

Feb 02, 2025

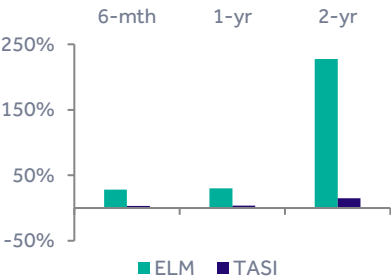
ELM Co.

Rating Neutral
12- Month Target Price SAR 1,185

Last Price 1,165 SAR
Upside to Target Price 1.7%
Expected Dividend Yield 1.0%
Expected Total Return 2.7%

Market Data

52 Week H/L SAR 1,289/797
Market Capitalization SAR 93,200 mln
Shares Outstanding 80 mln
Free Float 33%
12-Month ADTV 78,264
Bloomberg Code ELM AB

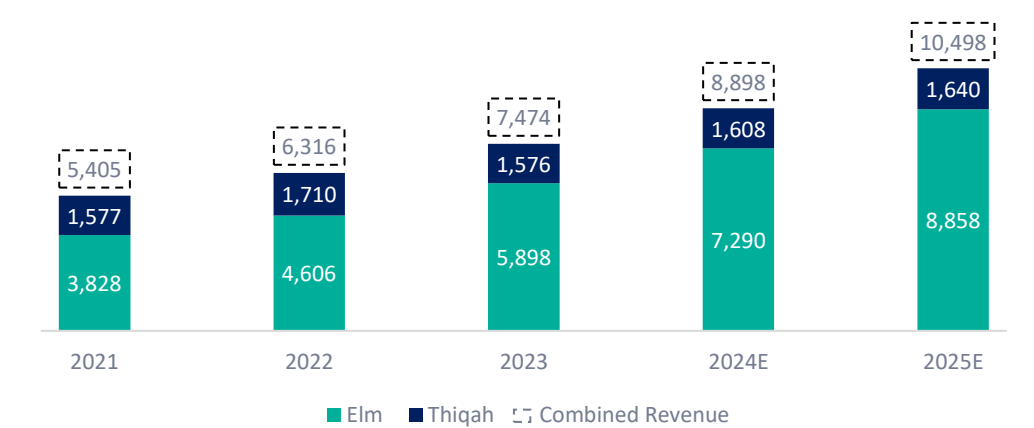


■ Elm Plans to Acquire Thiqah

Elm had commencement preliminary discussions to acquire Thiqah Business Services Company, a firm specializing in smart technology solutions for business services in June 2023. This culminated in Elm signing a SPA with PIF to acquire 100% of Thiqah for a cash consideration of SAR 3.4 bln (less transaction costs) on January 22nd. The transaction will be funded from Elm’s internal resources as well as external financing, subject to regulatory approvals. Elm plans to consolidate Thiqah’s financial statements. Despite its strong financial position that allows it to fund the majority of the deal using its liquid assets, the announcement indicated that the deal will be financed through a combination of cash and debt. The acquisition is expected to strengthen Elm’s position as a national provider in the digital services space, leveraging Thiqah’s key client base, and enabling Elm to offer complementary services.

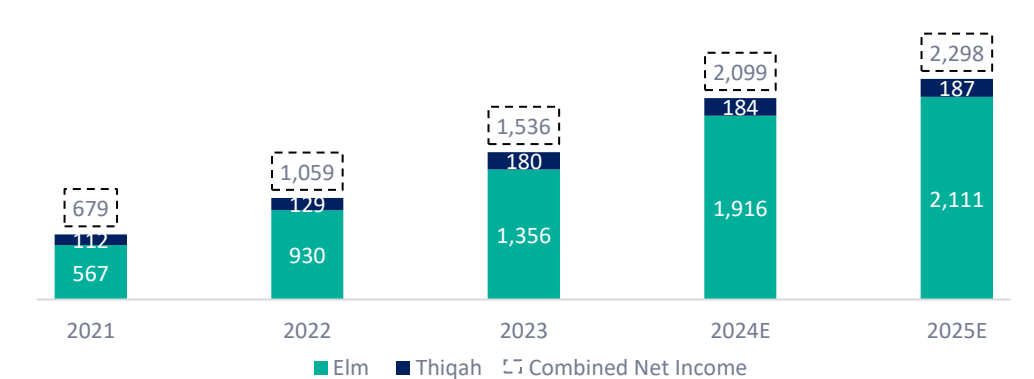
To visualize the combined historical and expected performance of the two entities, we have assigned a conservative 2% growth to Thiqah’s numbers as a baseline assumption and then incorporated that into our projections for Elm. Thiqah’s revenues and net income represents 27% and 13% of Elm’s in 2023, respectively.

Exhibit 1: Revenue Impact (SAR mln)



Source: Riyadh Capital, Tadawul

Exhibit 2: Net Income Impact (SAR mln)



Source: Riyadh Capital, Tadawul

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Preliminary valuation

Regarding Elm's post-deal valuation, given the current available information, we used the P/E multiple approach. We keep in mind the importance of the transaction closure date, as timing affects the realization of consolidated performance. Transaction closure post SPA signing typically needs ~3-6 months, and we are estimating deal closure by mid-2025. This will result in realizing half of Thiqah's projected revenues and net income of SAR 820 mln and SAR 94 mln, respectively. The combined revenues and net income for 2025E are forecast to be SAR 9,678 mln and SAR 2,205 mln, respectively.

Thiqah was priced at a trailing 2023 P/E of 18.9x, and currently Elm is trading at 2025E forward P/E of 44.1x. Given the different growth & profitability profiles of the two entities, Elm's net income CAGR between 2021 and 2023 was 55% with a 23% NPM and Thiqah's at 27% with 11.4% NPM, we assign a target P/E multiple of 43.0x, slightly lower than what Elm is trading at due to lack of information about Thiqah's financial position and performance, to 2025E combined net income of the two entities (assuming transaction closure by mid-2025) to arrive at an equity value of SAR 94.8 bln or **SAR 1,185 per share, hence our Neutral stance**.

Upside risks pertain to a low premium paid for Thiqah's acquisition, lower WACC given the additional debt, higher-than-expected performance growth for 2024E & 2025E for Thiqah, revenue synergies, and operational efficiencies. Downside risks could be a high premium paid for Thiqah's acquisition, M&A execution challenges, delayed synergies, lower-than-expected performance growth for 2024E & 2025E for Thiqah, and delayed transaction closure which could result in delayed realization of Thiqah's performance into Elm's as per business combination standard.

■ About Thiqah

Thiqah specializes in digital transformation and business solutions. Established in 2012, it has been dedicated to enhancing business performance and achieving sustainable development. Thiqah offers two main categories of services:

- **Smart Solutions:** Leveraging digital technologies and business intelligence to provide integrated smart solutions across various sectors.
- **Business Solutions:** Offering services such as operational solutions, professional solutions, and digital solutions to support partners in different industries.

Thiqah offers several key platforms and products across various sectors, such as:

- 1- **180 Seconds:** This service enables the issuance of commercial registrations for establishments within 180 seconds, as well as the ability to manage commercial registration services through renewal or modification.
- 2- **A'mali:** An electronic newspaper that publishes government transactions requiring publication, either once or periodically. It allows clients to complete the publication process automatically through a system linked to the newspaper without the need for direct intervention.
- 3- **Watheq:** This service provides beneficiaries with a mechanism for direct verification of data, such as commercial and judicial records, through electronic linkage with the beneficiary's system.
- 4- **Sadr:** A system for registering pharmaceuticals, specific to the Saudi Food and Drug Authority. It serves registered establishments by allowing them to request the registration of pharmaceutical, herbal, and veterinary products.
- 5- **Electronic Marriage Contract:** An electronic service provided by the Ministry of Justice that allows the completion of all marriage contract procedures online.

■ 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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