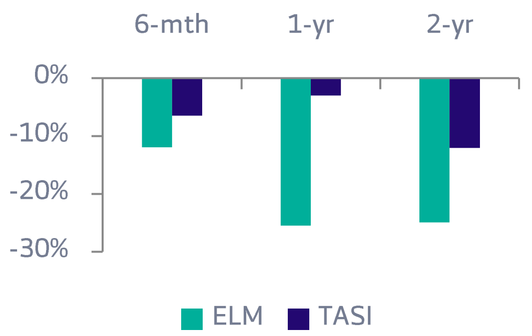
OPEX Drives Earnings Miss

August 02, 2026

Upside to Target Price	3.2%	Rating	Neutral
Expected Dividend Yield	1.5%	Last Price	SAR 678.00
Expected Total Return	4.7%	12-mth target	SAR 700.00

Market Data	
52-week high/low	SAR 972.0/504.5
Market Cap	SAR 54,240 mln
Shares Outstanding	80 mln
Free-float	33%
12-month ADTV	107,493
Bloomberg Code	ELM AB



Elm	2Q2026	2Q2025	Y/Y	1Q2026	Q/Q	RC Estimate
Sales	2,525	2,245	12%	2,472	2%	2,583
Gross Profit	1,030	917	12%	1,049	(2%)	1,070
Gross Margins	41%	41%		42%		41%
Operating Profit	526	513	3%	612	(14%)	615
Net Profit	513	590	(13%)	656	(22%)	596

(All figures are in SAR mln)

- Elm reported 2Q2026 revenues of SAR 2.53 bln (+12% Y/Y, +2% Q/Q), in line with our SAR 2.58 bln estimate. Y/Y growth was driven by the consolidation of Thiqah, completed in April 2025, making Y/Y comparison not fully like-for-like. Digital Business (DB) segment led both Y/Y and Q/Q growth, with revenue rising (+17% Y/Y, +5% Q/Q) at 74% contribution. While Business Process Outsourcing (BPO) grew modestly (+1% Y/Y, -3% Q/Q) at 25% contribution, partly offsetting a decline in Professional Services (PS) revenue (-7% Y/Y, -37% Q/Q). 1H2026 topline surged +21% Y/Y with higher DB (+22%) and BPO (+19%) due to Thiqah consolidation, and PS (+14%).
- Gross margin came in broadly stable at 41%, unchanged Y/Y but down Q/Q from 42%, and in line with our 41% estimate. This resulted in Q/Q gross profit decline of -2%, in line with estimates. OPEX surprised us at SAR 504 mln (+25% Y/Y, +15% Q/Q), primarily due to the Thiqah consolidation, above our SAR 454 mln estimate, which partly offset topline expansion. Consequently, operating margin contracted to 20.8%, from 22.9% last year and 24.8% previous quarter, missing our estimates and driving the earnings miss.
- Bottomline declined to SAR 513 mln (-13% Y/Y, -22% Q/Q), missing both market consensus of SAR 606 mln and our SAR 596 mln estimate. Earnings were further impacted by one-offs in both comparable periods, SAR 69 mln Zakat reversal last year and SAR 59 mln fair value gain last quarter. Excluding these non-recurring items, normalized earnings would have still declined, albeit at slower pace of -2% Y/Y and -14% Q/Q. 1H2026 profits increased +7.7% Y/Y, while adjusted profits would have risen +9.2% after excluding the one-offs. The company declared a SAR 5.00 DPS for 1H2026, consistent with FY2025 payout ratio. We trim our target price to SAR 700.00 and downgrade the stock to Neutral, reflecting weaker underlying profitability.

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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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