

Eastern Province Cement Co. (HOLD, TP: SAR 27, 3080.SE) 1Q26 Results Review

Improving regional dispatch momentum supports earnings recovery, although sector oversupply and new capacity ramp-up pressures continue to constrain rerating potential. Reiterate Hold.

Eastern Cement (EACCO) reported a 16% Y/Y increase in net profit in 1Q26 (EPS: SAR 0.84), supported by a 19% increase in revenue driven by higher cement and precast concrete sales alongside improved precast concrete pricing. Operating profit rose 5% Y/Y, supported by lower SG&A expenses, although margin expansion remained constrained by elevated cost of revenues. Net profit growth was further supported by improved associate income, lower other expenses, and higher fair value gains on investments through P&L.

- Revenue rose 19% Y/Y, supported by 16% higher dispatches driven by stronger cement and precast concrete sales, while realized prices increased 3% primarily due to improved precast concrete pricing. Sequentially, revenue remained broadly flat as 5% growth in realized prices was offset by a 4% decline in dispatches.
- Gross margin contracted 440bps Y/Y to 28.1% due to a 26% increase in cost of revenues, while it expanded 245bps Q/Q supported by a 3% decline in cost of revenues. Cost/ton increased 9% Y/Y and 1% Q/Q.
- Operating margin declined 304bps Y/Y to 22.7% despite a 5% reduction in operating expenses, as elevated cost of revenues continued to pressure operating leverage, while it expanded 300bps Q/Q supported by lower SG&A expenses alongside 10% growth in operating profits.
- Net margin declined 47bps Y/Y but increased 865bps Q/Q to 20.3%, supported by improved associate income, higher dividend and murabaha income, lower associate impairment provisions, and higher fair value gains on investments through P&L.
- The company's inventory-to-LTM sales ratio stood at 72%, above Saudi Cement's 50% but below the sector average of 78%. Inventory levels were 2.0mn tons in 1Q26, compared to 1.9mn tons in 4Q25 and 2.0mn tons in 1Q25.
- The company trades at EV/ton of SAR 526, at 5% discount to the sector (EV/ton of SAR 501) and at 4% discount to regional peer Saudi Cement (EV/ton of SAR 549). It trades at 18% discount to its three-year average EV/ton multiple of SAR 642, compared to the overall sector, which is trading at 18% discount to its three-year average EV/ton multiple of SAR 526.
- Eastern Province Cement Co. (EPCCO) reported a stronger quarterly performance, with revenue rising 19% Y/Y supported by a 16% increase in dispatches alongside a 3% improvement in realized prices, driven primarily by higher cement sales and a stronger contribution from precast concrete operations. The company's market share expanded 104bps to 5.9% in 1Q26, reflecting improved dispatch momentum within its core operating regions, while domestic operations continued to dominate the revenue mix, with more than 99% of revenues generated within the KSA market. Despite the improvement, we believe the results largely reflect cyclical demand recovery rather than any structural shift in sector fundamentals, as the KSA cement market continues to operate with excess capacity despite ongoing Vision 2030-related project execution. While infrastructure, housing, and industrial activity continue to support cement demand growth, industry utilization remains below optimal levels, limiting pricing discipline and keeping competition largely volume-driven. Within this backdrop, EPCCO remains relatively well positioned given its exposure to the Eastern Province, where industrial concentration, energy-related investments, and infrastructure development continue to support comparatively resilient demand dynamics relative to several inland regions. In our view, the region's relatively diversified industrial and infrastructure-driven demand profile provides better volume visibility compared to regions more dependent on residential construction activity. We believe the company benefits from favorable freight positioning and proximity to key demand centers, supporting relatively resilient dispatch trends in an increasingly competitive market. In addition, the recent completion of the new 10,000 tons per day clinker production line at the Khursaniyah plant represents a key strategic milestone that should strengthen EPCCO's long-term operational scale and production efficiency. However, we expect the new line to initially dilute cost efficiency and pressure free cash flow generation during the ramp-up phase, given still-suboptimal sector utilization. Consequently, we believe the earnings contribution from the additional capacity will depend more on broader demand absorption and utilization recovery than capacity expansion alone. Looking ahead, we expect EPCCO's earnings trajectory to remain linked primarily to gradual demand normalization and infrastructure conversion into actual cement consumption rather than any meaningful recovery in sector pricing in the near term. While the stock trades at an 18% discount to its three-year average EV/ton and at a modest discount to regional peers, we believe the current valuation appropriately reflects the sector-wide derating, ongoing capex cycle, and limited visibility on margin recovery during the clinker line ramp-up period, collectively constraining the case for a material near-term rerating. Maintain Hold.

Rating and Risks

We issue HOLD rating on the Eastern and our 12-month price target is SAR 27. 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	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Revenues	354	354	299	0.1%	18.7%
Cost of Goods	255	263	201	-3.2%	26.4%
Gross Profit	100	91	97	9.6%	2.6%
Operating Expenses	19	21	20	-9.3%	-5.4%
Operating Profit	81	70	77	15.3%	4.7%
Net Income	72	41	62	74.1%	16.0%
EPS	0.84	0.48	0.72	74.1%	16.0%

Dispatches ('000 tons)	754	789	652	-4.4%	15.6%
Realized Price (SAR/ton)	470	449	458	4.7%	2.6%
Cost per ton (SAR/ton)	338	334	309	1.3%	9.3%

Margins (%)

Gross Margin	28.1	25.6	32.5	245 bps	-440 bps
Operating Margin	22.7	19.7	25.8	300 bps	-304 bps
Net Margin	20.3	11.7	20.8	865 bps	-47 bps

Rating Summary and Forecasts

Rating Summary

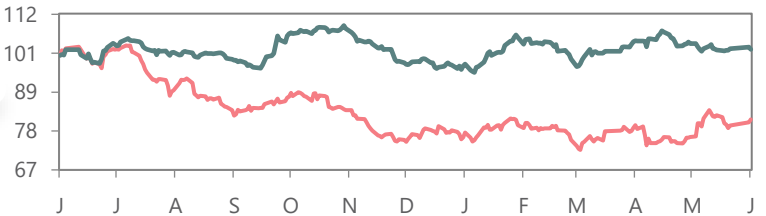
Rating	Hold
Market Price	24.9
12-month Target Price	27
Upside / Downside	9%
Mkt Cap (SAR mn)	2,137.1
52 week High/Low	32.06/21.95

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	202	251	283	300
PER (x)	10.6	8.5	7.5	7.1
PBV (x)	0.9	0.9	0.8	0.8
EPS (SAR)	2.4	2.9	3.3	3.5
DPS (SAR)	1.2	1.6	1.8	1.9
RoE (%)	8.6	10.2	10.9	10.9
Dividend Yield (%)	5.0	6.5	7.4	7.8

Price Chart

● EACCO ● 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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