# Northern Region Cement Co. (HOLD, TP: SAR 8, 3004.SE) 4Q25 Results Review

*Stronger volumes support topline growth, but persistent oversupply limits stronger retention prices, which alongside cost inflation pressures constrains margins*

**Northern Cement (NORTHCEM) reported net profit of SAR 56.06mn (FY25 EPS: SAR 0.31) vs. SAR 100.80mn in the prior year, which included a one-off gain of SAR 45.4mn from the sale of associate investments. On an underlying basis, revenue increased 10% Y/Y, supported by higher dispatch volumes. Operating profit remained flat Y/Y, indicating pressure from higher operating expenses offsetting gains at the gross level.**

- Revenue increased 4.8% Y/Y and 2.3% Q/Q despite a decline in dispatch volumes (-21% Y/Y, -27% Q/Q). Gross margin expanded to 31.4% from 29.9% in 4Q24, despite higher cost of sales (+2.6% Y/Y), while sequentially gross margin rose from 29.2%, partially supported by falling cost of sales (-1.0%).

- Operating margin contracted 422bps Y/Y and 254bps Q/Q to 16.3%, primarily driven by a sharp increase in operating expenses (+67.9% Y/Y, +49.8% Q/Q). Net margin improved to 10.5% from 9.1% in the prior quarter but remained below 12.4% in 4Q24, reflecting pressure at the operating level.

- The company's inventory-to-LTM sales ratio of 83% is higher than its regional peer average of 96% and the sector average of 78%. Inventory stood at 426k tons (339k tons in 3Q25 and 469k tons in 4Q24).

- NORTHCEM trades at EV/ton of SAR 795, at 59% premium to sector (EV/ton of SAR 499) and 165% premium to its regional peers (EV/ton of SAR 300). It trades at 11% discount to its 3-year average EV/ton multiple of SAR 889 compared to overall sector, which is trading at 21% premium to its 3-year average EV/ton multiple of SAR 655.

- *NORTHCEM reported a 44% Y/Y decline in net profit in FY25 (EPS: SAR 0.31), despite a 10% increase in revenue, driven by pricing normalization and higher input costs, within a KSA cement sector operating under structural oversupply. As a result, improved volume performance has not translated into earnings growth, as pricing discipline remains insufficient to offset cost inflation. NORTHCEM's northern region exposure continues to result in relatively lower utilization versus central and western peers, reflecting uneven regional demand distribution. However, this positioning provides optionality to benefit from incremental demand spillovers linked to ongoing infrastructure execution and giga-project activity, which could support utilization normalization over time. Export markets act as an additional channel for excess capacity, offering volume stability and improving overall plant utilization levels, even if realizations are modestly lower. Looking ahead, earnings trajectory is expected to gradually improve as sector pricing stabilizes, and volume growth normalizes with continued construction activity. The delay in the Iraq expansion project defers a potential capacity-led contribution into 2H26, extending the timeline for meaningful incremental upside. On the cost side, fuel price adjustments are expected to increase production costs by ~11% from FY26, partially offset by efficiency initiatives, energy optimization, and gradual pricing pass-through, though the timing and magnitude of offset remain uncertain. Medium-term margin stability is expected to be supported by incremental renewable energy adoption and ongoing cost efficiency programs. At the same time, escalating Middle East geopolitical uncertainty may introduce intermittent volatility in logistics and input costs, with potential offsetting effects through temporary supply tightness. From a valuation perspective, NORTHCEM trades at a 59% premium to sector EV/ton and a 165% premium to regional peers, while remaining only modestly below its 3-year historical average. This suggests limited re-rating scope in the absence of clearer earnings acceleration or stronger visibility on demand normalization. Maintain Hold.*

## Rating and Risks

We are HOLD rated on Northern Cement and our 12-month price target is SAR 8. Upside risks include stronger-than-expected cement demand, higher retention price, faster inventory normalization, and decline in fuel and energy costs. Downside risks include a slump in cement demand driven by slower-than-expected execution of giga projects, rising inventory levels, regulatory action against higher selling prices, volatility in fuel and transportation costs, and prolonged oversupply leading to sustained pricing pressure.

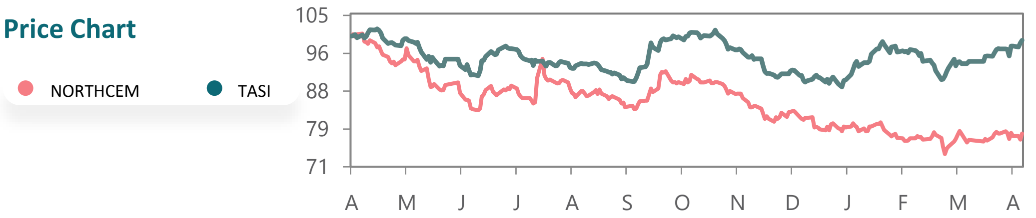
| *SAR mln* | 4Q25 | 3Q25 | 4Q24 | Q/Q % | Y/Y % |
|---|---|---|---|---|---|
| Revenues | 181 | 177 | 173 | *2%* | *5%* |
| Cost of Sales | 124 | 125 | 121 | *-1%* | *3%* |
| Gross Profit | 57 | 52 | 52 | *10%* | *10%* |
| Operating Expenses | 27 | 18 | 16 | *50%* | *68%* |
| Operating Profit | 30 | 33 | 35 | *-12%* | *-17%* |
| **Net Income** | **19** | **16** | **21** | *18%* | *-11%* |
| EPS | 0.11 | 0.09 | 0.12 | *18%* | *-11%* |
| | | | | | |
| Dispatches ('000 tons) | 96 | 132 | 121 | *-27%* | *-21%* |
| | | | | | |
| **Margins (%)** | | | | | |
| Gross Margin | 31.4 | 29.2 | 29.9 | *224 bps* | *145 bps* |
| Operating Margin | 16.3 | 18.9 | 20.5 | *-254 bps* | *-422 bps* |
| Net Margin | 10.5 | 9.1 | 12.4 | *143 bps* | *-184 bps* |

## Rating Summary and Forecasts

| Rating Summary | |
|---|---|
| Rating | Hold |
| Market Price | 7.0 |
| 12-month Target Price | 8 |
| Upside / Downside | 8% |
| Mkt Cap (SAR mn) | 1,261.8 |
| 52 week High/Low | 9.20/6.56 |

| Forecasts | 12/25 A | 12/26 E | 12/27 E | 12/28 E |
|---|---|---|---|---|
| Net Income (SAR mn) | 56 | 53 | 60 | 71 |
| PER (x) | 22.5 | 24.0 | 21.2 | 17.8 |
| PBV (x) | 0.6 | 0.6 | 0.6 | 0.5 |
| EPS (SAR) | 0.3 | 0.3 | 0.3 | 0.4 |
| DPS (SAR) | 0.3 | 0.3 | 0.3 | 0.3 |
| RoE (%) | 2.5 | 2.3 | 2.6 | 3.1 |
| Dividend Yield (%) | 3.6 | 3.6 | 3.8 | 4.5 |

## Price Chart



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## 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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