

Najran Cement (HOLD, TP: SAR 6, 3002.SE) 1Q26 Results Review

Decline in domestic dispatches coupled with retention price resulted in weak earnings. Maintain Hold.

Najran Cement reported a 64% Y/Y and 49% Q/Q decline in earnings, with 1Q26 EPS falling to SAR 0.04. Revenue decreased both Y/Y and Q/Q, primarily due to lower dispatch volumes and weaker retention prices (Y/Y). Gross profit also declined on both comparisons, while gross margins contracted Y/Y and Q/Q. Operating expenses increased during the quarter, resulting in a decline in operating profit on both a Y/Y and Q/Q basis. Consequently, net margin stood at 5% for the quarter.

- Revenue declined 9% Y/Y to SAR 123mn, primarily due to a 4% Y/Y drop in dispatch volumes and a 5% Y/Y decline in retention prices. On a sequential basis, revenue fell 8% Q/Q as dispatches decreased 14%, partially offset by a 7% increase in retention prices. Cost of sales decreased marginally by 1% Y/Y and remained broadly flat Q/Q. As a result, gross profit fell sharply by 32% Y/Y and 31% Q/Q, while gross margins contracted by 643bps Y/Y and 640bps Q/Q. The margin compression on a Y/Y basis was driven by a 5% decline in revenue per ton alongside a 3% increase in cost per ton. Sequentially, although revenue per ton improved by 7%, cost per ton rose at a faster pace of 16%, weighing on profitability. In addition, operating expenses increased 4% Y/Y and 3% Q/Q to SAR 12mn. Consequently, operating profit declined significantly, falling 50% Y/Y and 49% Q/Q.
- The company's net profit after tax clocked in at SAR 6mn (EPS: SAR 0.04) in 1Q26 compared to a profit of SAR 17mn (EPS: SAR 0.10) in 4Q25 and SAR 12mn (EPS: SAR 0.07) in 1Q25.
- The company's inventory to LTM sales ratio stands at 109%, lower compared to its regional peer Southern Cement (inventory to LTM sales ratio of 147%), while it is higher than the sector (inventory to LTM sales ratio of 78%). Inventory stood at 2.9mn tons (3.1mn tons in 1Q25 and 2.9mn tons in 4Q25).
- The company trades at EV/ton of SAR 196, at 58% discount to the sector (EV/ton of SAR 464) and 53% discount to Southern Cement (EV/ton of SAR 418). It trades at 36% discount to its 3-year average EV/ton multiple of SAR 305 compared with the overall sector, which is trading at 29% discount (SAR 655).
- The company continued to deliver weak Y/Y performance, with both dispatch volumes and retention prices remaining under pressure. Domestic dispatches declined 6% Y/Y, underperforming the sector (-4% Y/Y) but outperforming the southern region, where dispatches fell 10% Y/Y. The weakness reflects broader regional dynamics, as the southern region continues to lag the overall market. In 1Q26, regional dispatches declined 9% compared with a 5% contraction for the industry, primarily due to the limited 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 the announcement of major new projects in the southern region in the near term. Nevertheless, previously announced initiatives, including urban development, industrial expansion, logistics infrastructure, and tourism projects—such as 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 40% in 1Q26 from 37% in 4Q25. We believe these gains were achieved largely through more aggressive pricing, as evidenced by its average realized price of SAR 193/ton compared with SAR 234/ton for Southern Cement. Looking ahead, construction activity is likely to moderate during the summer months, potentially exerting further pressure on selling prices. In addition, cost efficiencies from Southern Cement's new production line may enable the company to adopt a more competitive pricing strategy to regain lost market share. In light of the challenging demand environment and heightened pricing pressures, we have reduced our target price by 13%. The company is currently trading at a 2026F P/BV of 0.5x and a P/E of 24.8x. Maintain Hold.

Rating and Risks

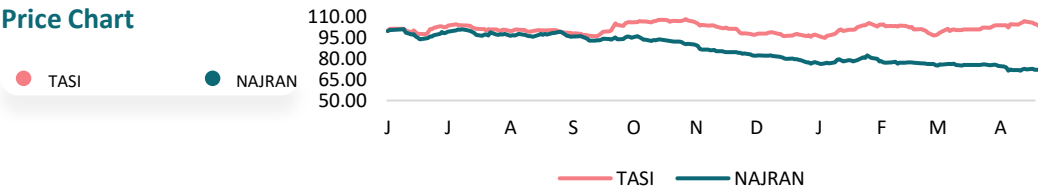
We are HOLD rated on NAJLAN and our 12-month target price is SAR 6. Upside risks include stronger-than-expected cement demand and higher retention price. Downside risks include a slump in cement demand, rising inventory levels, regulatory action against higher selling prices and contraction in public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

SAR mln	1Q26	4Q25	1Q26	Q/Q %	Y/Y %
Revenues	123	134	135	-8%	-9%
Cost of Sales	-100	-100	-101	0%	-1%
Gross Profit	23	33	34	-31%	-32%
Operating Expenses	-12	-11	-11	3%	4%
Operating Profit	11	22	23	-49%	-50%
Net Income	6	12	17	-49%	-64%
EPS	0.04	0.07	0.10	-49%	-64%
Dispatches ('000 tons)	638	740	665	-14%	-4%
Realized Price (SAR/ton)	193	180	203	7%	-5%
Cost per ton (SAR/ton)	-157	-135	-152	16%	3%
Margins (%)					
Gross Margin	19	25	25	-640 bps	-643 bps
Operating Margin	9	17	17	-739 bps	-761 bps
Net Margin	5	9	13	-400 bps	-775 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	40	55	70
Market Price	5.8	PER (x)	26.8	24.8	17.8	14.2
12-month Target Price	6	PBV (x)	0.5	0.5	0.5	0.5
Upside / Downside	11%	EPS (SAR)	0.2	0.2	0.3	0.4
Mkt Cap (SAR mn)	986.0	DPS (SAR)	0.0	0.0	0.3	0.3
52 week High/Low	8.46/5.79	RoE (%)	1.8	1.9	2.6	3.2
		Dividend Yield (%)	0.0	0.0	5.2	5.2

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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