



Lower margin Thiqa potentially limited Elm's GPMs as major synergies are likely yet to take place. We maintain our "Neutral" recommendation on the stock

Elm recorded a net income of SAR 559mn during Q3-25, up 12.2% and down 5.3% Q/Q. Normalizing for a Zakat provision reversal booked in the previous quarter, Elm would have posted an adjusted 7.4% Q/Q net income growth. Bottom line was reported at a -8.5% deviation from our estimates of SAR 611.2mn, as GPMs came in lower than expected. Results were also at a deviation of 9.9% from market consensus of SAR 620.2mn. Top line at SAR 2.54bn saw its highest quarterly reporting recorded, for a another consecutive quarter. Gross margins, however, were contracted to 42.25%, likely as a result of the Thiqa acquisition, which limited delivery to bottom line. This limited deliver to top line. We expect Thiqa to gradually ramp up closer towards Elm's margin profile as synergies take place. We maintain or "Neutral" recommendation at a TP of 999.5/Share on the digital enabler, trading at an estimated FY25E forward PE of 34x.

- Elm reported net income for the quarter at SAR 559mn, up 12.2% Y/Y and down 5.3% Q/Q. Normalizing for a SAR 69mn Zakat provision reversal in the previous quarter, Elm would have posted a 7.4% Q/Q growth in net income. Bottom line came lower against our & market estimates of SAR 611.2mn and SAR 620.2mn at deviations of 8.5% and 9.9%, respectively. Driving our deviation was the lower than expected GPMs. A full quarter of consolidating with Thiqa likely drove results, as top line reached record highs, while margins contract.
- Elm reported a record-high quarterly revenue for a second consecutive quarter, reaching SAR 2.54bn (up 35.5% Y/Y, and 12.9% Q/Q). This came in line with our estimate of SAR 2.59bn at a deviation of -2.2%. Revenue was likely driven by Thiqa's inclusion to the Elm sphere, as sales from Digital Business grew by 24.7% Y/Y and 12.8% Q/Q, Business Process Outsourcing by 71.3% Y/Y and 12.9% Q/Q, Professional Services by 62.1% Y/Y and 17.1% Q/Q.
- Gross profits reached SAR 1.07bn, at a growth of 29.0% Y/Y and 12.3% Q/Q, broadly in line with our estimate of 1.12bn at a deviation of 4.8%. The slightly lower GPMs delivered by Thiqa likely drove GPMs to 42.25%, at a contraction of c. 210bps Y/Y and 25bps Q/Q. GPMs came in lower than our expected 43.4% at a deviation of 115bps.
- Operating profits were reported at SAR 584mn (up 18.2% Y/Y and 13.8% Q/Q), at a -9% deviation from our estimated SAR 642mn. While all operating items experienced an increase on a Y/Y scale, ECL's decreased by SAR 20mn, with G&As recording the largest increase by SAR 138mn. Operating margins at 23.0% were down 350bps Y/Y and 20bps Q/Q as a result of OPEX increasing by SAR 151mn (45% Y/Y) as Thiqa consolidates with Elm..

AJC view and valuation: : Elm posted healthy top line growth during the quarter as a result of the Thiqa acquisition, though cost pressures from lower-margin Thiqa limited delivery to bottom line. We expect that Thiqa will at one point ramp up closer towards Elm's margin profile as synergies take place. Until then, we see this quarter's results as a telling sign of what can come as Thiqa synergies take place. We are cautiously optimistic about Elm, being the largest listed digital enabler in the Kingdom by market cap, with unique wide-use products and a track record in high scale government projects. Government budget optimization, however, poses a challenge towards project based revenues; though we expect Elm's wide expertise, however, will make it able to potentially follow the developments that government will pivot towards. We maintain our TP on the firm at **SAR 999.5/Share** at a "Neutral" recommendation as it trades at an FY25E forward PE of 34x.

Results Summary

SAR mn	Q3-24	Q2-25	Q3-25	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	1,871	2,245	2,535	35.5%	12.9%	-2.2%
Gross Profit	830	954	1,071	29.0%	12.3%	-4.8%
Gross Margin	44.36%	42.49%	42.25%	-	-	-
EBIT	494	513	584	18.2%	13.8%	-9.0%
Net Profit	498	590	559	12.2%	-5.3%	-8.5%
EPS	6.23	7.38	6.99	-	-	-

Source: Company Reports, Aljazira Capital Research

Recommendation	Neutral
Target Price (SAR)	999.5
Upside / (Downside)*	5.6%

Source: Tadawul *prices as of 30th of October 2025

Key Financials

(in SAR mn, unless specified)	FY22	FY23	FY24	FY25E
Revenues	4,606	5,898	7,407	9,749
Growth %	20.3%	28.1%	25.6%	31.6%
Gross profit	1,886	2,332	3,026	4,046
Growth %	43%	24%	30%	34%
Oper. Income	1,009	1,351	1,700	2,203
Growth %	64.1%	38.9%	25.9%	29.6%
Net Income	930	1,356	1,827	2,254
Growth %	64.1%	45.8%	34.7%	23.4%
EPS	11.63	16.95	22.84	28.17
DPS	4.85	7.00	7.5	12.7

Source: Company reports, Aljazira Capital Research

Key Ratios

	FY22	FY23	FY24	FY25E
Gross Margin	40.9%	39.5%	40.9%	41.5%
Oper. Margin	20.2%	25.0%	26.4%	23.7%
Net Margin	20.2%	23.0%	24.7%	23.1%
ROA	15.4%	16.7%	19.1%	20.4%
ROE	30.5%	34.0%	34.5%	60.5%
P/E (x)	NA	48.1	48.8	33.6
P/B (x)	NA	16.3	16.9	20.3
Dividend Yield	NA	0.9%	0.7%	1.3%

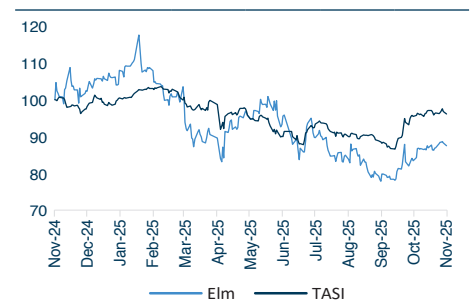
Source: Company reports, Aljazira Capita Research

Key Market Data

Market Cap(bn)	74.6
YTD%	-15.1%
52 week (High)/(Low)	1,289/821
Share Outstanding (mn)	80

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, Aljazira Capital Research

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RESEARCH DIVISION

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1. **Overweight:** This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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