الجزيرة كابيتال
ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Completion of Thiqa acquisition commissions a period of growth initiative for Elm as its enhances the acquiree's revenue capabilities and cost base

Elm reported a net income of SAR 589.6mn during Q2-25 with support of SAR 69mn in zakat reversals to reach a growth of 21.3% Y/Y and 18.9% Q/Q, despite a negative contribution from Thiqa. Revenues, however, reached highs of SAR 2.24bn (up 27.0% Y/Y and 19.6% Q/Q) as the long awaited Thiqa acquisition became consolidated. In completion of this acquisition, Elm loaded its previously debt free balance sheet with 1.9bn in borrowings and depleted most of its Murabaha holdings. However, we remain optimistic on the potentials & synergies from Thiqa, Elm's still-healthy financial position, and developments ongoing at Elm's DB segment with new product launches and value added services. Our outlooks are summarized by a FY24-30E revenue & net income CAGR of 17.2%/18.2%. We revise our TP up to SAR 999.5/share at a "Neutral" recommendation on the wide scale digital provider, which trades at a FY26E forward PE of 28x, as we also believe much of the Thiqa event has been priced in.

Reached highest quarterly net income reported in Q2-25 at SAR 589.6mn while Thiqa consolidation takes place to also take revenues at record highs: Elm consolidated its long awaited Thiqa acquisition while posting its highest quarterly net income and revenue recorded. Net income stood at SAR 589.6mn (up 21.3% Y/Y and 18.9% Q/Q), supported by a SAR 69mn zakat reversal, while Thiqa had a negative contribution to net income at SAR -4.3mn to Elm. Normalized net income would have stood at SAR 520.3mn at a 7.0% increase Y/Y and 4.9% Q/Q while still remaining at its highest recorded. Revenues also reached highs, of SAR 2.24bn (up 27.0% Y/Y and 19.6% Q/Q), supported by the Thiqa consolidation, as well as growth in its core Digital Business Segment (DB), which grew by 18% Y/Y for H1-25 when excluding Thiqa's contribution to the segment. Gross margins remained at their normal ranges at 42.5% (up 100bps Y/Y and 130bps Q/Q), as Thiqa delivered GPMs of 41.9% to Elm. Amendments to Principal-Agent revenue recognition at a value of almost SAR 110mn also supported a solid GPM during the quarter. While Thiqa was loss making during H1-25 at SAR -92mn, driven by activity delays, heightened OPEX, as well as transaction related expenses, management expects the acquiree to be positive in H2-25. Guidance updates from management communicated an upwardly revised revenue growth of 33%-35% in FY25 to include Thiqa, and an upwardly EBIT margin guidance at 22%-24% reflecting expected GPM performance. Elm's revenue guidance, ex-Thiqa, was revised up from 14%-16% to 16%-18%, driven by DB segment.

Elm most capable to hack Thiqa's performance via unlocking untapped revenue potentials available from Elm, as well as cost efficiencies: The 100% acquisition of Thiqa from PIF was completed in early Q2-25 at the price of SAR 3.4bn, to consolidate the digital service provider with Elm. Thiqa operates similar business segments as Elm's, at similar revenue segmentation, slightly lower GPMs, and notably lower net margins. Thiqa's FY24 revenues of SAR 1.65bn are almost 22% of Elm's SAR 7.40bn in FY24; and while FY24 net profits for Thiqa at SAR 110mn are modest compared to Elm's SAR 1,827mn- we expect Elm to be able to improve Thiqa's net profit margin significantly from 6.4% in FY24 to 11.3% by FY27E. Much of the bottom line constrictions are at the OPEX level, where synergies can take place gradually between the Elm-Thiqa sphere to support enhancing Thiqa's net profit margin. We expect the significant cost synergies by FY27E as well as less financing charges by then to be a key supporter for that year. Furthermore, Elm is able to enhance Thiqa's top line through value added services on sectors and products where both companies overlap, such as Thiqa's logistics platform segment Saber, and Ministry of Justice engagements, among others. Elm is also able to leverage its client reach to extend Thiqa's e-gov services to government agencies untapped by Thiqa. We expect the acquisition to contribute c. SAR 1.2bn to Elm's top line in FY25, taking Elm's revenues to SAR 9.7bn at a net income of SAR 2.25bn. While Thiqa recoded a negative EBIT contribution to Elm in its time so far consolidated under Elm, management guides for a 6%-8% EBIT margin for the acquiree during the second half of the year as it faced transaction related costs and activity delays during H1-25. Our GPM and EBIT margin estimates reach 41.5%/22.9% by FY26E- from 40.9%/23.0% in FY24- as cost synergies take place, and as Elm faces a full year of Thiqa consolidation, as well as more DB segment contribution expected.

Recommendation	Neutral
Target Price (SAR)	999.5
Upside / (Downside)*	9.6%

Source: Tadawul *prices as of 13th August 2025

Key Financials

in SAR mn, (unless specified)	FY24	FY25E	FY26E	FY27E
Revenue	7,407	9,749	11,915	13,533
Growth %	25.6%	31.6%	22.2%	13.6%
Gross Profit	3,026	4,046	4,942	5,652
EBIT	1,700	2,203	2,730	3,300
Net Income*	1,827	2,254	2,628	3,198
Growth %	34.7%	23.4%	16.6%	21.7%
EPS*	22.84	28.17	32.85	39.97
DPS	7.50	12.7	14.8	24.25

Source: Company reports, Aljazira Capital

Key Ratios

	FY24	FY25E	FY26E	FY27E
Gross Margin	40.9%	41.5%	41.5%	41.8%
OP Margin	23.0%	22.6%	22.9%	24.4%
Net Margin	24.7%	23.1%	22.1%	23.6%
EBITDA Margin	25.6%	25.2%	25.1%	26.3%
RoE	34.5%	60.5%	50.8%	49.6%
RoA	19.1%	20.4%	19.4%	21.0%
P/E (x)	48.8	32.4	27.8	22.8
P/B (x)	16.9	19.6	14.1	11.3
EV/EBITDA	46.1	29.5	24.0	19.8
Dividend Yield	0.7%	1.4%	1.6%	2.6%

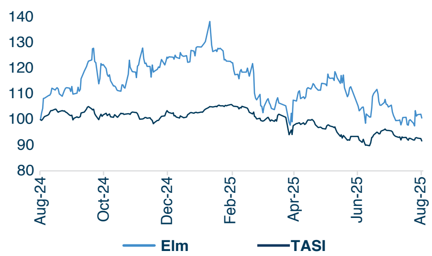
Source: Company reports, Aljazira Capital Research

Key Market Data

Market Cap (SAR bn)	73.0
YTD%	-18.2%
52 weeks (High)/(Low)	1289.0/823.6
Share Outstanding (mn)	80.0

Source: Company reports, Aljazira Capital Research

Price Performance



Source: Tadawul, AlJazira Capital Research

Senior Equity Analyst
Ibrahim Elaiwat
+966 11 2256115
i.elaiwat@Aljaziracapital.com.sa

Elm's financial position reshaped post acquisition after taking on SAR 1.9bn in debt, and depleting SAR1.3bn in interest earning Murabaha deposits, yet still remains financially healthy: To fulfill the SAR 3.4bn Thiqa transaction and expansions, Elm loaded its previously debt free balance sheet with SAR 1.9bn in debt. As a result of the transaction, Elm also depleted SAR 1.3bn in its interest earning Murabaha deposits from its FY24 position, which added SAR 145.5mn to its bottom line in FY24E from total holdings. Elm is also expected to undergo finance charges of SAR 84mn in FY25E as a result of the debt loaded on its balance sheet. In comparison, we expect Thiqa to potentially deliver SAR 223mn to Elm's PBT in FY27E, during a time of lower rates on Murabaha deposits. Furthermore, we expect that Elm could rebuild up a Murabaha position by end of year as a result of its cash generation. We further expect the Thiqa acquisition's PBT contribution to outweigh the financial charges associated with the transaction by FY26E. D/E as a result of this acquisition rose to 0.5x, though we expect Elm to return back to 0x post maturity of the 5 year debt term. As things stand, we expect Elm's cash generation to be able to deliver a dividend payout of 45% in FY25E at a DPS of SAR 12.7 per share, before increasing to payouts of 60%s by FY28E. Management did however indicate that they are open to more M&A activity, focusing on B2B, which could reshape its expected financial position when announced.

Pending developments in Digital Business segment to drive Elm's core business performance, while BPO segment's prospects slow down in the visible medium term: Recent government spending conservatism, as well as key milestone government projects achieved, resulted in a shift for projects for Elm to take on in the foreseeable medium term by FY26. Elm, however stands at a project backlog of SAR 3.8bn, expected to be absorbable in the coming 3 to 5 years, mostly in FY26E. We expect, however, a revival in mega-tender opportunities down the line, as the Kingdom approaches timelines for world level projects in sports, entertainment, and tourism from 2030 onwards. Management has indicated a strategy to follow the spending, in order to remain active in their project based businesses. Global economic embitterment is also expected to support higher government spending amid an improved economic cycle. While the BPO segment prospects remain to unfold, the Digital Business's continuous roll outs of value added services such as a Zamzam market on Nusuk, an e-wallet for collectable car license plates on Absher, remain as growth points for the segment's sales. Elm has added 14 value-added services in Q2-25, with almost 15 more pending for the coming months. Furthermore, management hinted at upcoming product launches that will begin to contribute by FY26-27, as well as a shifted focus on potential AI implementations. More potentials for value added services, and Elm's wide-use services nature, along with government key projects in the long run underpin our expected FY24-30E revenue CAGR of 17.2% (including Thiqa). We do expect, however, for Elm's DB to gain a larger share of revenues in medium term by FY27E to reach c. 75% from FY24's 73.8%.

AJC view and valuation: Elm remains a unique offering in the Saudi equities universe as it provides wide use digital services for the Kingdom's inhabitants from e-gov services to shipping and financial services. While government spending optimization is a challenge for Elm, we expect that there still remains many key engagements for Elm to be able to take on, as management also indicates a strategy to follow the direction of the now more cautious spending in the upcoming periods. Its organic developments, and involvement in the Saudi Arabian economy and economic transformation, coupled with the recent Thiqa acquisition drive our FY24-30E revenue and net income CAGRs of 17.2% and 18.2%. While D/E stands at 0.5x, we see its financial position still healthy considering its cash generation profile, with an estimated ability to still be able to deliver a dividend payout of 45% at an FY25E DPS of 12.7 per share (at a DY of 1.4%). We revise our TP to **SAR 999.5 per share**, by way of a blended valuation (PE at 35x on FY26E discounted earnings & DCF at a 9.2% WACC), at a "**Neutral**" recommendation on the stock trading at an FY26E forward PE of 28x, as we also believe much of the Thiqa event has been priced in.

Valuation Summary

	Target Price	Weight	Weighted TP
DCF	981.2	50%	490.6
PE (35x on FY26E discounted)	1,017.9	50%	508.9
Target Price (SAR/Share):			**999.5**
Up/Downside (%)			**9.6%**

Source: AlJazira Capital Research, prices as of 13th August 2025

Fig 1: Thiqa's key platforms across four categories provide synergetic potentials with Elm's portfolio

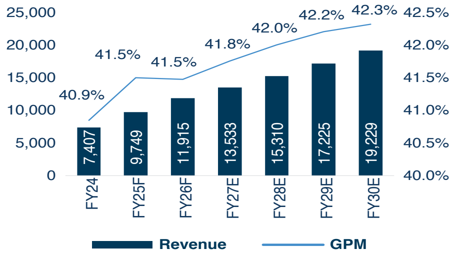
Justice & Property Tech:
- Nafith
- Najiz Amal
- Real Estate Market
- Almwathiq

Commerce:
- Sijilati
- Company Contract

Products Safety & Logistics:
- Saber
- SDR
- Notification Gate
- Ghad
- Halal

Mobility and Industrial Tech:
- TAQEES
- Certificate of Orgin

Fig 2: Higher-margin DB segment to lead growth for Elm as Thiqa costs also optimize



Source: Company Financials, Aljazira Capital Research

Upside risks to valuation:

- **Quicker enhancement of Thiqa to reach Elm level profitability profile**
- **Quicker recovery in government demand on project segment**
- **More significant offerings from the Digital Business segment**

Downside risks to valuation:

- **Longer recovery in government demand on projects**
- **Slower than expected deleveraging**

Source: AlJazira Capital Research

Key Financial Data

Amount in SARmn, unless otherwise specified	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Income statement								
Revenues	5,898.36	7,407	9,749	11,915	13,533	15,310	17,225	19,229
Y/Y	**28.1%**	**25.6%**	**31.6%**	**22.2%**	**13.6%**	**13.1%**	**12.5%**	**11.6%**
Cost of Sales	(3,567)	(4,381)	(5,703)	(6,973)	(7,881)	(8,879)	(9,954)	(11,090)
Gross profit	**2,331.7**	**3,026**	**4,046**	**4,942**	**5,652**	**6,432**	**7,271**	**8,139**
Y/Y	**23.6%**	**29.8%**	**33.7%**	**22.1%**	**14.4%**	**13.8%**	**13.1%**	**11.9%**
GPM	**39.5%**	**40.9%**	**41.5%**	**41.5%**	**41.8%**	**42.0%**	**42.2%**	**42.3%**
Selling and distribution expenses	(279)	(336)	(368)	(414)	(461)	(512)	(571)	(628)
Research & Development	(52)	(76)	(88)	(95)	(107)	(115)	(119)	(122)
Expected credit losses	(92)	(143)	(138)	(169)	(177)	(190)	(197)	(201)
Depreciation and amortization	(120)	(199)	(254)	(260)	(265)	(272)	(274)	(282)
General and administrative expenses	(433)	(551)	(978)	(1,259)	(1,322)	(1,463)	(1,611)	(1,767)
Impairment of non-current assets	(6)	(21)	(16)	(16)	(19)	(20)	(22)	(25)
Operating profit	**1,351**	**1,700**	**2,203**	**2,730**	**3,300**	**3,860**	**4,477**	**5,114**
Y/Y	**38.9%**	**25.9%**	**29.6%**	**23.9%**	**20.9%**	**17.0%**	**16.0%**	**14.2%**
EBIT Margin	**22.9%**	**23.0%**	**22.6%**	**22.9%**	**24.4%**	**25.2%**	**26.0%**	**26.6%**
Finance cost	(6)	(28)	(84)	(94)	(75)	(53)	(36)	(21)
Zakat	(117)	(127)	(61)	(183)	(222)	(261)	(303)	(346)
Net income	**1,356.2**	**1,827**	**2,254**	**2,628**	**3,198**	**3,756**	**4,363**	**4,984**
Y/Y	**45.8%**	**34.7%**	**23.4%**	**16.6%**	**21.7%**	**17.5%**	**16.2%**	**14.2%**
EPS (SAR)	**16.95**	**22.84**	**28.17**	**32.85**	**39.97**	**46.95**	**54.54**	**62.30**
DPS (SAR)	**7.0**	**7.5**	**12.7**	**14.8**	**24.0**	**28.2**	**38.2**	**46.7**
Balance sheet								
Assets								
Cash and cash equivalent	384	2,251	2,512	3,365	4,024	4,684	5,351	6,095
Murabaha	3,056	1,426	1,141	1,711	2,054	2,464	2,711	2,982
Accounts receivable	2,322	2,895	3,730	4,525	5,102	5,729	6,398	7,089
Other current assets	4,260	2,880	2,962	3,754	4,212	4,730	5,067	5,403
Property & Equipment	375	518	601	609	618	629	642	649
Intangible assets	175	71	218	191	169	146	123	102
Total Assets	**8,097**	**9,554**	**11,043**	**13,525**	**15,218**	**17,014**	**18,709**	**20,462**
Liabilities & owners' equity								
Long Term Borrowings - Current portion	-	-	380	300	220	140	60	-
Total current liabilities	3,530	3,393	4,690	5,722	6,547	7,266	8,052	8,899
Long Term Borrowings	-	-	1,520	1,500	1,100	700	300	-
Total non-current liabilities	573	868	2,630	2,635	2,225	1,799	1,399	1,060
Paid -up capital	800	800	800	800	800	800	800	800
Retained earnings	3,302	4,726	3,155	4,600	5,879	7,382	8,690	9,937
Total owners' equity	3,995	5,293	3,722	5,168	6,447	7,949	9,258	10,504
Total equity & liabilities	**8,097**	**9,554**	**11,043**	**13,525**	**15,218**	**17,014**	**18,709**	**20,462**
Cashflow statement								
Operating activities	1,559	1,659	2,494	3,112	3,795	4,182	4,811	5,461
Investing activities	(1,231)	904	(2,843)	(748)	(514)	(584)	(429)	(451)
Financing activities	(532)	(697)	610	(1,512)	(2,623)	(2,937)	(3,715)	(4,267)
Change in cash	(204)	1,866	261	853	659	661	667	744
Ending cash balance	**384**	**2,251**	**2,512**	**3,365**	**4,024**	**4,684**	**5,351**	**6,095**
Key fundamental ratios								
Liquidity ratios								
Current ratio (x)	2.0	2.4	2.0	2.0	2.0	2.1	2.1	2.1
Profitability ratios								
GP Margin	39.5%	40.9%	41.5%	41.5%	41.8%	42.0%	42.2%	42.3%
Operating Margins	22.9%	23.0%	22.6%	22.9%	24.4%	25.2%	26.0%	26.6%
EBITDA Margin	24.9%	25.6%	25.2%	25.1%	26.3%	27.0%	27.6%	28.1%
Net Margins	23.0%	24.7%	23.1%	22.1%	23.6%	24.5%	25.3%	25.9%
Return on assets	16.7%	19.1%	20.4%	19.4%	21.0%	22.1%	23.3%	24.4%
Return on equity	34.0%	34.5%	60.5%	50.8%	49.6%	47.3%	47.1%	47.4%
Market/valuation ratios								
EV/sales (x)	11.0	11.8	7.4	6.0	5.2	4.5	4.0	3.5
EV/EBITDA (x)	44.2	46.1	29.5	24.0	19.8	16.8	14.4	12.5
EPS (SAR)	17.0	22.8	28.2	32.8	40.0	47.0	54.5	62.3
BVPS (SAR)	49.9	66.2	46.5	64.6	80.6	99.4	115.7	131.3
Market price (SAR)*	815.0	1,115.0	912.0	912.0	912.0	912.0	912.0	912.0
Market-Cap (SAR mn)	65,200	89,200	72,960	72,960	72,960	72,960	72,960	72,960
Dividend yield	0.9%	0.7%	1.4%	1.6%	2.6%	3.1%	4.2%	5.1%
P/E ratio (x)	48.1	48.8	32.4	27.8	22.8	19.4	16.7	14.6
P/BV ratio (x)	16.3	16.9	19.6	14.1	11.3	9.2	7.9	6.9

Sources: AlJazira Capital, Company Financials *Prices as of 13th August 2025

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

RESEARCH DIVISION

Head of Sell-Side Research - Director

Jassim Al-Jubran

+966 11 2256248

j.aljabran@aljaziracapital.com.sa

RESEARCH DIVISION

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer