

Southern Province Cement Co. (HOLD, TP: SAR 22, 3050.SE) 1Q26 Results Review

SOCCO's operational initiatives provide support, but sector oversupply and weak utilization continue to limit earnings recovery and rerating potential. Maintain Hold.

Southern Cement (SOCCO) reported a net loss of SAR 4mn (EPS: -0.03) in 1Q26, compared to a net profit of SAR 16mn (EPS: 0.12) in 1Q25, as gross profit declined 43% and operating profit fell 86%. The earnings decline was primarily driven by lower revenue and higher cost per ton, reflecting weaker utilization and increased production input costs. Higher selling, distribution, and administrative expenses, along with lower financing income, further weighed on profitability, partially offset by lower zakat provision.

- Revenue fell 7.7% Y/Y and 13.2% Q/Q as dispatches dropped 12.3% Y/Y and 23.5% Q/Q, partially offset by higher realized price (+5.3% Y/Y, +13.5% Q/Q). Gross margin declined 687bps Y/Y to 11.3%, as production cost per ton rose 19.9% Y/Y, amid lower utilization and higher input costs.
- Operating margin fell 933bps Y/Y to 1.7%, reflecting weaker operating leverage and higher selling, distribution, and administrative expenses. Net loss narrowed to SAR 4mn from SAR 93mn in 4Q25, as the previous quarter included higher cost of sales following inventory-related adjustments and depreciation impact from replaced assets at the Jazan plant.
- The company's inventory-to-LTM sales ratio stood at 147%, well above its regional peer Najran Cement at 109% and the sector average of 78%. Total inventory reached 5.9mn tons, compared with 6.7mn tons in 1Q25 and 7.0mn tons in 4Q25, suggesting some moderation but still elevated inventory levels.
- The company trades at EV/ton of SAR 381, at 24% discount to the sector (EV/ton of SAR 499) but 48% premium to its regional peer Najran Cement (EV/ton of SAR 258). It trades at 21% discount to its three-year average EV/ton multiple of SAR 485, compared to the overall sector, which is trading at 40% discount to its three-year average EV/ton multiple of SAR 640.
- Southern Province Cement Co. (SOCCO) remained under pressure in 1Q26, reporting a net loss as lower dispatch volumes reduced operating leverage and weighed on profitability, while higher production costs added further margin pressure. The company's market share declined 59bps Y/Y to 6.8% in 1Q26, reflecting weaker shipment performance amid continued oversupply and competitive pressure across the domestic cement sector. The increase in diesel and gas feedstock prices for industrial companies by Saudi Aramco added further pressure on the cost base and contributed to gross margin compression during the quarter. SOCCO's performance continues to reflect the broader challenges facing the KSA cement industry, where installed clinker capacity remains above domestic demand despite ongoing infrastructure spending and Vision 2030-related construction activity. While long-term cement demand remains supported by large-scale infrastructure and real estate projects, the pace of demand absorption remains insufficient to meaningfully improve sector utilization or restore pricing power, as producers continue competing for volumes amid elevated capacity. SOCCO has partially utilized clinker exports as an outlet for excess capacity, with export volumes reaching 190K tons in 1Q26 (+109% Y/Y, +20% Q/Q). However, export momentum moderated during the quarter, with monthly clinker exports declining from 98K tons in January to 22K tons in March, highlighting the sensitivity of export volumes to regional logistics conditions and external factors.*

Within this environment, SOCCO's manufacturing footprint across Jazan, Bisha, and Tihama supports distribution efficiency across the southern provinces, although it provides limited differentiation in an oversupplied market. The southern region continues to experience lower concentration of large infrastructure and real estate projects compared to central and western regions, limiting the pace of demand recovery and utilization improvement. Government-led industrial and infrastructure initiatives in the southern provinces, including Jazan City for Primary and Downstream Industries, provide medium-term demand support but are unlikely to materially alter near-term market dynamics given the current capacity overhang. As a result, SOCCO's earnings recovery remains dependent on broader sector normalization rather than company-specific growth initiatives. On the operational front, the new Jazan production line is expected to improve production efficiency and support gradual cost optimization once operational. The company's 25-year solar PPA with Tarshid for the Bisha plant is expected to commence operations in 2H26 and should gradually reduce energy costs; however, these efficiency gains are unlikely to fully offset the impact of weak utilization and sector pricing pressure in the near term. We expect profitability improvement to remain gradual and dependent on a sustained recovery in demand absorption and tighter industry supply-demand dynamics. At an EV/ton of SAR 381, SOCCO trades at a 24% discount to the sector but 48% above its three-year average, reflecting lower utilization and limited earnings visibility, as the ongoing sector supply-demand imbalance limits the scope for near-term rerating. Maintain Hold.

Rating and Risks

We are HOLD rated on Southern, with a 12-month price target of SAR 22. Upside risks include faster ramp-up of the new Jazan production line, stronger regional demand recovery, and improved cost efficiencies. Downside risks include continued capacity overhang, slower infrastructure execution in the southern region, and sustained margin pressure from higher input costs.

SAR mln	1Q26	4Q25	1Q25	Q/Q %	Y/Y %
Revenues	203	234	220	-13.2%	-7.7%
Cost of Sales	180	324	180	-44.4%	0.1%
Gross Profit	23	-90	40	NA	-42.6%
Operating Expenses	19	20	16	-2.5%	24.2%
Operating Profit	3	-110	24	NA	-85.8%
Net Income	-4	-93	16	-95.6%	NA
EPS	-0.03	-0.66	0.12	-95.6%	NA

Dispatches ('000 tons)	867	1,134	989	-23.5%	-12.3%
Realized Price (SAR/ton)	234	206	222	13.5%	5.3%
Cost per ton (SAR/ton)	177	244	148	-27.3%	19.9%

Margins (%)

Gross Margin	11.3	-38.5	18.2	4,984 bps	-687 bps
Operating Margin	1.7	-47.1	11.0	4,878 bps	-933 bps
Net Margin	-2.0	-39.8	7.4	3,780 bps	-936 bps

Rating Summary and Forecasts

Rating Summary

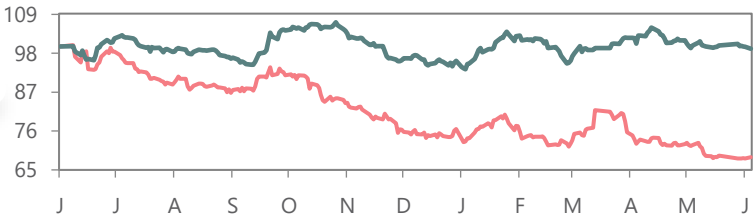
Rating	Hold
Market Price	20.1
12-month Target Price	22
Upside / Downside	9%
Mkt Cap (SAR mn)	2,811.2
52 week High/Low	30.00/19.96

Forecasts

	12/25 A	12/26 E	12/27 E	12/28 E
Net Income (SAR mn)	-49	20	30	48
PER (x)	-57.9	NM	NM	NM
PBV (x)	0.9	0.8	0.8	0.8
EPS (SAR)	-0.3	0.1	0.2	0.3
DPS (SAR)	-0.3	0.1	0.2	0.3
RoE (%)	-1.6	0.6	0.9	1.4
Dividend Yield (%)	-1.5	0.6	0.9	1.5

Price Chart

SOCCO 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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