DOWNGRADE TO HOLD

Elm Company (Tadawul: 7203)

Q3 2026 Results Update

RECOMMENDATION	SHARE PRICE	12-MONTH TARGET	CAPITAL UPSIDE	FORECAST DIV. YIELD	12-MONTH TSR
HOLD (PREV. BUY)	SAR 598.50	SAR 664.44	+11.02%	2.53%	+13.55%

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SAR millions unless otherwise stated

Investment View

We downgrade Elm Company to Hold from Buy, while raising our 12-month target from SAR 640.12 to SAR 664.44 following a stronger-than-expected third quarter.

Attributable net profit reached SAR 778 million, 38% ahead of our forecast. The surprise came from profitability rather than revenue. Digital Business benefited from stronger revenue-sharing terms and higher gross margins, while Thiqah returned to profit. Management nevertheless reduced full-year revenue-growth guidance to 14%–16%, reflecting softer activity elsewhere.

Our revised FY2026 attributable profit forecast rises from SAR 2.28 billion to SAR 2.47 billion despite lower revenue expectations. We also expect better longer-term profitability from Elm's established platforms and Thiqah, while allowing for more normal operating expenses and working-capital demands.

Since our initiation, the share price has climbed from SAR 561.00 to SAR 598.50. Our new target offers 11.0% capital upside and an expected total return of 13.6%, including forecast dividends. That falls short of our 15% Buy threshold.

Our view of Elm's business has improved, but the valuation opportunity has narrowed.

Q3 performance against our forecasts

Q3 2026, SARm	Forecast	Actual	Variance
Revenue	2,800	2,791	-0.3%
Gross profit	1,134	1,207	+6.4%
Operating profit	600	783	+30.5%
Attributable net profit	563	778	+38.3%

Source: Elm Company; Evermore Research. Variances use unrounded reported figures and forecasts; values displayed are rounded.

Analyst

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Company data

Exchange	Tadawul
Ticker	7203
Issued shares m	80.00
PIF ownership	67.0%
Market cap (SAR bn)	46.67
Free float (%)	30.3%
52-week range (SAR)	504.50–834.50

Market cap excludes treasury (30 Sep 2026). PIF/free float: 31 Dec 2025. Price/range: 5 Nov 2026. Company reports; market data

Company profile

Elm develops and operates digital platforms and technology projects for government and business customers in Saudi Arabia.

Digital Business is the main earnings engine, supported by Business Process Outsourcing and Professional Services. The April 2025 Thiqah acquisition expanded Elm's products, capabilities and government and commercial relationships.

Price versus intrinsic value



Expected 12-month total return of 13.55%, including forecast dividends of SAR 15.17 per share. Forecast dividends are unannounced estimates, subject to future declarations and eligibility.

Share price: 5 November 2026 close. Valuation: 6 November 2026. Reported Q3 results were released on 1 November 2026. Forecasts are Evermore Research estimates. Full conflicts and research disclosures appear on page 4.

01 Results review

A stronger quarter than we expected

Elm's third-quarter result was a welcome surprise, not because revenue grew faster than anticipated, but because the company earned considerably more from the business it generated.

Revenue increased 10.1% to SAR 2.79 billion, almost exactly in line with our forecast. Gross profit was 6.4% ahead of expectations, while operating profit exceeded our estimate by 30.5%. Attributable net profit reached SAR 778 million, beating our forecast by SAR 215 million.

The biggest difference came from profitability. Operating expenses were SAR 423 million against our SAR 534 million forecast, helping the group achieve a 28.1% operating margin.

We would not extrapolate that margin. Lower credit-loss charges and administrative spending contributed to the result, and some of those costs are likely to return in subsequent quarters. Management's unchanged full-year operating-margin guidance of 21%–23% also suggests a more subdued finish to 2026.

Nevertheless, there was more to the result than favourable expense timing.

Digital Business revenue increased nearly 20%, with gross margin reaching 49.2%. The improvement was supported by stronger revenue-sharing terms on established government products, alongside growth in value-added services.

That is an important distinction. Elm's established digital platforms already generate most of the group's profitability, so better commercial terms and additional transaction revenue can have a substantial impact on earnings without requiring a comparable increase in operating costs.

We now expect Digital Business to sustain gross margins closer to 48% over the medium term, compared with approximately 47% in our original forecasts. The increase is modest relative to Q3's performance, but meaningful given the division's size and importance to the group.

Thiqah's recovery is gathering momentum

Thiqah provided the other significant positive surprise.

Elm acquired the business in April 2025 for approximately SAR 3.39 billion, extending its presence across Saudi Arabia's digital services market. However, the acquisition initially weighed on consolidated profitability, raising questions about how quickly Elm could improve the returns from its investment.

The September quarter provided the clearest evidence yet that Thiqah's financial performance is improving.

Thiqah generated approximately SAR 46 million in operating profit and SAR 48 million in net profit during Q3. This marked a considerable turnaround from the first half, when the business recorded an operating loss of approximately SAR 53 million.

For the nine months, Thiqah's operating result was still a loss of approximately SAR 7 million, but the direction of travel is encouraging.

The improvement strengthens our confidence that Elm can extract greater value from the acquisition. Thiqah brings established products, government relationships and additional capabilities, giving Elm opportunities to improve profitability as the businesses become more closely integrated.

We have consequently brought forward our expectations for Thiqah's recovery. Our revised forecasts assume a gradual improvement in operating profitability rather than a continuation of Q3's unusually strong pace.

The next few quarters will help establish how much of the turnaround reflects lasting improvements in contract economics and cost efficiency. Consistent profitability would remove an important source of uncertainty from Elm's investment case.

02 Earnings forecasts and valuation

Stronger earnings despite slower revenue growth

The positive earnings surprise came alongside a less encouraging development: management reduced its FY2026 revenue-growth guidance from 17%–19% to 14%–16%.

The reduction reflects weaker activity in Business Process Outsourcing and the timing of project revenue, rather than a slowdown across Elm's core digital platforms.

Our revised FY2026 revenue forecast is SAR 10.89 billion, compared with SAR 11.06 billion previously. However, improved margins and lower expected operating expenses lift our attributable net profit forecast from SAR 2.28 billion to SAR 2.47 billion.

The same pattern extends further into our forecast period.

SAR million	Previous	Revised
FY2026 revenue	11,064	10,888
FY2026 attributable net profit	2,284	2,470
FY2026 operating cash flow	2,053	2,216
FY2030 revenue	16,763	16,220
FY2030 attributable net profit	3,835	4,076
FY2030 operating cash flow	4,507	4,567

Source: Evermore Research estimates. Previous forecasts supported our 30 October 2026 initiation.

By FY2030, we expect attributable net profit of approximately SAR 4.08 billion, up from our previous SAR 3.83 billion forecast, despite a lower revenue base.

The revised forecasts assume that Digital Business retains much of its recent margin improvement, Thiqah becomes an increasingly profitable contributor, and operating expenses grow more slowly than revenue. Together, these developments lift our projected FY2030 operating margin to 25.2%.

Cash generation is also improving. Elm generated approximately SAR 1.65 billion in operating cash flow during the first nine months, a substantial recovery from the weak conversion reported at the half-year stage.

We now forecast full-year operating cash flow of SAR 2.22 billion, equivalent to approximately 90% of net income. While the improvement is reassuring, the business still needs to demonstrate that it can convert growing earnings into cash consistently, particularly as receivables and contract assets increase with its expanding activities.

Our longer-term forecasts allow for continued investment in working capital and technology rather than assuming all incremental profit becomes immediately available to shareholders.

Valuation and outlook

The stronger earnings outlook lifts our discounted cash flow valuation from SAR 640.12 to SAR 664.44 per share.

Operating scenario	Target SAR	12m DPS SAR	12m TSR
Base	664.44	15.17	+13.6%
Conservative	500.95	10.44	-14.6%
Upside	814.69	19.22	+39.3%

The conservative and upside cases assess different operating outcomes. WACC and terminal growth remain fixed. They are scenarios rather than alternative base forecasts. Forecast dividends are unannounced estimates, subject to future declarations and eligibility. The August 2026 payment is historical and excluded from the forward return.

03 Valuation outlook and disclosures

We have retained our 9.5% weighted average cost of capital and 3.0% terminal growth assumption. The increase in value comes from improved operating forecasts, higher expected cash generation and updated financial balances, rather than a change in the return we require from the investment.

Elm's core digital platforms remain the foundation of our investment thesis. Their established positions in essential government and commercial services give the business an opportunity to grow transaction volumes while maintaining attractive profitability. The improvement in revenue-sharing terms adds to that potential, while Thiqah's recovery provides another source of earnings growth.

The question now is how much of that progress investors are already paying for.

Our original Buy recommendation was based on a SAR 561.00 share price and an expected total return of 16.5%. Since then, the shares have risen approximately 6.7%, with the post-results rally reflecting renewed confidence in the company's earnings outlook.

We believe the reaction is justified. Elm delivered a considerably stronger profit result than we anticipated, and the developments at Digital Business and Thiqah support a higher valuation. However, the increase in our fair value has not kept pace with the share price.

At SAR 598.50, our revised target offers 11.0% capital appreciation. Including forecast dividends of SAR 15.17 per share over the next 12 months, expected total return is 13.6%.

The next important tests will be whether Digital Business can sustain its improved margins, whether Thiqah delivers consistent profitability, and whether cash collections keep pace with earnings growth. Progress in these areas would strengthen the case for further valuation upgrades.

For now, we remain positive on Elm's long-term prospects. The business is performing better than we expected when we initiated coverage, but the market has responded quickly. With the remaining return below our required threshold, **we downgrade Elm to Hold while raising our 12-month price target to SAR 664.44.**

Research disclosures

Research status: Independent Evermore Research results-update report. Analyst: James Mickleboro. This report contains Evermore’s independent recommendation, forecasts, valuation and investment opinions.

Conflicts: A fund managed by Evermore holds shares in Elm Company. The analyst has no personal holding in Elm.

Evermore Research ratings
Buy: Expected 12-month total shareholder return of 15% or more.
Hold: Expected 12-month total shareholder return greater than -10% but below 15%.
Sell: Expected 12-month total shareholder return of -10% or less.
Total shareholder return includes expected capital appreciation and forecast dividends. The target is an investment assessment, not a commitment that the share price will reach that level.

Forward-looking information: Forecasts, sensitivities and fair values reflect assumptions and judgement and are subject to material uncertainty. They may change after new results, contract developments or market data. The SAR 664.44 intrinsic value and 12-month target are not guaranteed share prices. The Hold recommendation and 13.6% expected return use the SAR 598.50 reference share price and SAR 15.17 of forecast dividends. Those dividends are unannounced and depend on future declarations and eligibility.

General information: This report is intended for US readers only. It does not account for any particular investor's needs, objectives or financial circumstances and is not a personal recommendation, offer or solicitation to trade securities. Past results are not reliable indicators of future performance.

Sources: Elm Q3 /9M results · Official interim statements · Management presentation · Share-price history. Evermore Research initiation, 30 October 2026; updated integrated financial model and estimates, 6 November 2026.