

**Target Price: SAR932/share**  
Current Price: SAR865/share  
Upside: 7.7% (+Div. Yield: 1%)  
**Rating: Neutral**

## Elm Company (Elm)

### Growth story remains intact with the new 4.0 strategy

- Elm is expected to demonstrate healthy top-line growth, with the low-margin BPO segment outperforming the stable digital business segment.
- Overall, gross margin likely to normalize slightly due to change in mix; however, expect healthy earnings growth of 17% CAGR over 2023-28e, aided by operating efficiencies and healthy finance income.
- Post upgrading our estimates (w/o Thiqah's acquisition), we raise our TP to SAR932 based on blended valuation using DCF and P/E (40x P/E on NTM EPS) methods.

**BPO segment to outperform the digital segment, aided by the new 4.0 strategy:** Elm's new 4.0 strategy focuses on diversification by modernizing the offering, as well as expanding into new accounts and improving repeatable BPO business. This should help its BPO segment to outperform the digital business going forward, rising at a CAGR of 17% (+10% CAGR earlier) over 2023-28e. Meanwhile, we expect the growth of its digital business segment to stabilize (+15% CAGR) during the same period, mainly due to limited new product launches. Accordingly, we expect Elm's total revenue to double and reach ~SAR12bn by 2028e (5-year CAGR of ~15% vs 14% CAGR earlier).

**Margins to remain in check:** Faster BPO segment growth (+57% y/y in 1Q24) is expected to shift the revenue mix, with its share increasing to ~27%, up from ~25% in 2023 while the share of the digital business segment is likely to stabilize at 71% (72% in 2023) over 2023-28e. (Figure 5). Further, we expect the BPO segment's gross margin to come under pressure, mainly due to i) rising contribution of low-margin turnkey projects, ii) completion of high margin PPP projects, and iii) the heightened competition within the BPO industry. Further, we expect the digital segment margin to remain mostly stable at 46%, due to the rising contribution of low-margin products. Overall, with a change in revenue mix, the consolidated gross margin to remain below 39% over 2023-28e compared to ~40% in 2023. Nonetheless, the company's ability to control its opex and healthy finance income (driven by robust cash balance and Murabaha deposits) should result in a ~17% CAGR earnings growth over the 2023-28e period.

Figure 1: Key financial metrics\*

SARmn	2022a	2023a	2024e	2025e
Revenue	4,606	5,898	7,239	8,554
Revenue growth	20%	28%	23%	18%
Gross Profit	1,886	2,351	2,807	3,314
Gross Profit margin	41%	40%	39%	39%
Op. income	972	1,351	1,598	1,928
Op. Income margin	21%	23%	22%	23%
Net profit	930	1,356	1,635	1,971
Net profit margin	20%	23%	23%	23%
EPS (SAR)	11.6	17.0	20.4	24.6
DPS (SAR)	5.0	7.0	8.0	9.9
P/E	72.6x	51.0x	42.3x	35.1x

Source: Company, GIB Capital. \* We have not incorporated the Thiqah acquisition

#### Stock data

TASI ticker	7203
Mcap (SARmn)	69,200
Trd. Val (3m) (SARmn)	71.0
Free float	33.0%
QFI holding	10.6%
TASI FF weight	1.03%

Source: Bloomberg

#### Prices indexed to 100



Source: Bloomberg

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**2024 guidance:** Elm has conservatively guided its 2024e top-line growth in the range of 16-18% (lower than 2023 growth). However, post robust 1Q results (+27% y/y) and likely 2Q results as well (+24% y/y GIBCe), we believe that ELM may revise its top-line guidance upwards based on its 1H24 performance. Accordingly, we expect the 2024e top-line to grow by 23% y/y, exceeding the management's expectations. Meanwhile, the EBIT margin guidance for 2024e remains unchanged at 22-24%. We expect the EBIT margins to remain at the lower end of the guidance at ~22%, mainly due to a change in revenue mix.

Figure 2: Strong 2023 track record and healthy 2024 guidance

Particulars	2023 guidance	2023a	2024e guidance	2024e GIBCe*
Revenue growth	21-23%	28%	16-18%	23%
EBIT margin	22-24%	23%	22-24%	22%
CFO as % net inc.	80-90%	115%	80-90%	128%

Source: Company, GIB Capital. \* We have not incorporated the Thiqah acquisition

**Elm's sizeable cash balance fuels inorganic growth potential:** Elm's net cash balance of nearly SAR3bn at the end of 1Q24 provides strong headroom to fuel inorganic growth. This is evidenced in the new 4.0 strategy and the potential acquisition of Thiqah, a PIF-owned company. We believe Elm will continue to pursue similar opportunities to consolidate its position in the KSA software and services industry. While we have not factored in potential acquisitions into our current forecasts due to inherent uncertainties, any successful deals, once finalized with detailed information, will be incorporated into our analysis. This may lead to a revised valuation for Elm.

**Valuation and risks:** We value Elm using a blended valuation approach with an equal mix of DCF and P/E multiple. As for DCF, based on a WACC of 9%, we derive SAR918/share as the DCF-based 1-year forward target price. For relative valuation, we apply a multiple of 40x to the NTM EPS and arrive at a 1-year forward target price of SAR945/share. Elm's larger scale, stronger margins, and established relationship with the KSA government justify the premium valuation compared to local and global peers (Figure 3). Overall, our blended 1-year forward TP stands at SAR932/share, implying a Neutral rating with an upside of 7.7%. Key downside risks include increased competition, slower than expected pace of digitalization, higher wage inflation, and loss of data arrangement with NIC.

## Peer valuation

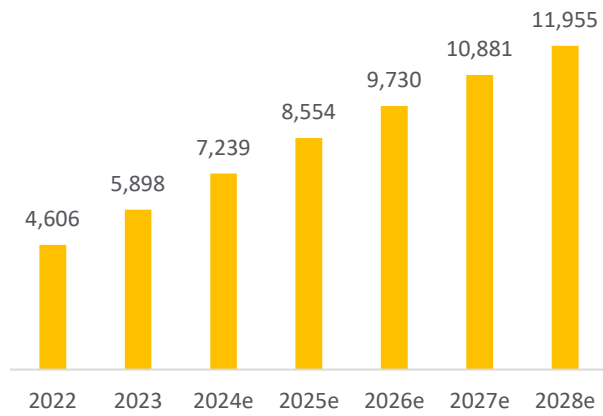
Figure 3: Peer comps

Company name	Country	Mkt Cap (US\$m)	P/E Ratio (TTM)	Est P/E Current Yr	P/E - FY2	EV/T12M EBITDA	Est. EV/ EBITDA - 1FY	Est. EV/EBITDA A - 2FY	Dividend Yield - FY1	P/B
<b>Local</b>										
Elm Co	KSA	18,449	48.7x	42.3x	35.1x	42.7x	35.0x	29.6x	1%	16.6x
Arabian Internet	KSA	8,862	26.5x	23.4x	20.6x	18.4x	17.2x	15.4x	2%	9.3x
Saudi Azm	KSA	312	45.4x	N.A.	N.A.	50.7x	N.A.	N.A.	N.A.	14.2x
Al Moammar Infor	KSA	1,369	126.4x	N.A.	N.A.	126.8x	N.A.	N.A.	N.A.	14.4x
Perfect Presenta	KSA	1,112	31.4x	N.A.	N.A.	24.1x	N.A.	N.A.	N.A.	10.1x
<b>Average</b>			<b>55.7x</b>	<b>33.0x</b>	<b>28.2x</b>	<b>52.5x</b>	<b>26.9x</b>	<b>22.9x</b>	<b>2%</b>	<b>12.9x</b>
<b>Median</b>			<b>45.4x</b>	<b>33.0x</b>	<b>28.2x</b>	<b>42.7x</b>	<b>26.9x</b>	<b>22.9x</b>	<b>2%</b>	<b>14.2x</b>
<b>Product companies</b>										
Sap Se	Germany	235,862	84.7x	39.9x	30.1x	26.1x	24.5x	18.3x	1%	5.3x
Intuit Inc	US	176,909	58.2x	37.6x	33.1x	38.2x	26.5x	24.0x	1%	9.4x
Salesforce Inc	US	244,760	42.9x	25.5x	23.0x	22.0x	16.5x	15.2x	1%	4.4x
Workday Inc-A	US	59,116	39.6x	32.6x	28.5x	85.9x	23.1x	19.8x	0%	7.2x
Veeva Systems-A	US	29,424	55.8x	29.6x	26.8x	42.7x	22.7x	19.9x	0%	6.0x
Sage Group	UK	13,326	39.4x	28.5x	25.1x	23.7x	19.3x	17.2x	2%	10.2x
Open Text Corp	Canada	8,411	27.2x	7.4x	8.7x	8.1x	8.0x	9.1x	3%	2.1x
Autodesk Inc	US	53,241	52.7x	30.4x	27.3x	36.0x	25.0x	22.3x	0%	24.6x
Adobe Inc	US	250,321	42.5x	31.1x	27.4x	30.2x	25.1x	22.3x	0%	17.1x
Synopsys Inc	US	94,927	65.5x	47.7x	41.3x	30.2x	38.5x	36.7x	N.A.	13.3x
Dassault System	France	48,813	41.0x	25.9x	23.8x	23.4x	18.4x	16.9x	1%	5.5x
Cadence Design	US	87,585	92.9x	54.0x	45.9x	67.8x	44.8x	36.6x	0%	24.4x
Ansys Inc	US	28,896	63.8x	35.2x	31.5x	39.4x	26.2x	24.6x	0%	5.3x
Ptc Inc	US	21,158	72.9x	35.9x	30.1x	35.2x	26.3x	23.6x	0%	7.2x
Constellation So	Canada	64,024	91.3x	41.2x	33.9x	27.5x	23.6x	19.7x	0%	27.7x
<b>Average</b>			<b>58.0x</b>	<b>33.5x</b>	<b>29.1x</b>	<b>35.8x</b>	<b>24.6x</b>	<b>21.7x</b>	<b>1%</b>	<b>11.3x</b>
<b>Median</b>			<b>55.8x</b>	<b>32.6x</b>	<b>28.5x</b>	<b>30.2x</b>	<b>24.5x</b>	<b>19.9x</b>	<b>0%</b>	<b>7.2x</b>
<b>IT companies</b>										
Wipro Ltd	India	33,304	25.4x	23.0x	20.8x	15.1x	14.1x	13.0x	2%	3.7x
Hcl Tech Ltd	India	49,409	26.6x	24.5x	21.9x	16.4x	15.2x	13.8x	4%	6.2x
Cognizant Tech-A	US	33,725	14.9x	14.7x	13.7x	9.4x	9.4x	8.8x	2%	2.5x
Tata Consultancy	India	170,217	31.2x	27.7x	25.1x	21.5x	19.6x	17.7x	3%	15.3x
Wns Holdings Ltd	India	2,469	15.8x	12.2x	10.9x	10.0x	8.3x	7.0x	0%	3.2x
Genpact Ltd	US	5,587	8.9x	10.2x	9.4x	8.8x	8.3x	7.6x	2%	2.4x
Exlservice Holdi	US	5,096	29.1x	19.5x	17.1x	17.3x	13.6x	12.1x	0%	6.3x
Mphasis Ltd	India	5,803	31.1x	28.3x	24.5x	19.6x	17.8x	15.8x	2%	5.5x
Infosys Ltd	India	82,312	26.1x	26.1x	23.4x	18.3x	17.4x	15.8x	3%	7.8x
Tech Mahindra Lt	India	17,015	54.5x	30.2x	22.2x	27.7x	19.5x	15.1x	3%	4.8x
<b>Average</b>			<b>26.4x</b>	<b>21.6x</b>	<b>18.9x</b>	<b>16.4x</b>	<b>14.3x</b>	<b>12.7x</b>	<b>2%</b>	<b>5.8x</b>
<b>Median</b>			<b>26.4x</b>	<b>23.7x</b>	<b>21.4x</b>	<b>16.8x</b>	<b>14.6x</b>	<b>13.4x</b>	<b>2%</b>	<b>5.2x</b>
<b>Overall</b>										
<b>Average</b>			<b>47.1x</b>	<b>29.1x</b>	<b>25.3x</b>	<b>32.1x</b>	<b>20.9x</b>	<b>18.5x</b>	<b>1%</b>	<b>9.7x</b>
<b>Median</b>			<b>41.8x</b>	<b>28.5x</b>	<b>25.1x</b>	<b>25.1x</b>	<b>19.5x</b>	<b>17.2x</b>	<b>1%</b>	<b>7.2x</b>

Source: Bloomberg, GIB Capital

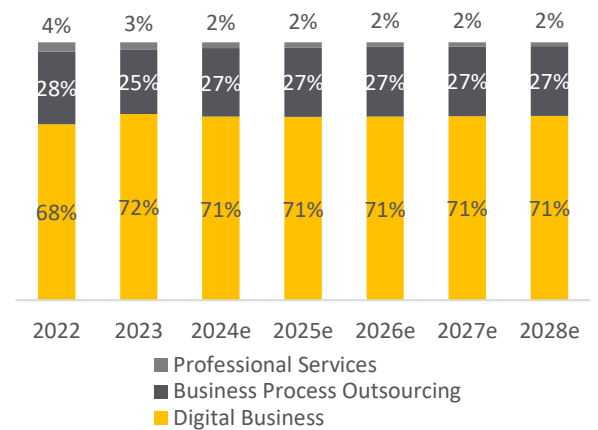
## Financial analysis in charts

Figure 4: Revenue forecast (SARmn)



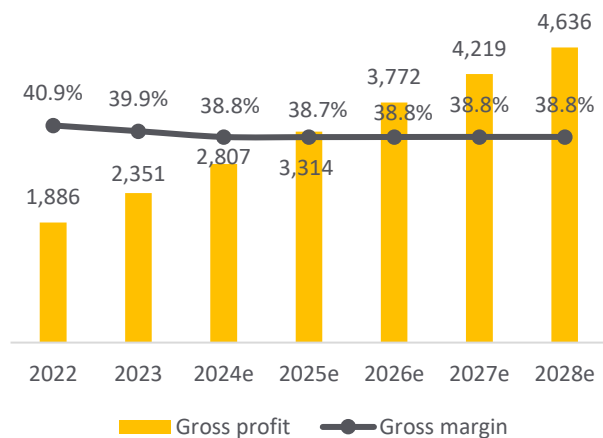
Source: Company data, GIB Capital

Figure 5: Revenue mix by segment



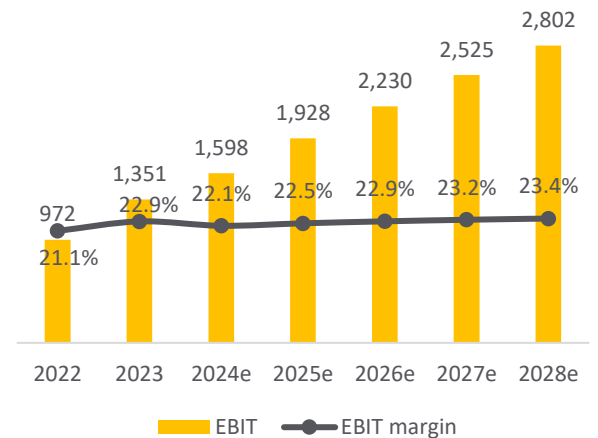
Source: Company data, GIB Capital

Figure 6: Gross profit and gross margin trend (SARmn)



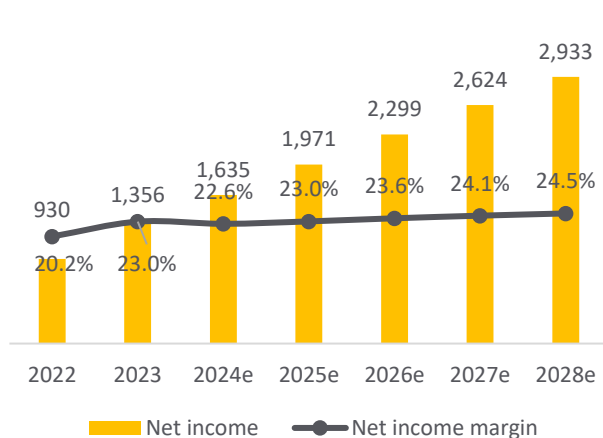
Source: Company data, GIB Capital

Figure 7: EBIT and EBIT margin trend (SARmn)



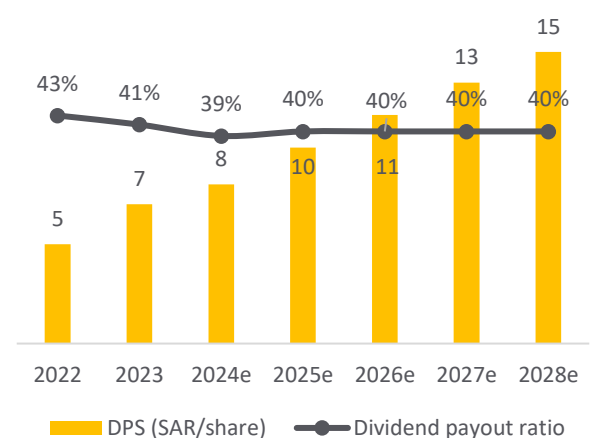
Source: Company data, GIB Capital

Figure 8: Net income forecast (SARmn)



Source: Company data, GIB Capital

Figure 9: Trend in dividend and dividend payout ratio



Source: Company data, GIB Capital

## Financials

Figure 10: Summarized basic financial statements (SARmn)

Income statement	2022a	2023a	2024e	2025e
<b>Revenue</b>	<b>4,606</b>	<b>5,898</b>	<b>7,239</b>	<b>8,554</b>
y/y growth	20%	28%	23%	18%
Cost of Services/Goods	2720	3547	4432	5239
<b>Gross Profit</b>	<b>1,886</b>	<b>2,351</b>	<b>2,807</b>	<b>3,314</b>
<i>Gross margin</i>	40.9%	39.9%	38.8%	38.7%
Selling and Marketing	235	277	340	398
Expected Credit Losses	149	92	100	113
General and Administrative	373	476	579	684
<b>EBITDA</b>	<b>1,092</b>	<b>1,501</b>	<b>1,788</b>	<b>2,119</b>
Depreciation, Amortization & Impairment	120	150	190	191
<b>Operating Profit</b>	<b>972</b>	<b>1,351</b>	<b>1,598</b>	<b>1,928</b>
<i>Operating margin</i>	21%	23%	22%	23%
Finance Cost	8	6	20	21
Finance Income	41	128	187	238
<b>Profit Before Tax</b>	<b>1,023</b>	<b>1,473</b>	<b>1,776</b>	<b>2,141</b>
Tax	93	117	141	170
<b>Profit After Tax</b>	<b>930</b>	<b>1,356</b>	<b>1,635</b>	<b>1,971</b>
y/y growth	64%	46%	21%	21%
<i>Net margin</i>	20%	23%	23%	23%
EPS	11.6	17.0	20.4	24.6
DPS	5.0	7.0	8.0	9.9
<i>Dividend Payout</i>	43%	41%	39%	40%

Balance Sheet	2022a	2023a	2024e	2025e
Account Receivables	1,465	2,322	2,677	3,046
Other Current Assets	3,101	4,260	4,423	5,596
Cash and Equivalents	589	384	1,691	2,104
<b>Total Current Assets</b>	<b>5,155</b>	<b>6,967</b>	<b>8,792</b>	<b>10,746</b>
<b>Total Non-Current Assets</b>	<b>871</b>	<b>1,130</b>	<b>1,426</b>	<b>1,371</b>
<b>Total Assets</b>	<b>6,026</b>	<b>8,097</b>	<b>10,217</b>	<b>12,118</b>
Current Liabilities	2,575	3,530	4,257	4,899
Non-current Liabilities	404	573	971	1,047
Equity	3,047	3,995	4,989	6,171
<b>Total Equity and Liabilities</b>	<b>6,026</b>	<b>8,097</b>	<b>10,217</b>	<b>12,117</b>
BVPS	38.1	49.9	62.4	77.1

Cashflow	2022a	2023a	2024e	2025e
Cashflow from Operations	1,706	1,559	2,090	2,347
Cashflow from Investing	-1,731	-1,231	-123	-1,094
Cashflow from Financing	-748	-532	-660	-840
<b>Total Cashflows</b>	<b>-774</b>	<b>-204</b>	<b>1,307</b>	<b>413</b>

Source: Company, GIB Capital

Figure 11: Key ratios

Key ratios	2022a	2023a	2024e	2025e
<b>Profitability ratios</b>				
RoA	15%	17%	16%	16%
RoE	31%	34%	33%	32%
Sales/Assets	76%	73%	71%	71%
Net margin	20%	23%	23%	23%
<b>Liquidity ratios</b>				
Current Assets/ Current Liabilities	2.0	2.0	2.1	2.2
Receivable Days	116	144	135	130
Payable days	40	34	34	34
<b>Debt ratios</b>				
Debt/Equity (w/o lease liabilities)	2%	1%	1%	0%
Debt/Equity (w/ lease liabilities)	4%	6%	12%	10%
Debt/Assets	2%	3%	6%	5%
Debt/Total Equity	4%	6%	12%	10%
<b>Valuation ratios</b>				
P/E	74.4	51.0	42.3	35.1
P/B	22.7	17.3	13.9	11.2
EV/EBITDA	57.3	41.8	35.0	29.6
FCF yield	1.9%	1.6%	2.5%	2.8%
Dividend yield	0.6%	0.8%	0.9%	1.1%

Source: Company, GIB Capital

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