Target Price: SAR705.0/share
Current Price: SAR616.5/share
Upside: 14.4% (+Div. Yield: 1.7%)
Rating: Overweight

Elm Company

Cut TP on revised outlook and valuation assumptions but remain OW

- 2026-28e topline CAGR stays healthy at ~14% despite ~5% cut in 2026-27e forecasts.
- We cut our earnings forecasts by 15-19% for 2026-27e on lower top-line, revised margin outlook; expect bottom line now to grow at a CAGR of~13% vs. 16.6% earlier.
- Post revising our estimates and valuation assumptions, we revise our TP to SAR705/sh. based on blended valuation using DCF and P/E methods but maintain our OW rating.

Stock data	
TASI ticker	7203
Mcap (SARmn)	49,320
Trd. Val (3m) (SARmn)	60.1
Free float	33.0%
QFI holding	6.9%
TASI FF weight	0.71%

Source: Bloomberg

Prices indexed to 100

Source: Bloomberg

Revenue synergies set to gain momentum through 2026e… Elm's 1H26 revenue grew ~21% y/y, largely driven by the consolidation of Thiqah, which contributed SAR664mn to total revenue during the period. Excluding this impact, revenue increased by a still-healthy 11.5% y/y, reflecting solid organic growth, while Madar contributed a negligible SAR14mn. From 3Q26 onward, we expect the top-line growth to normalize as the comparison base fully reflects Thiqah's contribution. That said, the contribution from revenue synergies remained limited, with only a small portion likely realized in 1H26. Management expects Thiqah-related revenue synergies to reach SAR315mn in 2026e across 15 products, driven mainly by customer retention and expansion initiatives (SAR193mn), cross-selling and upselling opportunities (SAR96mn), and new product offerings (SAR26mn).

…supported by healthy organic fundamentals in the mid-run: Underlying revenue trends remain healthy and diversified across Elm's portfolio. The Digital Business segment remained the key growth driver, despite pressure in certain areas from government spending prioritization and geopolitical disruptions affecting some platform activities, particularly Fasah. We believe the segment remains well positioned for growth, supported by higher transaction volumes, increasing penetration of value-added services, and broader product adoption. Management highlighted that products launched in 2026 generated SAR105mn of revenue in 1H26, while 2025 launches contributed SAR210mn. Combined, these products are likely to generate ~SAR610mn by 2026e, providing a visible pipeline for organic growth, as per management. Furthermore, Elm won a five-year revenue-sharing deal with SASO in July 2026, which Elm expects to generate ~SAR1.42bn (15% of 2025 total revenue) over the contract term, followed by a 5-year contract signed by Thiqah with the Ministry of Commerce (revenue sharing, expected value ~SAR1.8bn), further enhancing medium-term revenue visibility.

Figure 1: Key financial metrics

SARmn	2024a	2025a	2026e	2027e	2028e
Revenue	**7,407**	**9,465**	**11,078**	**12,629**	**14,154**
Revenue growth	*26%*	*28%*	*17%*	*14%*	*12%*
Gross Profit	**3,031**	**3,678**	**4,366**	**4,954**	**5,616**
Gross Profit margin	*41%*	*39%*	*39%*	*39%*	*40%*
Op. income	1,700	2,030	2,337	2,678	3,099
Op. Profit margin	*23%*	*21%*	*21%*	*21%*	*22%*
Net profit	**1,827**	**2,090**	**2,267**	**2,589**	**3,034**
Net profit margin	*24.7%*	*22.1%*	*20.5%*	*20.5%*	*21.4%*
Net profit growth	*34.7%*	*14.4%*	*8.4%*	*14.2%*	*17.2%*
EPS (SAR)	23.5	26.9	29.1	33.2	38.9
DPS (SAR)	7.5	9.0	10.2	13.3	17.5
P/E	26.2x	23.0x	21.2x	18.6x	15.8x
EV/EBITDA	22.4x	18.6x	15.9x	14.0x	12.1x

Source: Company data, GIB Capital.

Ahmed Almutawah
+966-11-834 8498
ahmed.almutawah@gibcapital.com

Additionally, a healthy backlog of SAR4.8bn in the BPO segment as of June 2026 (supported by 21 project awards secured during 1H26), in our view, further solidifies Elm's outlook. Accordingly, we forecast the total revenue of ~SAR11.1bn in 2026e (+17% y/y, in line with guidance range of 17-19%), followed by growth of 14-12% annually in 2027-28e, reaching ~SAR14.2bn by 2028e. While we lowered our 2026-28e aggregate revenue forecast by 5%, we continue to expect a healthy 14.4% CAGR over the period.

Gross margins outlook to moderate despite 1H26 performance: Elm's GPM expanded by 60bps y/y to 41.6% in 1H26, driven primarily by a stronger standalone margin (44.4% vs. 40.9% in 1H25), partly offset by the dilutive impact of Thiqah, which generated a gross margin of ~23% during the period. The improvement was aided by a stronger contribution from the higher-margin Digital Business segment, as well as margin expansion across the BPO and Professional Services segments. Looking ahead, we expect Elm's gross margin to moderate from the current and historical levels. While the Digital Business segment should continue to generate attractive margins, the integration of Thiqah is likely to dilute the overall margin profile relative to Elm's historical performance. Moreover, management's expectation for BPO backlog margins to settle at 17%-20%, compared with the historical 19%-23% range, suggests a less favorable mix of project awards and hence softer profitability. Accordingly, we forecast gross margins to average 39.4% over 2026-28e, before gradually improving toward ~40% by 2029e amid scalability and synergies. This is materially below our previous estimate of ~42% for the period, reflecting a more conservative medium-term profitability view.

Operating cost-base reset continues to pressure operating margin: Operating expenses jumped ~34% y/y to SAR941mn in 1H26, pushing the OPEX-to-revenue ratio to 18.8%, above our initial expectation. Part of this was a non-recurring SAR18mn charge related to Thiqah's workforce transition program and excluding it, the current cost base should largely stabilize, with operating leverage gradually improving as revenue scales. Nevertheless, given the higher starting cost base and more conservative profitability assumptions, we now expect operating margins to trend below 2023-24 levels. Accordingly, we forecast operating margins of 21.1% in 2026e (vs. 21.4% in 2025 and management guidance of 21-23%), remaining broadly stable in 2027e before gradually recovering toward ~22% by 2028 amid GPM expansion and operating leverage.

Earnings outlook cut on margins and leverage revision: Our earnings forecasts are primarily driven by operating performance, with minimal contribution assumed from JV and associate income. Meanwhile, finance expenses are expected to remain elevated over the medium term, due to higher borrowing post-recent acquisitions. However, Elm's strong cash position and strong balance sheet should allow finance income to broadly offset this drag. Accordingly, we forecast net income to grow by a modest 8.4% y/y to ~SAR2.27bn in 2026e, followed by mid-teen growth in 2027-28e, taking earnings above SAR3bn by 2028e. This implies 2026-28e earnings CAGR of 13.2%, compared with 16.6% under our previous forecasts. Overall, our revised projections reflect a 17.3% reduction in aggregate earnings across 2026-28e, driven primarily by a more conservative view on sustainable gross margins and the pace of operating leverage realization.

Change in estimates: Following our revised outlook on Elm's revenue given the current macro environment, we cut our topline estimates by ~5% for both 2026-27e. Profitability assumptions were also revised: gross margins are cut by 2ppts (2026e) and 2.7ppts (2027e) due to project-mix shifts and Thiqah's dilutive impact. With lower GPMs and a higher operating cost base, we trimmed our operating profit forecasts by ~16-18% over 2026-27e. This flows through to earnings, leading to a 15.5% cut in 2026e net income and ~19% in 2027e, broadly mirroring our operating downgrade.

Figure 2: Revision in estimates

SARmn	2026e			2027e		
	Current	Earlier	% change	Current	Earlier	% change
Revenues	**11,078**	**11,674**	-5.1%	**12,629**	**13,319**	-5.2%
Gross profit	4,366	4,830	-9.6%	4,954	5,583	-11.3%
GPM %	39.4%	41.4%		39.2%	41.9%	
Operating Profit	2,337	2,793	-16.3%	2,678	3,289	-18.3%
OPM %	21.1%	23.9%		21.2%	23.9%	
Net profit	**2,267**	**2,681**	-15.5%	**2,598**	**3,191**	-18.9%
NPM %	20.5%	23.0%		20.5%	24.0%	

Source: GIB Capital

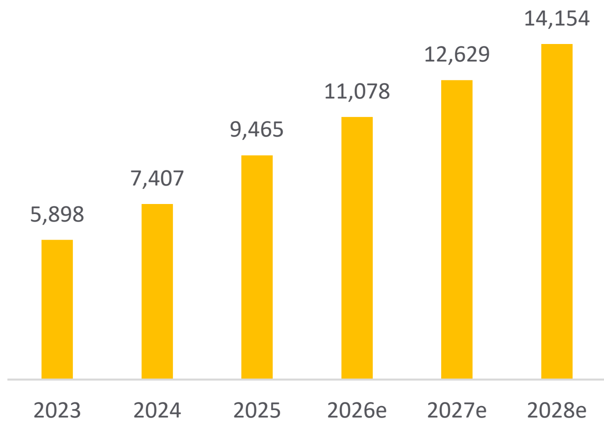
Recap of 2Q26 results: Elm reported a mixed 2Q26 set of results, with revenue rising by 12.5% y/y to SAR2.53bn driven primarily by continued strength in the Digital Business segment, although the topline came in below our estimates by ~5%. Gross profit increased 12.3% y/y to SAR1.03bn, but margin expansion was limited, with GPM remaining broadly stable at 40.8%, vs our estimated 41.9%. Profitability was weighed down by a significant increase in OPEX, which rose 24.8% y/y due to higher expenses and elevated ECL charges. As a result, operating profit grew only 2.5% y/y and missed our estimates by 18.4%, while operating margin contracted to 20.8%. Net income declined 13.1% y/y to SAR513mn, materially below our estimate, reflecting weaker operating leverage alongside a tougher comparison base, as 2Q25 benefited from a positive zakat reversal (SAR69mn) that was absent this quarter. Overall, the quarter highlighted continued demand for Elm's digital solutions and services, but accelerating cost growth continued to pressure margins and dilute the translation of revenue growth into earnings.

Valuation and risks: We value Elm using a blended valuation methodology, assigning equal weighting to our DCF and P/E-based approaches. Our DCF-derived 1Y Fwd target price stands at SAR725/share based on a WACC of 10.5%, reflecting our revised operating outlook. For our relative valuation, we apply a 22x multiple to our average 2026-27e EPS estimate, representing a meaningful reduction from our previous valuation framework to reflect the market re-rating and the company's updated growth outlook. This approach yields a 1Y Fwd target price of SAR685/share. Accordingly, our blended valuation implies a 1Y Fwd TP for Elm of **SAR705/share**, and an **Overweight** rating with an upside potential of 14.4% from current levels.

Key downside risks to our valuation include increased competition, a slower-than-anticipated pace of digitalization within the KSA, weaker-than-anticipated project awards and slower execution, higher-than-expected wage inflation, and the potential loss of data arrangements with the NIC.

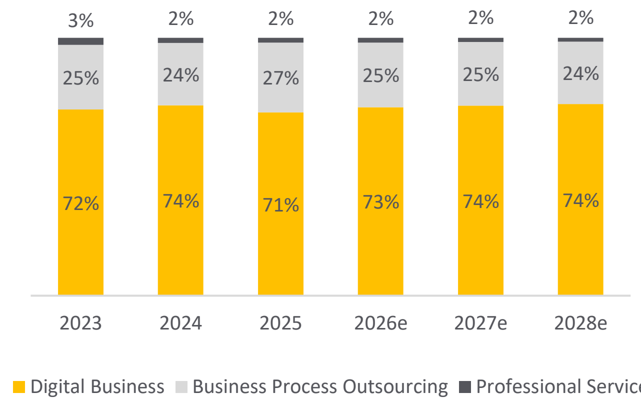
Financial analysis in charts

Figure 3: Revenue forecast (SARmn)



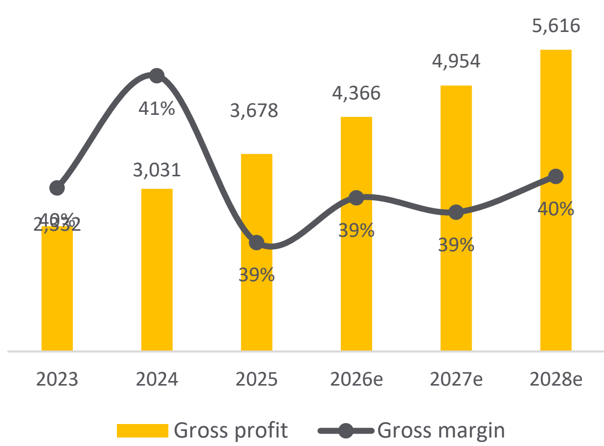
Source: Company data, GIB Capital

Figure 4: Revenue mix by segment



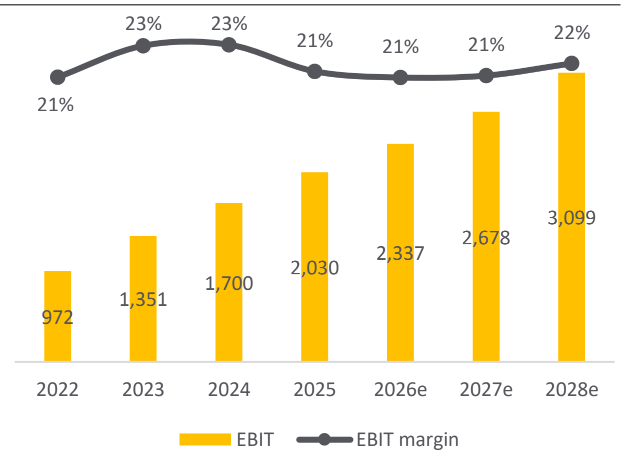
Source: Company data, GIB Capital

Figure 5: Gross profit (SARmn) and gross margin trend



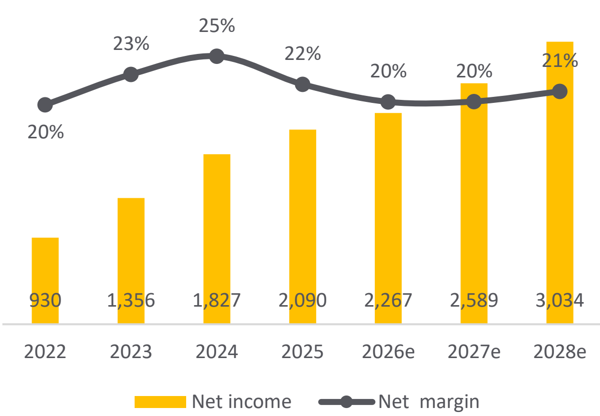
Source: Company data, GIB Capital

Figure 6: EBIT (SARmn) and EBIT margin trend



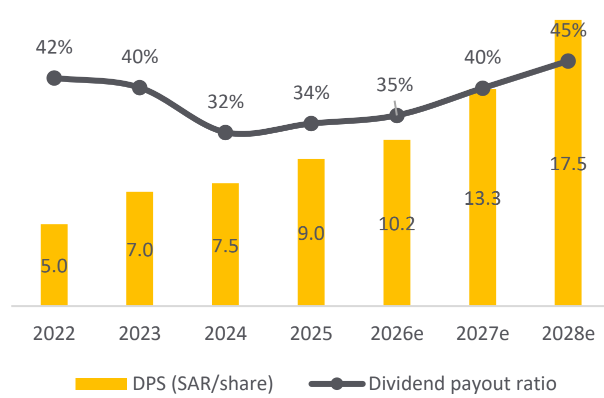
Source: Company data, GIB Capital

Figure 7: Net income trend (SARmn)



Source: Company data, GIB Capital

Figure 8: Dividend trend



Source: Company data, GIB Capital

Summarized Financial Statements

Figure 9: Summarized basic financial statements (SARmn)

Income statement	2024a	2025a	2026e	2027e	2028e
Revenue	**7,407**	**9,465**	**11,078**	**12,629**	**14,154**
y/y growth	26%	28%	17%	14%	12%
Cost of Services/Goods	4376	5787	6712	7675	8538
Gross Profit	**3,031**	**3,678**	**4,366**	**4,954**	**5,616**
Gross margin	*40.9%*	*38.9%*	*39.4%*	*39.2%*	*39.7%*
Selling and Marketing	336	403	486	547	606
Expected Credit Losses	143	106	172	192	211
General and Administrative	557	749	908	1,022	1,132
EBITDA	**1,899**	**2,284**	**2,673**	**3,046**	**3,505**
Depreciation, Amortization & Impairment	220	285	366	388	426
Operating Profit	**1,700**	**2,030**	**2,337**	**2,678**	**3,099**
Operating margin	*23%*	*21%*	*21%*	*21%*	*22%*
Finance Cost	28	106	125	125	89
Finance Income	145	135	139	142	155
Profit Before Tax	**1,954**	**2,136**	**2,429**	**2,774**	**3,251**
Tax	127	46	155	177	207
Profit After Tax	**1,827**	**2,090**	**2,267**	**2,589**	**3,034**
y/y growth	*35%*	*14%*	*9%*	*14%*	*17%*
Net margin	*25%*	*22%*	*20%*	*20%*	*21%*
EPS	23.5	26.9	29.1	33.2	38.9
DPS	7.5	9.0	10.2	13.3	17.5
Dividend Payout	*32%*	*34%*	*35%*	*40%*	*45%*

Balance Sheet	2024a	2025a	2026e	2027e	2028e
Account Receivables	2,895	3,607	4,219	4,757	5,274
Other Current Assets	1,454	2,053	2,489	2,688	2,852
Cash and Equivalents	3,677	4,142	4,238	5,104	6,283
Total Current Assets	**8,027**	**9,802**	**10,945**	**12,549**	**14,409**
Total Non-Current Assets	**1,528**	**2,085**	**2,092**	**2,153**	**2,214**
Total Assets	**9,554**	**11,887**	**13,037**	**14,703**	**16,623**
Current Liabilities	3,393	5,606	5,595	6,068	6,514
Non-current Liabilities	868	2,660	2,348	1,986	1,793
Equity	5,293	3,621	5,095	6,648	8,316
Total Equity and Liabilities	**9,554**	**11,887**	**13,037**	**14,703**	**16,623**
BVPS	67.9	46.4	65.3	85.3	106.7

Cashflow	2024a	2025a	2026e	2027e	2028e
Cash flow from Operations	1,659	2,663	1,784	2,996	3,425
Cash flow from Investing	904	-4,232	36	-261	-291
Cash flow from Financing	-697	1,155	-1,518	-1,769	-1,854
Total Cash flows	**1,866**	**-414**	**302**	**965**	**1,279**

Source: Company, GIB Capital.

Figure 10: Key ratios

Key ratios	2024a	2025a	2026e	2027e	2028e
Profitability ratios					
RoA	19%	18%	17%	18%	18%
RoE	35%	58%	44%	39%	36%
Sales/Assets	78%	80%	85%	86%	85%
Net margin	25%	22%	20%	20%	21%
Liquidity ratios					
Current Assets/ Current Liabilities	2.4	1.7	2.0	2.1	2.2
Debt to Total Equity	11%	18%	14%	10%	7%
Receivable Days	143	139	139	138	136
Payable days	29	37	190	189	188
Debt ratios					
Debt/Equity (w/o lease liabilities)	0%	54%	29%	15%	8%
Debt/Equity (w/ lease liabilities)	11%	73%	43%	25%	16%
Debt/Assets	5.9%	22.1%	16.8%	11.2%	7.9%
Valuation ratios					
P/E	26.2x	23.0x	21.2x	18.6x	15.8x
P/B	9.1x	13.3x	9.4x	7.2x	5.8x
EV/EBITDA	22.4x	18.6x	15.9x	14.0x	12.1x
Dividend yield	1.2%	1.5%	1.7%	2.2%	2.8%

Source: Company, GIB Capital

Disclaimer

This research report has been prepared by GIB Capital, Riyadh, Saudi Arabia. It has been prepared for the general use of GIB Capital's clients and may not be altered, redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of GIB Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by GIB Capital. The information contained was obtained from various public sources believed to be reliable, but we do not guarantee its accuracy. GIB Capital makes no representations or warranties (express or implied) regarding the data and information provided and GIB Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. GIB Capital or its officers (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. GIB Capital may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. GIB Capital and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document. Where the report contains or refers to a recommendation about a specific security or securities service, please note that it may not be suitable for all recipients. Please note that the achievement of any price target may be impeded by general market and economic trends and other external factors, or if a company's profits or operating performance exceed or fall short of our expectations. The subjectivity in future expectations is complex and may miss actual or reported numbers.

This research document and any recommendations contained are subject to change without prior notice. GIB Capital assumes no responsibility to update the information in this research document. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law, or which would subject GIB Capital to any registration or licensing requirement within such jurisdiction

The principal activities of GIB Capital are Dealing, Custody, Managing, Arranging and Advising pursuant to the Capital Market Authority ("CMA") License No. 07078-37.

We use a rating system based on potential upside, 1 year from today, based on our valuation models. For "Overweight" ratings, the estimated upside is >10%, for "Underweight", the estimated downside is <10%. For returns in between +/-10%, we have a Neutral rating.

Contact us for queries:

Sell Side Research Department,
GIB Capital,
B1, Granada Business & Residential Park,
Eastern Ring Road, PO Box 89589, Riyadh 11692
www.gibcapital.com