

Najran Cement (HOLD, TP: SAR 6, 3002.SE) 2Q26 Results Review

Earnings jumped Y/Y as lower costs drove margin expansion. Maintain Hold.

Najran Cement reported a 29% Y/Y increase in 2Q26 net profit, although profitability declined 4% Q/Q to SAR 0.03 per share. Revenue declined Y/Y, mainly due to lower realized prices, while it increased Q/Q on higher dispatches. Gross profit increased on both Y/Y and Q/Q bases, with gross margins expanding across both periods. Operating expenses declined Y/Y but increased Q/Q. Nevertheless, contained operating expenses, coupled with stronger gross profit, supported a higher operating profit. As a result, the company reported a net margin of 5% in 2Q26.

- Revenue declined 1% Y/Y to SAR 124mn, primarily due to a 6% Y/Y drop in retention prices, partly offset by a 6% Y/Y increase in dispatches. Sequentially, revenue was up 1% Q/Q, driven by a 3% increase in dispatches despite a 2% decrease in retention price. Cost of sales decreased 3% Y/Y and remained broadly flat Q/Q. As a result, gross profit advanced 10% Y/Y and 4% Q/Q, while gross margins expanded 192bps Y/Y and 55bps Q/Q. The margin expansion was driven by an 8% Y/Y and 3% Q/Q decline in cost per ton, while the decline in revenue per ton was limited to 6% Y/Y and 2% Q/Q. Operating expenses fell 1% Y/Y but increased 1% Q/Q to SAR 12mn. Consequently, operating profit jumped 24% Y/Y and 6% Q/Q.
- The company's net profit after tax clocked in at SAR 6mn (EPS: SAR 0.03) in 2Q26 compared to a profit of SAR 5mn in 2Q25 and SAR 6mn in 1Q26.
- The company's inventory-to-LTM sales ratio stands at 114%, lower compared to its regional peer Southern Cement (inventory to LTM sales ratio of 157%), while it is higher than the sector (inventory to LTM sales ratio of 81%). Inventory stood at 3.1mn tons (3.1mn tons in 2Q25 and 2.9mn tons in 1Q26).
- The company trades at EV/ton of SAR 187, at 58% discount to the sector (EV/ton of SAR 445) and 55% discount to Southern Cement (EV/ton of SAR 416). It trades at a 36% discount to its 3-year average EV/ton multiple of SAR 292, compared with the overall sector, which is trading at a 27% discount (SAR 611).
- The company's dispatches increased on both a Y/Y and Q/Q basis during the quarter; however, this came at the expense of realized prices. Domestic dispatches increased 3% Y/Y, outperforming the broader sector, which was flat Y/Y, and the southern region, where dispatches fell 3% Y/Y. Despite realized prices declining 6% Y/Y and 2% Q/Q, lower cost per ton supported gross profit growth during the quarter. Despite the positive quarterly performance, we expect dispatches to remain under pressure in the region, as reflected in 8M26 sales. Sector dispatches declined 2% Y/Y, while southern region dispatches fell 5% Y/Y, primarily due to a limited pipeline of large-scale projects and export volumes remaining below potential amid ongoing instability in Yemen. Given the government's current focus on delivering existing time-sensitive projects and events, we do not expect major new project announcements in the southern region in the near term. Nevertheless, previously announced initiatives across urban development, industrial expansion, logistics infrastructure, and tourism—including Jazan City for Primary & Downstream Industries (JCPDI) and infrastructure upgrades across Jazan and Asir—should provide some support to cement demand over the medium term. Najran Cement's domestic regional market share increased to 43% in 2Q26 from 39% in 4Q25. We believe the market share gains were largely driven by more aggressive pricing, as reflected in the decline in realized prices. Looking ahead, we expect realized prices to remain under pressure as regional demand has yet to meaningfully recover. Against the backdrop of a challenging demand environment and heightened pricing pressures, we have reduced our target price by 5%. The company currently trades at 0.5x 2026F P/BV and 35.2x P/E. Maintain Hold.

Rating and Risks

We are HOLD rated on NAJNAN and our 12-month target price is SAR 6. Upside risks include stronger-than-expected cement demand and higher retention price. Downside risks include a slump in cement demand, rising inventory levels, regulatory action against higher selling prices and contraction in public spending due to the decline in oil prices.

SAR mln	2Q26	1Q26	2Q25	Q/Q %	Y/Y %
Revenues	124	123	125	1%	-1%
Cost of Sales	-100	-100	-103	0%	-3%
Gross Profit	24	23	21	4%	10%
Operating Expenses	-12	-12	-12	1%	-1%
Operating Profit	12	11	10	6%	24%
Net Income	6	6	5	-4%	29%
EPS	0.03	0.04	0.03	-4%	29%
Dispatches ('000 tons)	658	638	622	3%	6%
Realized Price (SAR/ton)	188	193	200	-2%	-6%
Cost per ton (SAR/ton)	-152	-157	-166	-3%	-8%

Margins (%)					
Gross Margin	19	19	17	55 bps	192 bps
Operating Margin	10	9	8	48 bps	194 bps
Net Margin	5	5	4	-24 bps	110 bps

Rating Summary and Forecasts

Rating Summary		Forecasts	12/25 A	12/26 A	12/27 E	12/28 E
Rating	HOLD	Net Income (SAR mn)	37	26	42	55
Market Price	5.5	PER (x)	25.3	35.2	22.3	17.0
12-month Target Price	6	PBV (x)	0.5	0.5	0.4	0.4
Upside / Downside	13%	EPS (SAR)	0.2	0.2	0.2	0.3
Mkt Cap (SAR mn)	929.9	DPS (SAR)	0.0	0.0	0.2	0.3
52 week High/Low	8.07/5.32	RoE (%)	1.8	1.3	2.0	2.6
		Dividend Yield (%)	0.0	0.0	3.7	5.5

Price Chart



Rating Framework

Buy

Shares of the companies under coverage in this report are expected to outperform relative to the sector or the broader market.

Hold

Shares of the companies under coverage in this report are expected to perform in line with the sector or the broader market.

Sell

Shares of the companies under coverage in this report are expected to underperform relative to the sector or the broader market.

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