Elm Co.

August 2, 2026

Revenue and margins hold up, but opex growth weighs on net profit

Last Price: SAR 678.0 | YoY Performance: -25.2%

KEY TAKEAWAYS

- ELM delivered SAR 513 mn in 2Q26 net profit, down 13.1% YoY and 21.8% QoQ, in line with our estimates with only a 1.7% variance. Despite higher YoY revenue and gross profit growth, elevated operating expenses weighed on the bottom line.
- Revenue rose 12.5% YoY to SAR 2,525 mn, in line with our expectations of SAR 2,606 mn (-3.1% var.), as growth in Digital Business (+17.4% YoY) and Business Process Outsourcing (+1.1% YoY) was partly offset by a decline in Professional Services (-7.3% YoY); revenue also grew 2.1% QoQ on continued Digital Business strength (+5.2% QoQ), partly offset by declines in BPO and Professional Services.
- Gross margin was broadly flat YoY at 40.8% (vs. 40.8% in 2Q25, -5 bps) and 179 bps above our estimate. Gross profit grew 12.3% YoY to SAR 1,030 mn, though it fell 1.8% QoQ (margin down 165 bps QoQ) off a strong 1Q26 base.
- Operating profit rose 2.5% YoY but fell 14.1% QoQ to SAR 526 mn, broadly in line with our estimate (-2.2%), as a SAR 100 mn YoY increase in operating expenses , mainly higher selling & marketing (+SAR 38 mn), G&A (+SAR 36 mn), and D&A (+SAR 22 mn), outpaced the gross profit gain.
- Below the operating line, the company recorded a zakat expense of SAR 35 mn in 2Q26, compared to a SAR 53 mn net benefit in 2Q25 from the reversal of prior-period provisions, an SAR 88 mn unfavorable swing that was the single largest driver of the YoY profit decline. Additionally, 1Q26 net profit had been boosted by a non-recurring SAR 59 mn gain on the fair valuation of a previously held equity interest in an associate, which did not repeat this quarter, driving most of the QoQ decline.
- Based on our last review, we maintain our Overweight rating on the stock, with a target price of SAR 827/share. The stock is currently trading at a 2026e P/E and P/B of 22.2x and 13.2x respectively. Alongside the result, the company announced a DPS of 5.0 for 2Q26.

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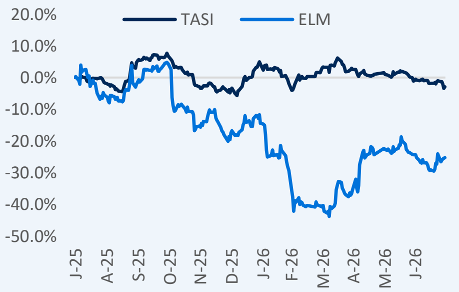
Issuer Information

Bloomberg Code	**ELM AB**
Last Price (SAR)	**678.0**
No of Shares (mn)	**80**
Market Cap bn (SAR/USD)	**54.2 / 14.5**
52-week High / Low (SAR)	**972.0 / 504.5**
12-month ADTV (mn) (SAR/USD)	**75.8 / 20.2**
Free Float (%)	**32.9**
Foreign Holdings (%)	**6.9**

Last price as of July 30th, 2026

Relative Price Performance



Source: Bloomberg, anbc research

Financials (SAR mn)	2Q26A	2Q26E	Var (%)	2Q25A	YoY (%)	1Q26A	QoQ (%)
Revenue	2,525	2,606	-3.1	2,245	12.5	2,472	2.1
Cost of Revenues (COGS)	1,495	1,590	-6.0	1,328	12.6	1,423	5.1
Gross Profit	1,030	1,016	1.3	917	12.3	1,049	-1.8
Gross Margin (%)	***41***	***39***		***41***		***42***	
Operating Expenses	504	479	5.3	404	24.8	437	15.3
Operating Profit	526	538	-2.2	513	2.5	612	-14.1
Operating Margin (%)	***21***	***21***		***23***		***25***	
Net income	513	522	-1.7	590.0	-13.1	656.0	-21.8
Net Margin (%)	***20***	***20***		***26***		***27***	
EPS (SAR)	6.41	6.52		7.38		8.20	
DPS (SAR)	5.00	5.00		4.50		-	

**anbc capital*
Source: Company Financials, anbc research

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OVERWEIGHT	NEUTRAL	UNDERWEIGHT
Expected return is more than +15%	Expected return is between +15% & -10%	Expected return is lower than -10%

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