

Higher Opex Pressures Bottomline

March 05, 2023

Upside to Target Price	(6.8%)	Rating	Neutral
Expected Dividend Yield	1.8%	Last Price	SAR 381.00
Expected Total Return	(5.0%)	12-mth target	SAR 355.00

Market Data	
52-week high/low	SAR 399.4/191.4
Market Cap	SAR 30,480 mln
Shares Outstanding	80 mln
Free-float	33.00%
12-month ADTV	408,281
Bloomberg Code	ELM AB

Elm	4Q2022	4Q2021	Y/Y	3Q2022	Q/Q	RC Estimate
Sales	1,308	1,069	22%	1,167	12%	1,208
Gross Profit	644	414	55%	451	43%	437
Gross Margins	49%	39%		39%		36%
Operating Profit	190	115	65%	273	(30%)	232
Net Profit	212	110	92%	273	(22%)	226

(All figures are in SAR mln)



- ELM registered an increase in the topline by +22% Y/Y and +12% Q/Q to SAR 1.3 bln. This growth was mainly due to the growth in Digital Business revenue by +71% Y/Y and Professional Services revenue by +154% Y/Y, despite the decrease in the Business Process Outsourcing revenue by -41% Y/Y.
- Gross Profit witnessed a strong increase as it grew by +55% Y/Y and +43% Q/Q to SAR 644 mln, a result of the increase in the top-line as well as margin expansion, which expanded from 39% last year to 49% this quarter. Operating Profit was up +65% Y/Y but down by -30% Q/Q. The decline Q/Q was mainly attributable to the +83% Q/Q increase in the operating expenses, which was driven by the +39% Q/Q increase in S&D, +24% Q/Q rise in G&A and the +272% Q/Q increase in the expected credit losses.
- ELM reported a Net Income of SAR 212 mln, up +92% Y/Y but down by -22% Q/Q and in-line with our estimates. Net Income for the quarter was supported by the increase in the finance income, which rose to SAR 24 mln from SAR 2 mln last year and SAR 14 mln last quarter. This was offset by a loss in the change in fair value of investment of SAR (5.7) mln and other expenses of SAR (0.2) mln, compared to other income of SAR 13 mln last quarter.
- We maintain our target price of SAR 355.00 but downgrade our recommendation to Neutral.

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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

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