US$19.0bn	33.00%	US$18.8mn
Market Cap.	Free Float	Avg. Daily Value traded

Research Department
Danish Kazmi, CFA
Tel +966 11 828 4653, KazmiD@alrajhi-capital.com

Elm Co.

TP revised to SAR1,100/sh; Remain Overweight

ELM's growth momentum continues in 2Q24, with the company posting spectacular y-o-y/q-o-q revenue growth of 25.9/7.8% respectively. As a result, the topline jumped to SAR3.4bn in 1H24, increasing by 26.5/6.2% y-o-y/q-o-q. The overall revenue impetus was provided by all the segments, with digital business leading the way, increasing by 24.0% in 1H24, followed by BPO, which saw an increase of 34% YoY. While professional services, which normally serve as a gateway to other segments, was slightly down by 2.9% YoY. The company benefited from the record Hajj and Umrah season in 2Q24, supporting its revenue growth as the top 6 products contributed 54% to the topline in 1H24. Consequently, the margins remained elevated in 2Q24, thanks to its digital product.

Going forward, the company has revised its FY24 revenue growth guidance upwards from 16-18% to 22-24%. We had foreseen this at the start of the year when we published our initiation report, hence we maintain our previous assumption of 22.9% y-o-y revenue increase in FY24. We remain confident in the company's ability to grow its digital business as well as business process outsourcing segment. The company's BPO backlog now stands at SAR2.9bn, much higher than our initial expectations. Although this is a welcome diversification for the revenues but comes at the expense of lower margins Hence, we lower our GP margin assumption for FY24/25e by 0.5/1.0% resulting in a revised EPS SAR20.4/25.2 per share for FY24/25e respectively. Elm trades at a high FY24/25 P/E multiple of 43.7/35.3x. We believe that the company commands a premium owing to its 1) tremendous growth numbers from digital business, 2) digital products portfolio providing a recurring stream of earnings, 3) renewed long term contract with the Ministry of Interior and the SDAIA for 10 years allowing it to have a critical edge over its competitors, and 4) clean balance sheet providing the option grow inorganically via M&As. We remain Overweight on the stock with a revised TP of SAR1,100/sh providing an upside of 23.6% to the last closing price.

Figure 1 **Guidance revision**

	FY24 Guidance		ARC
	Old	New	Estimates
Revenue growth	16-18%	22-24%	23%
EBIT margin	22-24%	unchanged	23%

Source: Company data, Al Rajhi Capital

2Q24/1H24 results:

- In 2Q24 Elm reported a 25.9% year-over-year (y-o-y) and 7.8% quarter-over-quarter (q-o-q) revenue increase, driven by a 24.0% Y-o-y growth in its core Digital Business segment and a 34.0% rise in the BPO segment, despite a 2.9% decline in the Professional Services business.
- The 2Q24 Gross profit rose by 22.1% y-o-y and 17.4% q-o-q. The gross margin for 1H24, however, was lower at 40% compared to 43% in 1H23 largely due to lower margin projects in BPO segment.
- Operating profit increased by 23.1% y-o-y and 38.9% q-o-q in 2Q24. The margin came at 23% in 1H24 and is expected to remain at similar levels in the second

Overweight

Price Target (SAR): 1,100

Current: 890.2
Upside/Downside: 23.6% above current

Valuation Multiples	23A	24E	25E
P/E (x)	52.5	43.7	35.3
P/B (x)	45.7	37.3	29.9
EV/EBITDA (x)	17.8	13.4	10.5

Major Shareholders	% Ownership
Public Investment Fund	67.00

Price Performance	1M	3M	YTD
Absolute	5.5%	-1.4%	9.1%
Relative to TASI	6.4%	3.6%	12.2%

Earnings

(SAR mn)	2023A	2024E	2025E
Revenue	5,898	7,249	8,868
YoY %	*28.1%*	*22.9%*	*22.3%*
Gross Profit	2,351	2,972	3,636
GM Margin %	*39.9%*	*41.0%*	*41.0%*
YoY %	*24.7%*	*26.4%*	*22.3%*
EBITDA	1,501	1,838	2,298
EBITDA Margin	*25.4%*	*25.4%*	*25.9%*
Net Income	1,356	1,628	2,017
Net Income Margin %	*23.0%*	*22.5%*	*22.8%*
YoY %	*45.8%*	*20.1%*	*23.9%*
EPS	17.0	20.4	25.2
DPS	5.0	7.4	11.3
P/E	52.5	43.7	35.3
EV/EBITDA	45.7	37.3	29.9
ROE	39%	35%	33%

Source: Company data, Al Rajhi Capital

half also according to the management guidance, implying continued higher revenue contribution from low margin BPO business

- In 2Q24 the net income grew by 30.3% y-o-y and 40.9% q-o-q, boosted by a SAR19mn fair value gain and higher Murabaha income, offset by increased finance costs, resulting in SAR486mn net income. The group declared a dividend of SAR3.5/sh for 1H24, yielding an annualized 0.8% dividend yield

Figure 2 **Earnings Summary H1 2024**

(SAR mn)	Q2 2024	Q1 2024	Q2 2023	y-o-y	q-o-q	1H24	1H23	y-o-y
Revenue	**1,767**	**1,639**	**1,404**	***25.9%***	***7.8%***	**3,406**	**2,692**	***26.5%***
Gross Profit	**735**	**626**	**602**	***22.1%***	***17.4%***	**1,361**	**1,146**	***18.8%***
G. margin	*41.6%*	*38.2%*	*42.9%*			*40.0%*	*42.6%*	
Op. profit	**464**	**334**	**377**	***23.1%***	***38.9%***	**798**	**698**	***14.3%***
Op. margin	*26.3%*	*20.4%*	*26.9%*			*23.4%*	*25.9%*	
Net profit	**486**	**345**	**373**	***30.3%***	***40.9%***	**831**	**695**	***19.6%***
Net margin	*27.5%*	*21.0%*	*26.6%*			*24.4%*	*25.8%*	

Source: Company data, Al Rajhi Capital

Valuations: Our preferred valuation approach is DCF, where we assign a weight of 50% to it while the remaining 50% is assigned to the relative valuation approach. Using the above-mentioned approach, we arrive at a weighted average target price of SAR1,100/sh. A slight downgrade in our projected profitability margins owing to increase in BPO projects led us to revise down our TP by 6.8%. The revised target price still reflects a potential upside of 23.6%. The stock has corrected 17% from its high in February 2024 and provides a decent entry level opportunity.

Key Risks: 1) end of exclusivity to government Database; 2) end of exclusivity in operating government platforms; 3) risk related to revenue sharing; 4) delays in M&As; 5) slower than expected digitization growth; and 6) rising competition

Key Financials

Figure 3 **Income Statement**

SAR mn	2023A	2024E	2025E
Revenue	**5,898**	**7,249**	**8,868**
y-o-y growth	*28.1%*	*22.9%*	*22.3%*
Cost of Sales	(3,547)	(4,277)	(5,232)
Gross Profit	**2,351**	**2,972**	**3,636**
y-o-y growth	*24.7%*	*26.4%*	*22.3%*
margins	*39.9%*	*41.0%*	*41.0%*
Selling and marketing expense	(277)	(332)	(447)
General & administrative expense	(476)	(605)	(703)
ECL & Other expenses	(98)	(196)	(188)
EBITDA	**1,501**	**1,838**	**2,298**
D&A	(150)	(207)	(204)
Operating Profit	**1,351**	**1,631**	**2,094**
y-o-y growth	*38.9%*	*20.8%*	*28.3%*
margins	*22.9%*	*22.5%*	*23.6%*
Interest income	128	137	103
Interest expenses	(6)	(9)	(9)
Other	1	24	17
Pre-Tax Income	**1,473**	**1,784**	**2,204**
Zakat	(117)	(156)	(187)
Net Income	**1,356**	**1,628**	**2,017**
y-o-y growth	*45.8%*	*20.1%*	*23.9%*
margins	*23.0%*	*22.5%*	*22.8%*
EPS	17.0	20.4	25.2

Source: Al Rajhi Capital estimates

Figure 5 **Key Ratios**

	2023A	2024E	2025E
ROE (%)	38.5%	34.9%	33.4%
ROA (%)	16.7%	16.8%	17.0%
P/E	52.5x	43.7x	35.3x
EV/EBITDA	45.7x	37.3x	29.9x
Dividend yield	2.1%	3.3%	3.1%
Receiveable days	144	100	94
Payable days	289	250	245

Source: Al Rajhi Capital estimates

Figure 4 **Balance sheet**

SAR mn	2023A	2024E	2025E
Accounts Receivables	2,322	1,988	2,277
Contract Assets	848	938	1,400
Prepaid Expenses and other current assets	337	326	355
Other Financial assets	19	19	19
Murabaha deposits	3,056	3,056	3,056
Cash and Cash Equivalents	384	1,812	3,207
TOTAL CURRENT ASSETS	**6,967**	**8,139**	**10,313**
Property and Equipment	375	404	423
Capital WIP	120	173	158
ROU	231	558	576
Intangible Assets	175	177	190
Investment in associates	2	4	6
Other financial assets	228	228	228
TOTAL NON-CURRENT ASSETS	**1,130**	**1,544**	**1,581**
TOTAL ASSETS	**8,097**	**9,683**	**11,893**
Accounts payable and other current liabilities	2,805	2,929	3,512
Contract liabilities	504	652	798
Zakat	184	238	246
Liabilities of purchasing property	25	25	25
Lease liabilities	12	22	21
Due to related parties	0	36	44
CURRENT LIABILITIES	**3,530**	**3,903**	**4,647**
Lease liabilities	212	394	372
End of service benefits provision	361	372	438
NON-CURRENT LIABILITIES	**573**	**765**	**810**
SHAREHOLDERS EQUITY	**3,995**	**5,329**	**6,751**
TOTAL LIABILITIES	**8,097**	**9,683**	**11,893**

Source: Al Rajhi Capital estimates

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Contact us

Al Rajhi Capital
Research Department
Head Office, King Fahad Road
P.O. Box 5561, Riyadh 11432
Kingdom of Saudi Arabia
Email: research@alrajhi-capital.com
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