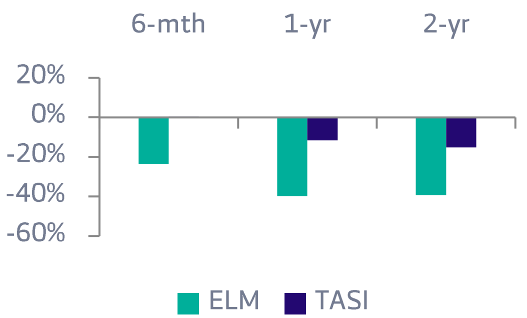
Guidance Missed, and Margins Compressed

March 01, 2026

Upside to Target Price	24.8%	Rating	Buy
Expected Dividend Yield	1.6%	Last Price	SAR 641.00
Expected Total Return	26.4%	12-mth target	SAR 800.00

Market Data	
52-week high/low	SAR 1,110.2/639.5
Market Cap	SAR 51,280 mln
Shares Outstanding	80 mln
Free-float	33%
12-month ADTV	77,748
Bloomberg Code	ELM AB



Elm	4Q2025	4Q2024	Y/Y	3Q2025	Q/Q	RC Estimate
Sales	2,808	2,129	32%	2,535	11%	3,037
Gross Profit	880	843	4%	1,071	(18%)	1,231
Gross Margins	31%	40%		42%		41%
Operating Profit	462	408	13%	584	(21%)	681
Net Profit	446	498	(10%)	559	(20%)	675

(All figures are in SAR mln)

- Elm reported a record 4Q2025 topline of SAR 2.81 bln (+32% Y/Y, +11% Q/Q), below our SAR 3.04 bln estimate due to optimistic guidance. Growth was primarily driven by the consolidation of Thiqah, which contributed SAR 482 mln (17.2%) to topline, split between SAR 224 mln (11%) to Digital Business (DB) and SAR 258 mln (33%) to Business Process Outsourcing (BPO). Given the acquisition closed on May 1, 2025, Y/Y comparison is not advisable. Segmentally, both DB (+22% Y/Y, +10% Q/Q) and BPO increased (+72% Y/Y, +13% Q/Q), while Professional Services (PS) declined (-21% Y/Y, -1% Q/Q). FY2025 revenues reached SAR 9.47 bln (up +28% Y/Y), with growth across all segments, missing management’s 33-35% growth guidance for the year.
- Gross margin for the quarter dipped to a concerning level of 31.3%, driven by weaker BPO margin, well below 39.6% last year and 42.3% last quarter, and our 40.5% estimate; this was the key driver of the earnings miss. Gross profit totaled SAR 0.88 bln (+4% Y/Y, -18% Q/Q), well below our forecast. However, OPEX declined -4% Y/Y and -14% Q/Q to SAR 418 mln on lower administrative expenses (versus our SAR 549 mln estimate), partially offsetting the margin pressure. Consequently, operating margin slipped to 16.4%, below 19.2% last year and 23.0% in the previous quarter, below expectations.
- Bottomline came in at SAR 446 mln (-10% Y/Y, -20% Q/Q), well below market consensus of SAR 679 mln and our SAR 675 mln estimate. Adjusting for a SAR 63 mln one-off gain booked last year, normalized earnings would have increased +3% Y/Y, but the Q/Q decline and margins compression remain a concern. FY2025 profits rose +14% to SAR 2.09 bln. The company also declared a SAR 4.50 DPS for 2H2025, taking FY2025 DPS to SAR 9.00 at 33.5% payout. Syria announced it has begun executing its digital-transformation partnership with Elm across multiple ministries, with no value disclosed yet. We cut our target price to SAR 800.00 from SAR 1,185.00, and maintain our Buy rating.

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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

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