

Revenues Flourish, Margins Narrow

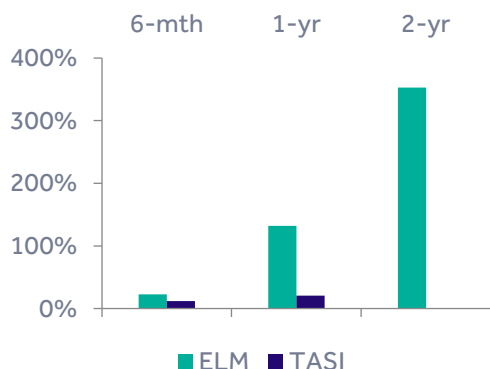
March 13, 2024

Upside to Target Price	4.8%	Rating	Neutral
Expected Dividend Yield	1.0%	Last Price	SAR 920.80
Expected Total Return	5.8%	12-mth target	SAR 965.00

Market Data	
52-week high/low	SAR 1,125/393.20
Market Cap	SAR 73,664 mln
Shares Outstanding	80 mln
Free-float	33.00%
12-month ADTV	155,996
Bloomberg Code	ELM AB

Elm	4Q2023	4Q2022	Y/Y	3Q2023	Q/Q	RC Estimate
Sales	1,685	1,308	29%	1,521	11%	1,610
Gross Profit	629	548	15%	575	9%	612
Gross Margins	37%	42%		38%		38%
Operating Profit	331	219	51%	323	2%	338
Net Profit	327	212	54%	334	(2%)	325

(All figures are in SAR mln)



- Elm reported a +29% Y/Y and +11% Q/Q rise in 4Q topline to SAR 1.68 bln, in-line with our SAR 1.61 bln forecast. Full year 2023 revenues came in at SAR 5.9 bln (+28% Y/Y) led by +35% Y/Y growth in the Digital Business segment, the largest segment accounting for 72% of revenues. Business Process Outsourcing (BPO) and Professional Services (PS) growth was slower.
- Gross margins were at 37.3% this quarter, down a further 50bps from 3Q2023 and substantially below 41.9% in 4Q2022. Management has indicated that lower overall gross margins are due to softer margins in the BPO and PS segment, down -6% and -7.6% respectively for the year, as the projects were low margin.
- Operating expenses of SAR 299 mln were lower than last year but up +9% Q/Q. Income from Murabaha deposits has been strong in 2023. Net Income for the quarter was reported at SAR 327 mln, up+54% Y/Y but down -2% Q/Q, matching our SAR 325 mln forecast but below SAR 333 mln consensus estimates. 2H DPS of SAR 4.00 takes full year 2023 payout to SAR 7.00, higher than SAR 4.85 in 2022. However, dividend yield remains low at current price.
- Elm 4.0 Strategy aims to expand into new government sectors as well diversify into private sector targeting B2B products within Digital Products segment. Within BPO, it aims for repeatable business while it aspires to expand into new higher value offerings within the PS segment. Elm would be the major beneficiary of the strong digitization drive currently taking place. We raise our target price to SAR 965.00 per share while maintaining a Neutral stance.

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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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