

**Soft Margins Dampen Bottomline**

October 30, 2023

Upside to Target Price	(6.4%)	Rating	Neutral
Expected Dividend Yield	1.0%	Last Price	SAR 710.60
Expected Total Return	(5.4%)	12-mth target	SAR 665.00

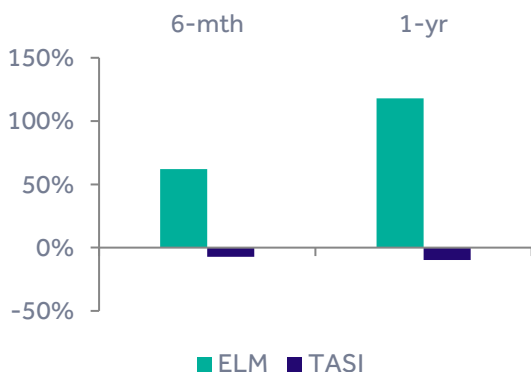
Market Data	
52-week high/low	SAR 874.0/287.0
Market Cap	SAR 56,848 mln
Shares Outstanding	80 mln
Free-float	33.00%
12-month ADTV	155,955
Bloomberg Code	ELM AB

Elm	3Q2023	3Q2022	Y/Y	2Q2023	Q/Q	RC Estimate
Sales	1,521	1,167	30%	1,404	8%	1,516
Gross Profit	575	486	18%	602	(4%)	649
Gross Margins	38%	42%		43%		43%
Operating Profit	323	272	19%	377	(14%)	409
Net Profit	334	273	22%	373	(10%)	403

(All figures are in SAR mln)

- Elm posted a +30% Y/Y and +8% Q/Q growth in revenues to SAR 1.5 bln, matching our estimates. The growth in topline on a yearly basis was on the back of an increase in Digital Business revenues by +38%, Business Process Outsourcing by +11% and Professional Services revenues by +37% Y/Y.
- Gross margins were a dampener this quarter, coming in at just 37.8% versus 41.6% last year and 42.9% in the previous quarter. We estimated gross margins to be similar to 2Q levels, which caused the deviation in gross, operating and net profits versus actuals. Although both gross and operating profits witnessed Y/Y growth, they were lower by -4% Q/Q and -14% Q/Q, respectively.
- While operating expense was +18% higher Y/Y, bottomline was supported by income from Murabaha deposits, which increased by SAR 24 mln. Net Income was reported at SAR 334 mln, up+22% Y/Y but down -10% Q/Q. Bottomline came in below our SAR 403 mln forecast and SAR 390 mln consensus primarily due to lower than expected margins.
- Elm is well-positioned to take advantage of the digitization drive in the country, particularly in the government sector. The Company recently updated its FY2023 guidance upwards, which appears achievable post 3Q results. We increase our target price to SAR 665.00 per share but maintain our Neutral recommendation.

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## ■ Stock Rating

Buy	Neutral	Sell	Not Rated
Expected Total Return Greater than +15%	Expected Total Return between -15% and +15%	Expected Total Return less than -15%	Under Review/ Restricted

The expected percentage returns are indicative, stock recommendations also incorporate relevant qualitative factors  
For any feedback on our reports, please contact [research@riyadcapital.com](mailto:research@riyadcapital.com)

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