

Target Price: SAR1,100/share
Current Price: SAR872/share
Upside: 26% (+Div. Yield: 1.3%)
Rating: Overweight

Elm Company (Elm)

Consolidating Thiqah; Guidance revised; Upgrade to OW

- We believe Elm's management guidance is credible and Thiqah acquisition is positive for Elm as it could unlock synergies post successful integration over the near term.
- We expect Elm's topline to expand at a CAGR of 19.0% between 2024-28e, while the earnings are expected to grow at a CAGR of 19.2% during the same period.
- Post upgrading our estimates, we raise our TP to SAR1,100/sh. based on blended valuation using DCF and P/E (32x on average 2025-26e EPS) methods, with OW rating.

Higher growth momentum to continue following the Thiqah acquisition: Elm has exhibited strong historical growth (revenue CAGR of ~32% in 2020-24) supported by KSA's ongoing digitization drive, and this momentum is expected to continue following the acquisition of Thiqah, which took effect in May-25 beginning. During 1H25 earnings call, Elm's management has guided 2025e revenue growth in the range of 33-35% y/y to reflect the Thiqah acquisition (Thiqah contributed SAR236mn to the top-line in 2Q25). On a standalone basis for Elm, management has also raised the 2025e revenue guidance to +16-18% y/y (14-16% previously). We see this upward revision in the standalone guidance as a positive sign, given a relatively slower pipeline of digitization projects in the KSA on an annual basis. However, we conservatively forecast 2025e growth at the lower end of the guidance at ~33% y/y, reaching ~SAR9.9bn; driven by a ~34% y/y increase in the Digital Business segment and ~33% y/y growth in the BPO segment, including ~SAR1.2bn total contribution from Thiqah. Overall, we expect Elm's topline to grow at ~19% CAGR over 2024-28e, reaching ~SAR14.8bn by 2028e.

Thiqah's probability to improve by Elm's excellent operation efficiency profile: Thiqah, on a standalone basis, posted a loss of SAR92mn during 1H25 (contributed -SAR4.3mn to Elm bottom line in 2Q25). We note that Thiqah also posted losses of SAR62mn in 1H24, but reported net profits of SAR112mn by 2024 end, indicating that 2H25 performance is likely to improve and show positive earnings. While the Thiqah' GP margin is likely to be in line with Elm's margin, as evidenced by a 42% gross margin of Thiqah in 2Q25, we note that the company operating profits are thin and weighting down on the bottom line. This led to an average net margin of ~8% for Thiqah in 2021-24, compared to 21% for Elm during the same period.

Figure 1: Key financial metrics. Including Thiqah's performance starting in 2025e

SARmn	2024	2025e	2026e	2027e
Revenue	7,407	9,854	11,674	13,319
Revenue growth	26%	33%	18%	14%
Gross Profit	3,026	4,016	4,830	5,583
Gross Profit margin	41%	41%	41%	42%
Op. income	1,700	2,271	2,793	3,289
Op. Income margin	23%	23%	24%	25%
Net profit	1,827	2,310	2,681	3,191
Net profit margin	25%	23%	23%	24%
EPS (SAR)	22.8	28.9	33.5	39.9
P/E	38.2x	30.2x	26.0x	21.9x

Source: Company, GIB Capital

Stock data

TASI ticker	7203
Mcap (SARmn)	69,760
Trd. Val (3m) (SARmn)	58.4
Free float	33.0%
QFI holding	10.0%
TASI FF weight	1.00%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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However, we see room to improve Thiqah's operating margins by leveraging Elm's excellent profile in terms of operational efficiencies, as management guided, despite the expected increase in OPEX in the near term amid consolidation. Management has upgraded the 2025e EBIT margin guidance from 21-23% to 22-24%, post-consolidating Thiqah. Accordingly, we project Elm's 2025e EBIT margin to be ~23%, before improving to ~24% in 2026e and further to ~25% by 2028e as synergies gradually improve profitability.

Meanwhile, finance expenses are expected to increase to +SAR90mn by 2025e (SAR28mn in 2024), due to a slight rise in leverage to fund the acquisition, although it bears a minimal impact on the bottom line (just 4% of bottom-line). Overall, we expect a 26% growth in earnings (SAR2.2bn) for 2025e with a net margin of ~23%, and a 19% earnings CAGR over 2024-28e, reaching SAR3.7bn by 2028e with a margin of ~25%.

Thiqah acquisition to unlock synergies worth SAR200-300mn within 2-3 years, ensuring sustainable growth over the medium term: Thiqah, established in 2012 and owned by PIF, is a leading provider of end-to-end digital solutions for various sectors, including government ministries (e.g., Commerce, Investments, Justice, Health) and industries like fintech, logistics, and proptech. Its key solutions include:

- **180seconds:** Streamlines commercial registration.
- **Saber:** Facilitates conformity certificate and shipment registration for imports.
- **Wathq:** Provides real-time data for businesses.
- **Maarouf:** Enables conformity and shipment certificates.
- **Almwathiq:** Digitalizes judicial documentation.
- **E-Mazad:** Online property auction platform.

As a part of Elm's 4.0 strategy, the acquisition of Thiqah is in line with its emphasis on M&A to enter new markets, new products and services, and new clients. While near-term uncertainty surrounding the acquisition had previously been a concern, recent management commentary has provided greater clarity. In line with management's rationale, we believe the acquisition of Thiqah presents significant synergy potential and growth opportunities for the combined entity. The acquisition of Thiqah solidifies Elm's position as the leading player and national champion within the KSA's ICT market. The transaction offers a complementary client base and product suite, further expanding Elm's network and capabilities. We anticipate that successful post-integration efforts will unlock substantial synergies, creating value for Elm and its shareholders. Given the similar business models of Thiqah and Elm across both their Digital and BPO segments, management anticipates full realization of cost synergies within 2-3 years. These synergies are projected to contribute an incremental EBIT of SAR200-300mn above the standalone profitability of both companies over this timeframe.

Robust balance sheet paves the way to further unorganic growth opportunities: Elm total debt (Inc. leases) stood at ~SAR2.6bn as of 2Q25, following the signing of the ~ SAR1.9bn banking facilities to finance Thiqah's acquisition. Net debt-to-equity stood at 0.01x in the same period, which we expect to turn negative by 2025e and onward, reflecting a net cash position, underpinned by robust cash generation and sustained profitability from margin-accretive operations. We believe this provides a substantial headroom for further inorganic growth options. While Elm is likely to pursue similar opportunities to the KSA market, we have not factored any potential acquisition in our forecasts, considering the absence of any indicators of in the immediate term. Any such move will likely lead to a valuation revision.

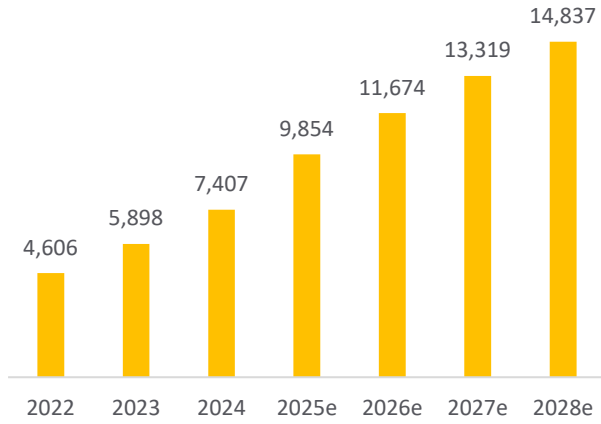
Valuation and risks: Elm's share price has been corrected by ~23% YTD, primarily attributable to uncertainty surrounding the Thiqah acquisition, limited disclosure on Thiqah's acquisition, and weak market sentiment. Historically, the company has commanded a premium valuation, trading at an average 1-year forward P/E multiple of 36x over the past three years. However, the recent price correction has led to a more normalized valuation, with the stock currently trading at a 1-year forward P/E of 28x, which, in our view, is not reflecting the earnings growth, potential synergies and turnaround performance of Thiqah post-acquisition.

Our valuation of Elm employs a blended approach, equally weighting a DCF analysis and a P/E multiple analysis. Our DCF-derived 1-year forward target price is SAR1,101/share, based on a WACC of 9.2%. For our relative valuation, we apply a 32x multiple to our average 2025-26e EPS estimate, arriving at a 1-year forward target price of SAR1,098/share. We believe Elm's larger scale, stronger margin profile, and established relationships with the KSA government justify its premium valuation relative to local and global peers. Our blended 1-year forward TP for Elm is **SAR1,100/share**, implying an **Overweight** rating with an upside potential of 26%.

Key downside risks to our valuation include increased competition, a slower-than-anticipated pace of digitalization within the KSA, higher-than-expected wage inflation, and the potential loss of data arrangements with the NIC.

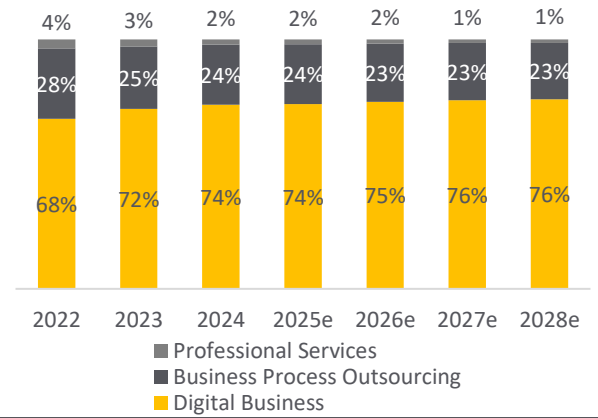
Financial analysis in charts

Figure 3: Revenue forecast (SARmn)



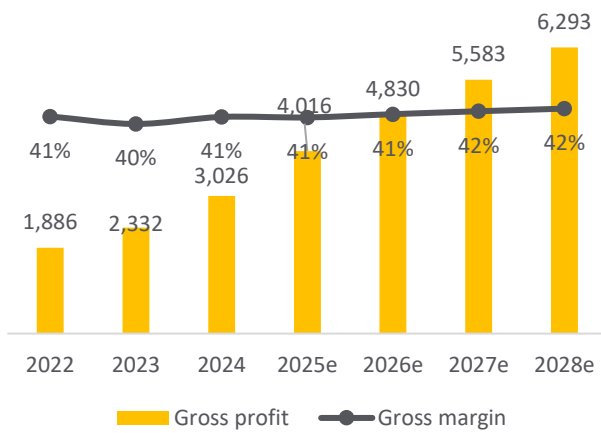
Source: Company data, GIB Capital

Figure 4: Revenue mix by segment



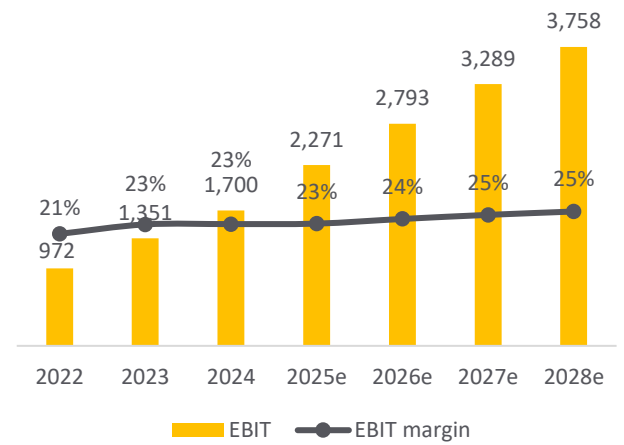
Source: Company data, GIB Capital

Figure 5: Gross profit and gross margin trend (SARmn)



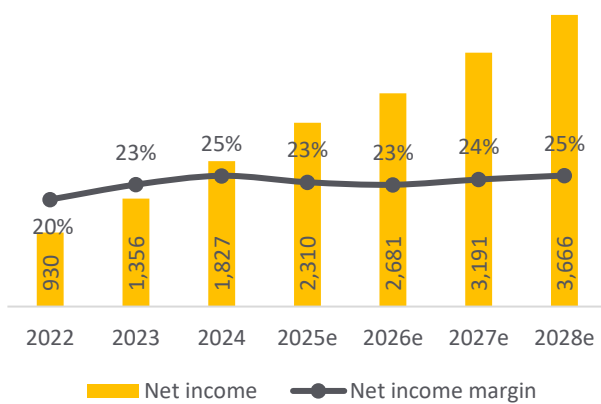
Source: Company data, GIB Capital

Figure 6: EBIT and EBIT margin trend (SARmn)



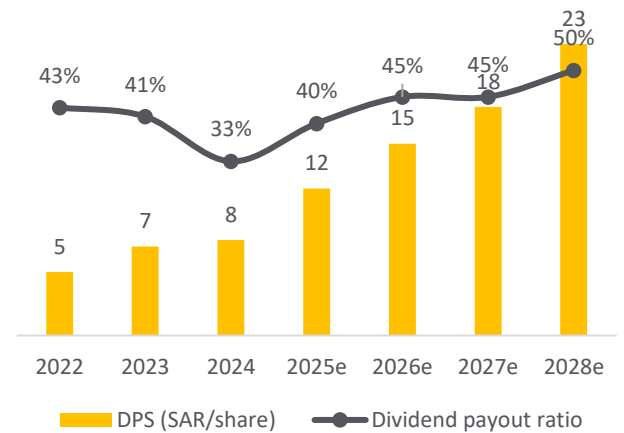
Source: Company data, GIB Capital

Figure 7: Net income trend (SARmn)



Source: Company data, GIB Capital

Figure 8: Dividend trend



Source: Company data, GIB Capital

Financials

Figure 9: Summarized basic financial statements (SARmn). Including Thiqah starting with 2025e

Income statement	2024a	2025e	2026e	2027e
Revenue	7,407	9,854	11,674	13,319
y/y growth	26%	33%	18%	14%
Cost of Services/Goods	4381	5838	6844	7735
Gross Profit	3,026	4,016	4,830	5,583
<i>Gross margin</i>	40.9%	40.8%	41.4%	41.9%
Selling and Marketing	336	397	465	523
Expected Credit Losses	143	103	117	128
General and Administrative	551	931	1,091	1,231
EBITDA	1,899	2,496	3,053	3,582
Depreciation, Amortization & Impairment	199	225	260	292
Operating Profit	1,700	2,271	2,793	3,289
<i>Operating margin</i>	23%	23%	24%	25%
Finance Cost	28	93	91	67
Finance Income	145	114	81	93
Profit Before Tax	1,954	2,368	2,853	3,395
Tax	127	58	171	204
Profit After Tax	1,827	2,310	2,681	3,191
y/y growth	35%	26%	16%	19%
<i>Net margin</i>	25%	23%	23%	24%
EPS	22.8	28.9	33.5	39.9
DPS	7.5	11.6	15.1	17.9
<i>Dividend Payout</i>	33%	40%	45%	45%

Balance Sheet	2024a	2025e	2026e	2027e
Account Receivables	2,895	3,780	4,318	4,744
Other Current Assets	2,880	2,353	2,607	2,798
Cash and Equivalents	2,251	2,736	3,637	4,903
Total Current Assets	8,027	8,869	10,561	12,444
Total Non-Current Assets	1,528	2,258	2,453	2,614
Total Assets	9,554	11,126	13,015	15,058
Current Liabilities	3,393	5,079	5,741	6,336
Non-current Liabilities	868	2,509	2,261	1,954
Equity	5,293	3,538	5,013	6,768
Total Equity and Liabilities	9,554	11,126	13,015	15,058
BVPS	66.2	44.2	62.7	84.6

Cashflow	2024a	2025e	2026e	2027e
Cashflow from Operations	1,659	2,190	3,018	3,640
Cashflow from Investing	904	-2,523	-339	-386
Cashflow from Financing	-697	818	-1,779	-1,987
Total Cashflows	1,866	485	901	1,266

Source: Company, GIB Capital

Figure 10: Key ratios. Including Thiqah starting with 2025e

Key ratios	2024a	2025e	2026e	2027e
Profitability ratios				
RoA	19%	21%	21%	21%
RoE	35%	65%	53%	47%
Sales/Assets	78%	89%	90%	88%
Net margin	25%	23%	23%	24%
Liquidity ratios				
Current Assets/ Current Liabilities	2.4	1.7	1.8	2.0
Receivable Days	11%	19%	14%	10%
Payable days	143	140	135	130
	29	30	32	35
Debt ratios				
Debt/Equity (w/o lease liabilities)				
Debt/Equity (w/ lease liabilities)	0%	54%	31%	17%
Debt/Assets	11%	73%	45%	27%
Debt/Total Equity	5.9%	23.4%	17.2%	12.1%
Valuation ratios				
P/E	38.2	30.2	26.0	21.9
P/B	13.2	19.7	13.9	10.3
EV/EBITDA	32.4	24.6	20.1	17.2
FCF yield	1.6%	2.3%	3.6%	4.4%
Dividend yield	0.9%	1.3%	1.7%	2.1%

Source: Company, GIB Capital

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