

Qassim Cement (HOLD, TP: SAR 49, 3040.SE) 2Q26 Results Review

Near-term pricing and cost pressures weigh on earnings, while cost saving initiatives offer medium-term support, but a premium valuation limits upside. Maintain Hold.

Qassim Cement Company (QACCO) reported a 19.5% Y/Y decline in 1H26 net profit to SAR 120.5mn (EPS: SAR 1.10), primarily driven by a 21% decline in operating profit and a 4.8% decrease in revenue, reflecting lower average selling prices and dispatch volumes. Profitability remained under pressure from elevated operating expenses, higher fuel costs, and lower returns from financial investments, partly cushioned by a lower effective zakat rate. The Board of Directors recommended a cash dividend of SAR 0.80/share for 2Q26.

- Revenue declined 6.4% Y/Y, driven by an 8.0% decline in realized prices, partially offset by a 1.7% increase in dispatch volumes. Sequentially, revenue declined 6.2% Q/Q as realized prices fell 9.8% following the normalization of festive-season pricing and intensifying competition from Eastern producers supplying the Central region, partially offset by a 3.9% increase in dispatch volumes.
- Gross margin contracted 388bps Y/Y to 20.9%, as a 3.3% decline in cost per ton proved insufficient to offset the 8.0% fall in realized prices. On a Q/Q basis, gross margin contracted 533bps despite a 3.3% decline in production cost per ton, reflecting the sharper fall in realized prices.
- Operating margin declined 458bps Y/Y as operating profit fell 23.6%, primarily driven by a 27.1% increase in SG&A expenses, partly offset by a 21.7% rise in other income, which included SAR 20.3mn of sector competitiveness support (2Q25: SAR 17.9mn). Sequentially, operating margin contracted 433bps as operating profit fell 22.6% Q/Q. Net margin declined 195bps Y/Y and 461bps Q/Q to 18.9%, with the Y/Y decline cushioned by a lower effective zakat rate of 7.4% (2Q25: 13.5%), while the Q/Q fall additionally reflects lower returns from financial investments.
- QACCO's consolidated inventory-to-LTM sales ratio stood at 71%, below the sector average of 81% but above the Central region average of 49%, with the Qassim plant at 43% and Hail at 136% against a Northern region average of 86%, indicating that elevated inventory is concentrated in the Hail asset rather than the core plant. Inventory declined to 4.7mn tons compared with 4.8mn tons in 1Q26 and 5.0mn tons in 2Q25.
- QACCO trades at EV/ton of SAR 870, at 77% premium to the sector (EV/ton of SAR 493) and 84% premium to its regional peers (EV/ton of SAR 473). It trades at 1% premium to its 3-year average EV/ton multiple of SAR 866, while compared with the overall sector it is trading at 42% premium to 3-year sector average EV/ton multiple of SAR 614.
- Qassim Cement (QACCO) delivered a 19.5% Y/Y decline in 1H26, as lower average selling prices and volumes, higher fuel and logistics costs, and lower financial-investment returns weighed on earnings. The near-term operating environment remains challenging, with domestic cement industry volumes declining 2.3% Y/Y to 25.9mn tons in 1H26, while clinker inventories remained elevated at 44.8mn tons. Management highlighted increasing supply from Eastern producers into the Central market, including instances of below-cost pricing, as excess capacity, high inventories, and market-share objectives continue to pressure pricing. The fuel-price adjustment effective from January 2026 is expected to increase QACCO's total operating costs by ~3%, further constraining margins. Management expects the pricing environment to remain difficult to predict, with recovery dependent on low-price selling becoming economically unsustainable. Against this backdrop, QACCO is prioritizing profitability over market share and has chosen not to compete aggressively on price. While this approach should protect unit economics, it limits the scope for volume-led growth while regional supply remains aggressive. Management views industry consolidation as a longer-term means of improving capacity management, efficiency, and pricing stability, although timing remains uncertain. Accordingly, QACCO's medium-term strategy is increasingly focused on strengthening its cost position. Line 4 at the Qassim plant, with 10,000 TPD capacity, is progressing as planned and is expected to replace ~35-40% of existing capacity, making it primarily an efficiency and asset-renewal initiative rather than a straightforward capacity addition. The company has secured SAR 400mn of SIDF financing for the project, alongside previously secured commercial-bank facilities. Energy initiatives provide further cost-reduction potential, with 30MW solar projects planned at both Qassim and Hail, restoration of waste heat recovery systems, and a planned transition toward natural gas in 2027. Management expects the solar projects to reduce total power costs by ~18%. The longer-term demand outlook remains supported by infrastructure and giga-project activity, with management highlighting SAR 20.6bn of contracts awarded across 14 building and construction projects since June 2026. However, project awards have yet to fully translate into cement consumption, as preparatory work typically precedes construction activity. We therefore see the project pipeline as a medium-term demand support rather than an immediate earnings catalyst. QACCO is also pursuing vertical integration through the proposed SAR 65mn acquisition of 100% of A-Mix, a ready-mix concrete producer. A-Mix generated SAR 54.4mn of revenue in 2025, but the transaction remains subject to regulatory approvals and is relatively small versus QACCO's existing operations. We view it as a value-chain diversification initiative rather than a material near-term earnings driver. QACCO also trades at a premium to the sector on P/E (+18.6%) and EV/EBITDA (+32.3%) metrics, despite the current earnings pressure. Given the premium valuation, ongoing pricing pressure, and limited near-term earnings visibility despite identifiable medium-term cost levers, we see limited scope for valuation re-rating. Maintain HOLD.

Rating and Risks

We have a HOLD rating on Qassim, and our 12-month target is SAR 49. Upside risks include stronger-than-expected cement demand, higher retention price, prices, faster infrastructure execution, and sharper improvement in sector pricing discipline. Downside risks include a slump in cement demand, rising inventory levels, regulatory actions 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	275	293	293	-6.2%	-6.4%
Cost of Goods	-217	-216	-221	0.5%	-1.6%
Gross Profit	57	77	73	-25.2%	-21.1%
Operating Income/(Expenses)	-1	-4	1	-69.6%	-302.1%
Operating Profit	56	73	73	-22.6%	-23.6%
Net Income	52	69	61	-24.7%	-15.2%
EPS	0.47	0.63	0.56	-24.7%	-15.2%
Dispatches ('000 tons)	1608	1547	1581	3.9%	1.7%
Realized Price (SAR/ton)	171	189	186	-9.8%	-8.0%
Cost per ton (SAR/ton)	135	140	140	-3.3%	-3.3%

Margins (%)

Gross Margin	20.9%	26.3%	24.8%	-533 bps	-388 bps
Operating Margin	20.5%	24.8%	25.0%	-433 bps	-458 bps
Net Margin	18.9%	23.5%	20.8%	-461 bps	-195 bps

Rating Summary and Forecasts

Rating Summary

Rating	Hold
Market Price	45.0
12-month Target Price	48.9
Upside / Downside	9%
Mkt Cap (SAR mn)	4,937.0
52 week High/Low	46.48/41.06

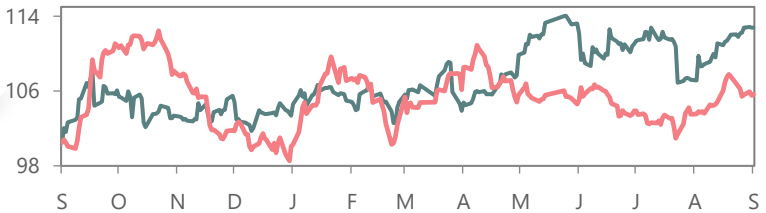
Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	260	233	252	283
PER (x)	19.1	21.3	19.7	17.5
PBV (x)	1.9	2.0	2.0	2.1
EPS (SAR)	2.4	2.1	2.3	2.6
DPS (SAR)	3.2	3.2	3.1	3.1
RoE (%)	9.8	9.2	10.3	11.8
Dividend Yield (%)	7.1	7.1	6.9	6.9

Price Chart

● QACCO

● TASI



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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