

Strong Growth and Better Margins

August 23, 2023

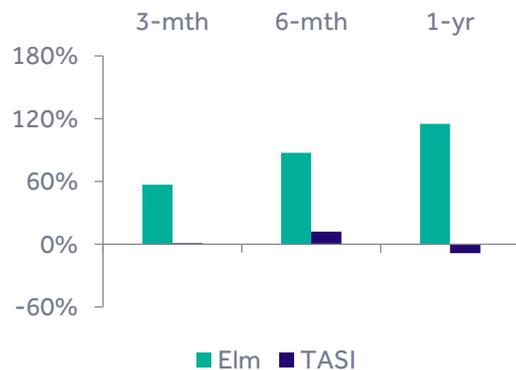
Upside to Target Price (13.8%)
 Expected Dividend Yield 1.0%
 Expected Total Return (12.8%)

Rating Neutral
 Last Price SAR 714.00
 12-mth target SAR 615.00

Market Data	
52-week high/low	SAR 740.0/287.0
Market Cap	SAR 57,120 mln
Shares Outstanding	80 mln
Free-float	33.00%
12-month ADTV	169,391
Bloomberg Code	ELM AB

Elm	2Q2023	2Q2022	Y/Y	1Q2023	Q/Q	RC Estimate
Sales	1,404	1,039	35%	1,288	9%	1,267
Gross Profit	602	413	46%	544	11%	507
Gross Margins	43%	40%		42%		40%
Operating Profit	377	212	78%	320	18%	273
Net Profit	373	195	91%	322	16%	285

(All figures are in SAR mln)



- Elm registered a strong incline in the topline by +35% Y/Y and +9% Q/Q to SAR 1.4 bln. On a yearly basis, the growth resulted from an increase in the Digital Business revenue by +43% Y/Y, Business Process Outsourcing by +23% Y/Y and Professional Services revenues by +15% Y/Y.
- Elm was able to further improve its gross margins to 43%, which led to an operating margin close to 27% compared to 20% in 2Q2022. Besides the expansion in the gross margins, operating margin increase was a result of the rise in the top-line at a faster pace than the rise in operating expenses as it increased by +12% Y/Y compared with +35% growth in the top-line.
- Elm reported a Net Income of SAR 373 mln, up +91% Y/Y and +16% Q/Q. Net Income for the quarter was supported by higher income from Murabaha deposit by SAR +22 mln Y/Y, which we believe will continue to support the bottom-line thanks to a strong cash position.
- The Company updated its FY2023 guidance upward as the management increased its revenue projection from 14%-16% to 21%-23% growth. Also, the management raised its projection for the EBIT margin from 19%-21% to 22%-24%. We increase our target price from SAR 405.00 to SAR 615.00 per share on better business prospects 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

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