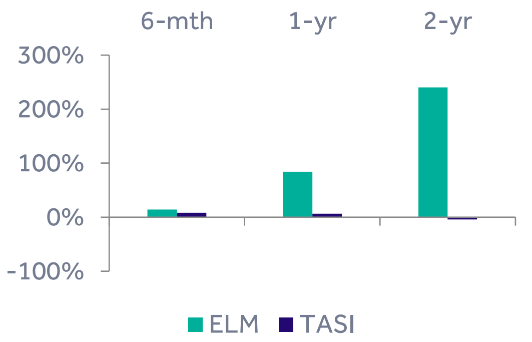
Elm Co. 1Q2024 First Look

Margins Expand Q/Q but Down Y/Y

May 26, 2024

Upside to Target Price	12.8%	Rating	Neutral
Expected Dividend Yield	1.1%	Last Price	SAR 855.20
Expected Total Return	13.9%	12-mth target	SAR 965.00

Market Data	
52-week high/low	SAR 1,125.0/442.4
Market Cap	SAR 68,416 mln
Shares Outstanding	80 mln
Free-float	33.00%
12-month ADTV	155,996
Bloomberg Code	ELM AB



Elm	1Q2024	1Q2023	Y/Y	4Q2023	Q/Q	RC Estimate
Sales	1,639	1,288	27%	1,685	(3%)	1,669
Gross Profit	626	544	15%	629	0%	667
Gross Margins	38%	42%		37%		40%
Operating Profit	334	320	4%	330	1%	403
Net Profit	345	322	7%	327	6%	396

(All figures are in SAR mln)

- Elm reported a +27% growth Y/Y but -3% Q/Q decline in 1Q24 topline to SAR 1.64 bln, in-line with our SAR 1.67 bln forecast. This strong Y/Y growth was led by +21% Y/Y increase in the Digital Business (DB) segment, and +56% rise in Business Process Outsourcing (BPO) those offset the -18% decline in Professional Services (PS) segment. The sequential decline was mainly affected by -6% lower BPO while DB remained flat. DB contribution to revenues is down to 71% due to higher BPO contribution at 27%.
- Gross margins this quarter were recorded at 38% vs 42% in the corresponding quarter, but slightly higher than 37% in the previous quarter. Y/Y decline is affected by DB and BPO's lower gross margins at 45% and 20%, respectively from 46% and 30%, respectively, despite higher PS margins at 23% vs 7%. The slight sequential incline in gross margins is a result of higher BPO and PS gross margins from 11% and 22% in the last quarter, respectively.
- OPEX of SAR 292 mln was +30% Y/Y higher, but down -2% Q/Q. The Y/Y growth came from a rise in all expenses with Sales and Admin expenses up by 24% and 27%, respectively, on higher employee costs and events participation & sponsorship. Additionally, Depreciation is up +49% Y/Y on more leased offices and finally Expected Credit Losses are up +43%. Consequently, Operating margin is down to 20.4% from 24.8% in corresponding quarter.
- Net Income in this quarter was supported by Murabaha deposit income and reported at SAR 345 mln, up +7% Y/Y and +6% Q/Q, below our SAR 396 mln forecast and SAR 392 mln consensus estimates primarily due to lower-than-expected margins. We maintain our target price of SAR 965.00 per share and 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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