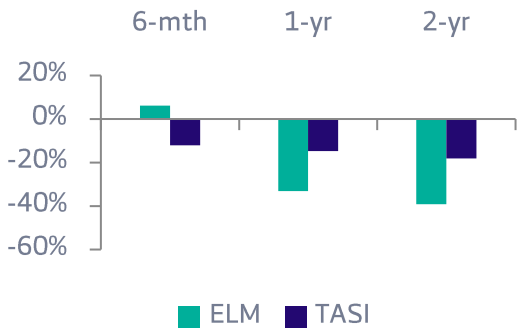
Margin Expansion Drives Strong Earnings Beat

November 2, 2026

Upside to Target Price	9.3%	Rating	Neutral
Expected Dividend Yield	1.6%	Last Price	SAR 622.00
Expected Total Return	10.9%	12-mth target	SAR 680.00

Market Data	
52-week high/low	SAR 930.0/504.5
Market Cap	SAR 49,760 mln
Shares Outstanding	80 mln
Free-float	33%
12-month ADTV	114,367
Bloomberg Code	ELM AB



Elm	3Q2026	3Q2025	Y/Y	2Q2026	Q/Q	RC Estimate
Sales	2,791	2,535	10%	2,525	11%	2,724
Gross Profit	1,207	1,020	18%	1,030	17%	1,112
Gross Margins	43%	40%		41%		41%
Operating Profit	783	584	34%	526	49%	607
Net Profit	778	559	39%	513	52%	589

(All figures are in SAR mln)

- Elm reported 3Q2026 revenues of SAR 2.79 bln (+10% Y/Y, +11% Q/Q), in-line with our SAR 2.72 bln estimate. With Thiqah fully consolidated in both periods, the Y/Y comparison is now like-for-like. Digital Business (DB) led growth (+20% Y/Y, +15% Q/Q), raising its contribution to 77% of revenue, driven by higher product revenue from new services and revenue recognized following an update to the entitlement mechanism under revised commercial terms with a customer. Business Process Outsourcing (BPO) declined (-14% Y/Y, -4% Q/Q) to 21% of revenue, due to the timing of project execution and completed projects without new awards, while Professional Services (PS) slipped -2% Y/Y but rebounded +21% Q/Q. 9M2026 topline grew +17% Y/Y to SAR 7.79 bln, driven by DB (+21%), BPO (+6%) and PS (+7%). Management lowered FY2026 revenue guidance to 14-16% (from 17-19%), implying 4Q revenue growth of 7-14% Y/Y.
- Gross margin expanded to 43.2% from 40.2% last year and 40.8% last quarter, above our 40.8% estimate, driven by higher DB profitability, as the segment's gross margin expanded to 49.2% from 46.3% on improved product margins, more than offsetting lower margins in BPO (24.0% vs. 26.2%) and PS (17.4% vs. 19.1%). This drove gross profit up +18% Y/Y to SAR 1.21 bln (+17% Q/Q). OPEX came in well below our SAR 505 mln estimate at SAR 424 mln (-3% Y/Y, -16% Q/Q), on lower G&A expenses and lower ECL charges, partly offset by higher S&M expenses Y/Y. Consequently, operating margin expanded sharply to 28.1%, from 23.0% last year and 20.8% last quarter, well ahead of our 22.3% estimate, with operating profit surging +34% Y/Y to SAR 783 mln. Margin expansion and lower-than-expected OPEX drove the earnings beat.
- Bottomline jumped to SAR 778 mln (+39% Y/Y, +52% Q/Q), the company's highest quarterly profit on record, beating both market consensus of SAR 572 mln and our SAR 589 mln estimate. Earnings were further supported by higher Murabaha income and a positive share of results from associates, versus a loss last year. With no one-offs disclosed in 3Q2026 or the comparable periods, growth reflected underlying performance. 9M2026 profits increased +18% Y/Y to SAR 1.95 bln; excluding the SAR 59 mln fair value gain in 1Q2026 and the SAR 69 mln zakat reversal in 2Q2025, normalized earnings grew +20% Y/Y. We trim our target price to SAR 680.00 per share and maintain a Neutral 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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