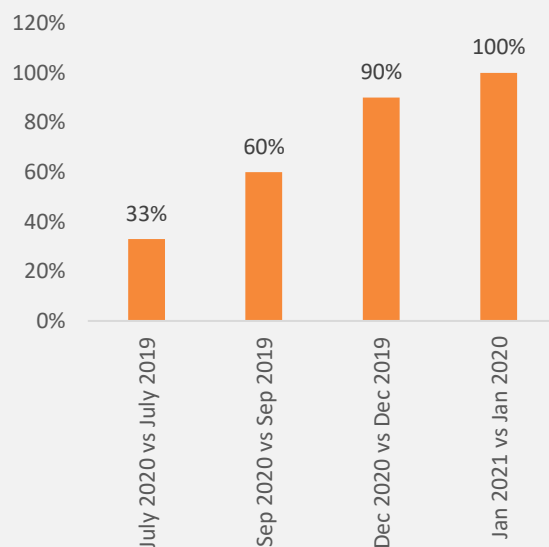
Source: Company data, Itqan Capital research

Company Analysis

Leejam's and Fitness Centers Position in a Post COVID World: Long Term Outlook

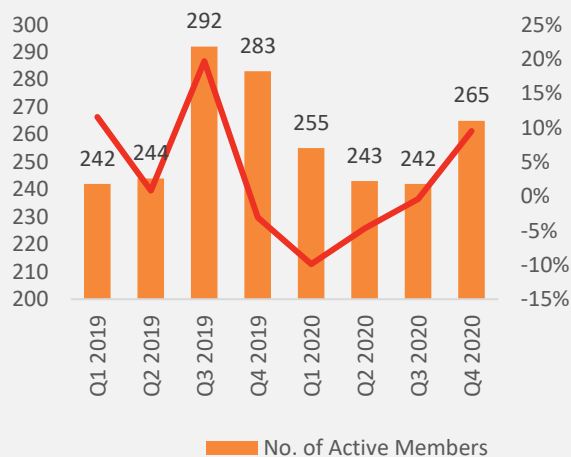
- **Although the world may have changed for the global fitness industry post COVID, we believe that this is not applicable to the KSA market, and particularly Leejam.** There is no doubt that the fitness services industry, including Leejam, is among the most hit from lockdown measures amid full closure of fitness centers. However, Leejam's flexible strategy and unique value proposition will support a fast return to normality post gyms re-opening.
- Leejam's KPIs already showed almost full recovery to FY2019 levels as of January 2021 before current gyms closure. Leejam recovered 87% of its H2 2019 revenues during H2 2020. Moreover, the company resumed its aggressive expansion during H2 2020 with 9 new centers open within a period of 5 months. While the short-term outlook remains challenging amid returns to gyms closures as of February 2021, which will reverse the uptrend in attendance levels witnessed during H2 2020, we look beyond FY2021 and still see a strong growth potential on the longer term.
- (i) Addressing lower disposable income, the launch of Leejam's new Xpress brand during Q4 2020 is expected to aid the company's recovery as it attracts lower income brackets and captures a wider customer base through expansion to geographical areas that lack fitness services. This will help partially offset the impact of economic slowdown on demand for Leejam's fitness services.
- (ii) The KSA female fitness market is still in its infancy with an immense potential for growth given that it opened up only 3 years ago and is gaining growing popularity. This should distinguish KSA's fitness market growth from any other, offsetting any possible slowdown in the male market.
- (iii) The global fitness center may be generally threatened by the rise of fitness apps and home exercising during COVID, which replaced gym visits during the lockdown period. However, Leejam's facilities can be considered as social clubs besides being gyms, as they include services that cannot be replicated at home or replaced by apps such as swimming pools and sports courts.
- (iv) Given that many small players couldn't survive the lockdown during Q2 2020 and were forced out of the market, this provides market share gains opportunities for the large players like Leejam.

Fitness Time Footfall Post Lockdown



Source: Company data, Itqan Capital research

Fitness Time No. of Active Members



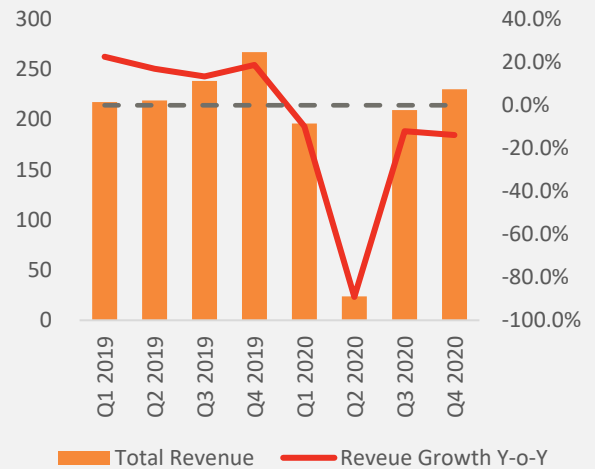
Source: Company data, Itqan Capital research

Company Analysis

Financial Results: 2020A

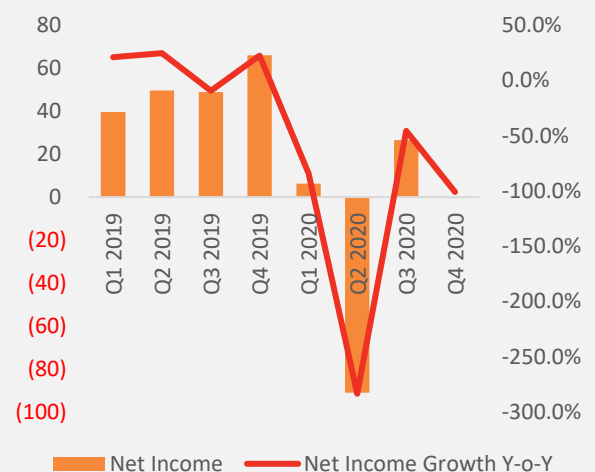
- Leejam's revenues dopped by 30.2% Y-o-Y to SAR660mn vs a record high of SAR945mn during FY2019. Corporate sales took the biggest hit, dropping by 62.3% Y-o-Y vs a drop of 25.2% in individuals' subscriptions and personal training revenues. Male and female centers revenues fell by 31.2% and 26.8% Y-o-Y, respectively. The steeper drop in male centers revenues can be attributed to lower number of male centers during the year.
- Gross profit slumped by 64.2% on the back of lower revenues and continued payment of costs. Male and female centers gross margins fell to 20.1% (-10% Y-o-Y) and 17.8% (-23.6% Y-o-Y), respectively. Despite generally reporting higher margins in normal circumstances, female centers reported lower margins during FY2020 on the back of lower attendance levels vs males which can be attributed to their higher sense of caution (amid the current health crisis) compared to males as well as continued online learning for children which may be preventing women from returning to their daily activities, including gym attendance.
- Excluding write-offs and receivables impairments, SG&A remained flat Y-o-Y at SAR93mn. However, the company recorded a non-recurring SAR43mn in write-offs of fixed assets during Q4 2020 mainly as a result of the permanent closure of Junior Fitness Time centers. The company has determined that the Junior centers' sports equipment have a minimum recoverable amount.
- As a result of lower revenues and higher impairment charges, Leejam's EBIT and net income turned to losses of SAR6mn and SAR59mn during FY2020, respectively. Excluding the impact of write-off of fixed assets during 2020, Leejam would have reported SAR38mn in EBIT (-85.8% Y-o-Y) and SAR15mn in net losses. Excluding the impact of impairments, Leejam's net profit rebounded by 62% Q-o-Q during Q4 2020 vs Q3 2020 thanks to higher footfall in its centers.
- Leejam reported strong top-line recovery during H2 2020 as it recovered 88% of its H2 2019 total revenues during the second half of the year. Attendance levels at the gym were reported to be back at 100% as of January 2021 (before the second round of gyms closure) reflecting continued demand for the company's services and limited impact from the shift to online exercising. During Q4 2020, individuals' memberships and personal training revenues were only 2% lower compared to the segment's Q4 2019 revenues. However, the corporate segment continued to bleed during Q4 2020 pressuring top-line recovery as corporates focus on cost cutting initiatives. Concerning net income, non-recurring impairments reported during Q4 2020 adversely impacted Leejam's bottom-line during Q4 2020. Excluding the non-recurring impairments, Leejam would have reported SAR43mn net income during Q4 2020, up 62% vs Q3 2020.

Leejam Sports Revenues



Source: Company data, Itqan Capital research

Leejam Sports Net Income



Source: Company data, Itqan Capital research

Valuation Rationale

DCF Valuation

	2021 F	2022 F	2023 F	2024 F	2025 F	2026F
EBITDA	325	441	489	537	585	632
Operating CF	232	454	500	544	588	631
Capex	(248)	(310)	(311)	(312)	(313)	(313)
FCFF	(17)	144	189	233	275	318
Stub Period (FCF to be discounted)	(17)	144	189	233	275	318
PV (FCFF)	(16)	125	151	171	185	194
WACC	7.0%					
Perpetuity Growth	3.0%					
PV-FCFF	812					
PV-TV	4,358	We valued Leejam using DCF approach, considering a WACC equal to 7.0% (based on a risk-free rate of 2.7%, market risk premium 7.3%, Beta of 1.37).				
Net Debt	(1,150)					
Less: End of services benefits	(37)	Based on the DCF valuation, the fair price of Leejam's share price is SAR76.0, which is higher than the traded value by 10.8%.				
Intrinsic Value	3,982					
Shares Outstanding (mn shares)	52					
Equity value per share (SAR)	76.0					
CMP (18/02/2021)	68.6					
Upside / Downside (%)	10.8%					

Financial Projections

Financial Ratios

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Return on Average Assets (%)	-2.3%	2.3%	6.7%	7.9%	9.0%	10.0%	10.9%
Return on Average Equity (%)	-8.5%	8.5%	22.5%	24.1%	25.1%	25.8%	26.2%
Income Before Zakat Margin (%)	-8.9%	7.4%	18.2%	19.9%	21.3%	22.6%	23.7%
Net Income Margin (%)	-8.9%	7.1%	17.7%	19.4%	20.8%	22.1%	23.2%
Revenue Growth (%)	-30.2%	23.9%	14.4%	10.0%	9.1%	8.2%	7.4%
DPS	0.0	0.5	1.6	1.9	2.5	3.1	3.5
Payout Ratio	0.0%	45.0%	50.0%	50.0%	55.0%	60.0%	60.0%

Income Statement

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Revenues	660	817	935	1,029	1,123	1,214	1,304
Cost of revenues	(531)	(600)	(605)	(657)	(709)	(759)	(807)
Gross Profit	129	218	330	372	414	456	497
SG&A	(139)	(111)	(122)	(132)	(142)	(151)	(159)
Finance Costs	(53)	(51)	(48)	(46)	(44)	(42)	(41)
Zakat	0	(2)	(4)	(5)	(6)	(7)	(8)
Net Income	(59)	58	166	199	234	268	302

Balance Sheet

	2020 A	2021 F	2022 F	2023 F	2024 F	2025 F	2026 F
Current Assets	325	153	108	104	125	165	235
Non-Current Assets	2,242	2,283	2,374	2,446	2,503	2,546	2,575
Total Assets	2,567	2,436	2,482	2,550	2,628	2,711	2,810
Current Liabilities	664	525	542	557	569	580	582
Non-Current Liabilities	1,239	1,214	1,160	1,114	1,075	1,040	1,016
Total Equity	664	696	779	879	984	1,091	1,212
Total Liabilities and Equity	2,567	2,436	2,482	2,550	2,628	2,711	2,810

Guide to Ratings and Disclaimer

Guide to Ratings

Buy	An upside potential of more than 20% in 52-week period
Overweight	An upside Potential of more than 10% in 52-week period
Neutral	Will stay in the range of its value (up/down 10%) in a 52-week period
Underweight	A downside potential of more than 10% in 52-week period
Sell	A downside potential of more than 20% in 52-week period

Itqan Capital

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