

## Daily Bulletin

December 3, 2025

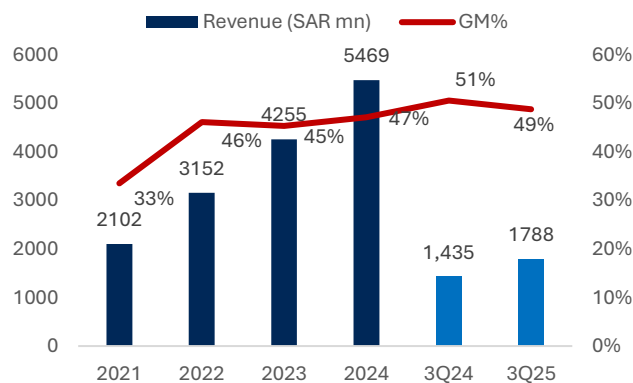
### Elm – Price Dip vs. Fundamentals: Is the Weakness Overblown?

**Last Price: SAR 776.0 | Target Price: SAR 1,089 | YTD Performance: -30.4%**

**Share Price Underperformance Driven by Short-Term Pressures:** Elm Co's (ELM AB) share price has declined 30.4% YTD to SAR 776, sharply underperforming TASI, which is down 12.5% over the same period. The sell-off intensified after the release of 3Q25 results as the market reacted to margin softness, revenue timing issues, and the initial consolidation impact of Thiqah. Yet, we believe these headwinds are temporary and do not reflect a shift in Elm's medium-term fundamentals.

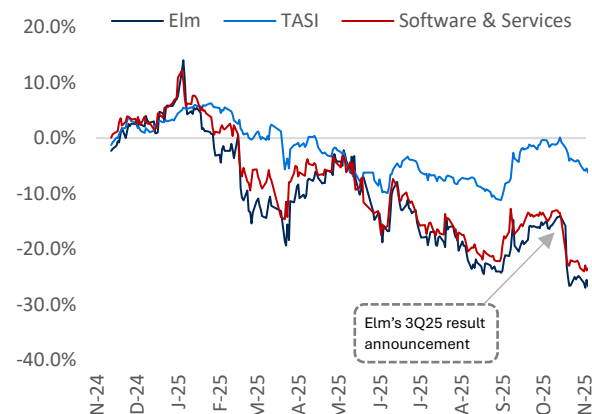
**Margin Compression Is Temporary and Largely Mix-Driven:** Margin normalization has been one of the key triggers for investor concern. Net profit margin fell to 22.0% in 3Q25 from 26.6% a year earlier, while gross margin eased to 42.3% from 44.3%. A significant part of this movement came from a shift in the revenue mix within Digital Solutions, as well as the principal-agent transition, which reduced reported revenue in 3Q25. Management confirmed that this adjustment began in 4Q24, and as a result, revenue comparability will return to normal starting next quarter. Importantly, BPO margins remain within their normal 21%-22% range, and management does not expect material margin pressure going forward, even with elevated R&D spending and broader B2B strategic initiatives.

Digital solutions revenue and gross margin



Source: Company financials, anbc research

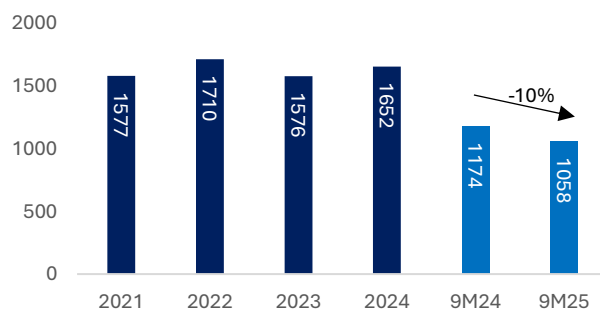
Relative price performance



Source: Tadawul, anbc research

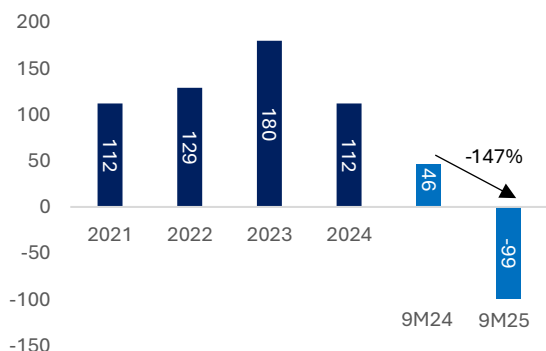
**Thiqah's Reported Declines Obscure Underlying Performance:** The consolidation of Thiqah also weighed on sentiment. Reported 9M25 revenue appeared weaker primarily because 2024 included a SAR 138mn one-off and prior-period revenue recognition linked to amended criteria for two key projects. These adjustments inflated the prior-year base and distorted comparisons. Excluding these effects, Thiqah would have grown 2.1% YoY. The losses recorded in the consolidation period-SAR 99mn over 9M25-were expected, and management guided that full-year net income for Thiqah should reach SAR 170-180mn. Given that the majority of Thiqah's cost structure is employee-based, structural optimization will take time, but early savings have already been realized in marketing and sponsorships.

Thiqah Revenue (mn)



Source: Investor presentation, anbc research

Thiqah Net Profit (mn)



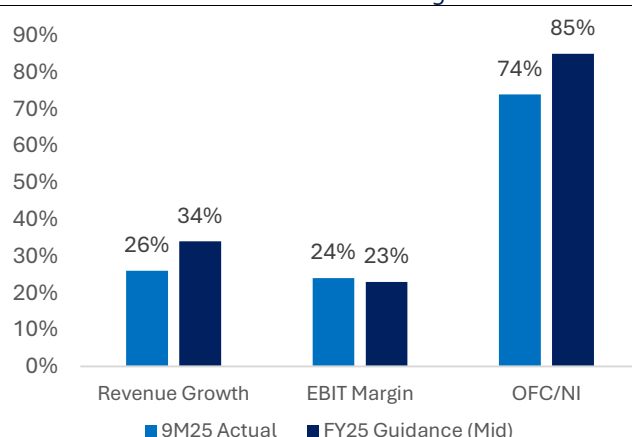
Source: Investor presentation, anbc research

**Core Operations Remain Strong and Continue to Expand:** Despite the noise, Elm's underlying performance in 9M25 remained robust. Revenues grew 26% YoY to SAR 6.7bn, driven by broad based expansion across Digital Business, BPO, and Professional Services. Gross profit increased 28% to SAR 2.8bn, while EBIT and net income grew 21% and 24% respectively. Cash generation remained healthy, with operating cash flow reaching 74% of net income. These figures highlight the resilience of Elm's diversified digital portfolio and reinforce that the margin softness observed this year is cyclical rather than structural.

**Backlog Strength Supports Multi-Year Visibility:** Elm's updated backlog stands at SAR 4.2bn, to be recognized over the next 3-5 years. BPO accounts for the largest portion of the backlog, and management has communicated that they do not intend to limit BPO exposure despite its lower margin profile. They view it as a strategic growth opportunity that deepens client relationships and enhances long-term revenue stability. Additionally, Elm recently secured a SAR 275mn contract for Qiyas exam management, further strengthening backlog visibility and expanding exposure across government-linked verticals.

**Management Guidance Reinforces Confidence in Recovery:** Management continues to guide for stable margins, emphasizing that they do not expect material pressure despite the ongoing investment cycle. They highlighted that revenue comparability will normalize from next quarter due to the full completion of the principal-agent shift. The company is also progressing with new platform enhancements such as the expansion of Nusuk services (including Zamzam water ordering) and upgrade rollouts for Wassil and Zawal, reinforcing the view that the product ecosystem is expanding rather than slowing.

Elm FY25 Guidance vs. 9M25 Actual – Progress Tracker



Source: Investor presentation, anbc research

**Valuation Remains Attractive Relative to Growth Outlook:** With the stock now trading at a forward P/E of 26.2x—well below its historical average multiple of 42.8x (Since IPO in 2022), indicating a meaningful valuation discount given Elm's operational strength and future earnings potential. Our target price of SAR 1,089 implies an upside of 40.3% from current levels, supported by strong backlog visibility, normalization of Thiqah's contribution, and continued execution across the Elm 4.0 strategy pillars.

While Elm has experienced notable YTD underperformance driven by short-term noise, revenue timing effects, and integration-related dilution, the company's fundamentals remain intact. Strong topline growth, a SAR 4.2bn backlog, steady guidance, and an expanding strategic footprint across Saudi Arabia's digital transformation agenda all support the view that the sell-off is temporary. We therefore maintain our constructive stance on the stock.

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