

Al Jouf Cement Co. (HOLD, TP: SAR 5, 3091.SE) 2Q26 Results Review

Weak domestic volumes continue to pressure earnings, while export expansion and energy initiatives offer a recovery path amid balance-sheet constraints. Maintain Hold.

Al Jouf Cement (JOUF) reported a 19% Y/Y increase in losses (1H26 EPS SAR -0.42), with revenue declining 38.9% Y/Y, driven by a 40.2% contraction in dispatch volumes despite higher realized prices. Gross profit fell 98.6% Y/Y to SAR 0.2mn as production cost per ton increased 20.6% amid sharply lower capacity utilization, resulting in an operating loss of SAR 17mn vs SAR 12mn in 1H25.

- Revenue declined 36.5% Y/Y, driven by a 40.3% contraction in dispatch volumes, partly offset by a 6.2% increase in realized prices. Sequentially, revenue rose 9.3% Q/Q as realized prices increased 29.2%, more than offsetting a 15.4% decline in dispatch volumes, supported by a higher export contribution of 35.1% of sales vs 14.6% in 1Q26.
- Gross margin contracted to -1.0% as compared to 9.6% in 2Q25 and 1.6% in 1Q26, as production cost per ton increased 18.8% Y/Y and 32.6% Q/Q, amid lower capacity utilization.
- Operating margin narrowed 1,642bps Y/Y and 780bps Q/Q, primarily due to the sharp contraction in gross margin, partially offset by lower operating expenses (-15.8% Y/Y). Sequentially, operating expenses rose 40.5% Q/Q on non-recurring general and administrative costs. Net margin fell sharply, declining 2,170bps Y/Y and 174bps Q/Q.
- The inventory-to-LTM sales ratio stood at 15%, below both the regional peer average of 86% and the sector average of 81%. Clinker inventory levels reached 157K tons, compared to 995K tons in 1Q26 and 1.2mn tons in 2Q25. Separately, the auditor flagged a SAR 97.8mn work-in-progress inventory loss recognized in 2025, with the related investigation still ongoing and the potential for further accounting adjustments.
- The company trades at EV/ton of SAR 380, at 23% discount to the sector (EV/ton of SAR 493) and 25% discount to its regional peers (EV/ton of SAR 505). It trades at 23% discount to its 3-year average EV/ton multiple of SAR 495 compared to the overall sector, which is trading at 38% discount to its 3-year average EV/ton multiple of SAR 614.
- Allouf Cement reported a 19% Y/Y increase in net loss, with revenue declining to 39% Y/Y as the sharp contraction in domestic sales more than offset higher export revenue and improved selling prices. The deterioration reflects continued weakness in the company's domestic volume base, with KSA revenue falling ~50% Y/Y to SAR 62.9mn, while export revenue increased ~74% Y/Y, indicating that the shift toward regional markets is gaining traction but remains insufficient in scale to offset the domestic shortfall. Against this backdrop, Allouf is implementing the first phase of its transformation strategy, which targets revenue diversification, expansion into regional export markets, and operational efficiency, with the SAR 55.4mn one-year cement and clinker supply contract with Maham Construction for exports to Syria; the contract is expected to contribute from 3Q26, although the absence of disclosed volumes and pricing limits visibility on its earnings contribution. The more material medium-term margin opportunity lies in Allouf's energy transition, with grid connection targeted for commercial operation in 1Q27 following the SAR 27.8mn ALTEC interconnection contract, a 22MW solar plant scheduled to commence operations in 4Q26 at no capital cost to Allouf, and a planned transition to natural gas by 2027. These initiatives should reduce reliance on higher-cost fuel and electricity sources and, together with higher production and sales volumes, provide scope to improve utilization and operating leverage of Allouf's existing asset base. However, the timing and magnitude of the earnings recovery remain dependent on the company's ability to translate the export strategy into sustained volumes and improve utilization, with management currently reassessing its seven-year business plan after the company fell short of its previously approved performance targets. This uncertainty is compounded by the balance-sheet position, with the auditor highlighting a material uncertainty related to going concern as current liabilities exceeded current assets by SAR 655.9mn at end-1H26, while accumulated losses reached SAR 176.8mn, equivalent to 16.27% of share capital. Bank facilities stood at SAR 718.6mn, including SAR 602.9mn due within one year, while covenant breaches resulted in SAR 350mn of facilities being classified as current; management is pursuing facility restructuring and rollover arrangements to strengthen liquidity. In addition, the auditor's qualified conclusion over the recoverability of SAR 1.65bn of PP&E reflects uncertainty around the carrying value of the company's asset base given weaker financial performance and its failure to meet business-plan targets. At EV/ton of SAR 380, Allouf trades at a 23% discount to the sector average and a 25% discount to regional peers, while it trades at 0.62x P/B, below the industry average of 0.99x and median of 0.86x. While the valuation discounts provide some support, we believe they partly reflect the company's weak earnings, balance-sheet constraints, and uncertainty around the recoverability of its asset base. We therefore require greater evidence of sustained volume recovery, utilization improvement, and execution of the cost-reduction initiatives before assuming a structural earnings recovery. Maintain HOLD.

Rating and Risks

We are HOLD rated on JOUF and our 12-month price target is SAR 5. Upside risks include stronger-than-expected domestic cement volumes, faster export growth, and earlier realization of energy-cost savings. Downside risks include continued weakness in domestic cement demand, delays in export ramp-up or energy-transition initiatives, higher-than-expected production costs, further balance-sheet pressure, and impairment of PP&E.

SAR mln	2Q26	1Q26	2Q25	Q/Q %	Y/Y %
Revenues	44	40	69	9.3%	-36.5%
Cost of Sales	44	40	63	12.2%	-29.1%
Gross Profit	0	1	7	-171.3%	-106.8%
Operating Expenses	10	7	12	40.5%	-15.8%
Operating Profit	-11	-7	-6	60.5%	93.5%
Net Income	-24	-22	-23	12.9%	4.2%
EPS	-0.22	-0.20	-0.22	12.9%	4.2%

Dispatches ('000 tons)	187	221	313	-15.4%	-40.3%
Realized Price (SAR/ton)	235	182	221	29.2%	6.2%
Cost per ton (SAR/ton)	237	179	200	32.6%	18.8%

Margins (%)

Gross Margin	-1.0	1.6	9.6	NA	NA
Operating Margin	-24.4	-16.6	-8.0	-780 bps	-1,642 bps
Net Margin	-55.5	-53.7	-33.8	-174 bps	-2,170 bps

Rating Summary and Forecasts

Rating Summary

Rating	Hold
Market Price	4.9
12-month Target Price	5.4
Upside / Downside	9%
Mkt Cap (SAR mn)	535.9
52 week High/Low	7.26/4.68

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	-207	-82	-68	-48
PER (x)	NA	NA	NA	NA
PBV (x)	0.6x	0.6x	0.7x	0.8x
EPS (SAR)	-1.9	-0.8	-0.6	-0.4
DPS (SAR)	0.0	0.0	0.0	0.0
RoE (%)	-22.7	-9.9	-8.9	-6.8
Dividend Yield (%)	0.0	0.0	0.0	0.0

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.

BSF Capital (Closed Joint Stock Company Owned by BSF)

Authorized and regulated under Capital Market Authority license 11153-37. The company is operating under commercial registration 1010231217 with a paid up capital of SAR 500,000,000.

Head Office
8092 King Fahd Road | Riyadh 12313-3735 | Kingdom of Saudi Arabia

Mailing Address
P.O. Box 23454 Riyadh 11426 | Kingdom of Saudi Arabia

Tel: +966 11 282 6828 | 800 125 9999
www.bsfcapital.sa

Important Disclaimer

This report is prepared by BSF Capital, a fully-fledged investment firm providing investment banking, asset management, securities brokerage, research, and custody services. BSF Capital, and its affiliate, might conduct business relationships with the company that is subject of this report and/ or own its security.

This report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this report.

This report is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This report is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report is not intended to take into account any investment suitability needs of the recipient. In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this report. BSF Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs.

To the maximum extent permitted by applicable law and regulation, BSF Capital shall not be liable for any loss that may arise from the use of this report or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized. All opinions and estimates included in this report constitute BSF Capital’s judgment as of the date of production of this report, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than what he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this report may be reproduced without the written permission of BSF Capital. Neither this report nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this report should make themselves aware of, and adhere to, any such restrictions. By accepting this report, the recipient agrees to be bound by the foregoing limitations.