Middle East Specialized Cables Co. (MESC)

INDUSTRIALS | INITIATION OF COVERAGE

2 February 2026

Compelling Value Opportunity

- Tailwinds in renewables and overall energy transition to drive the revenue and decouple MESC from Oil & Gas and Petchem end markets adding to diversification in the medium term. We estimate this to be one of the largest driving forces for the cables industry
- Margins are likely to remain stable against fluctuations in copper prices in our estimate, given the effective hedging strategies implemented thus far and Saudi Arabia's increased focus on the mining sector
- While concerns about receivables and adverse product mix exist, adjustments for these have been reflected in the target multiple and WACC and based on these considerations the stock currently appears to be attractively valued

Exposure to structural growth markets: MESC stands out for its strategic focus on specialized cables serving KSA and UAE's oil & gas and petrochemical sectors. These are segments anchored by capital expenditure from national champions like Aramco and SABIC, which have guided for higher investments even as the broader sector capex softens in 2025. The company's superior product mix and supplier approvals from top-tier industrial clients underpin both high-margin growth and resilience against sector volatility, positioning MESC as a structural winner from the next upcycle in regional energy and petrochemical investments.

Multi-sector tailwinds drive revenue diversification: Beyond traditional oil and gas, MESC is gaining from diversification into booming segments such as renewable energy, infrastructure, and real estate. Major policy initiatives, including Saudi solar projects (targeting 40 GW by 2030), the UAE's Operation AED 300bn industrial strategy, sustained growth in urbanization, and megaprojects like the Riyadh Metro expansion, are translating into robust demand for specialized and low-voltage cables.

Operational efficiency, financial health, and capacity upside: The company has broadly outpaced sector revenue growth since 2022, driven by premium product exposure, end-market expansion, and growing regional presence while keeping leverage moderate (currently 0.3x DE ratio), holding reasonable cash, and operating well below capacity (current utilization c.70%). This financial and capacity flexibility allows MESC to confidently pursue expansion and capitalize on new opportunities while maintaining sufficient headroom to handle future contract inflows.

Strong margin management amid raw material volatility: MESC's profit margins are influenced by fluctuations in copper prices. However, the recent adoption of a copper price hedging strategy is expected to improve gross margin stability. Alongside hedging, the company stands to benefit from Saudi Arabia's increasing investment in domestic copper production, creating additional potential for margin improvement as copper supply improves. MESC has also achieved a notable reduction in its operating expenses which even after factoring the uptick in 3Q25 remains at a relatively modest level vis-a-vis its historical trend. While we see potential for further efficiency gains, our base case currently assumes it to be c.7% of revenue in the near term.

Attractive valuation, trading below peers despite comparable growth and returns potential: MESC represents a compelling value opportunity, trading at considerably lower valuation multiples than its listed peers despite sharing similar or potentially better growth prospects and return metrics. As shown in the peer comparison table (Fig.20), MESC's current PE is below industry averages, highlighting a discount that is not reflective of its fundamentals or structural end-market tailwinds. While there are valid market concerns regarding the company specific risks (discussed later in the note), we have prudently incorporated them by applying a 20% discount to the industry average PE and a 3% company specific risk premium in MESC's valuation model, thereby ensuring a margin of safety for investors when benchmarking upside potential. We have used an equal mix of DCF and PE to arrive at a target price of SAR 33.5, implying a 48% upside and a BUY rating.

Key financial metrics *In SARmn, unless otherwise stated*	2023a	2024a	2025e	2026e	2027e
Revenue	927	1,144	1,483	1,705	1,876
Revenue growth	13.8%	23.4%	29.6%	15.0%	10.0%
Operating Profit	77	112	124	140	164
Operating margin	8.3%	9.8%	8.4%	8.2%	8.8%
Net profit	49	91	94	105	127
Net profit margin	5.3%	8.0%	6.3%	6.1%	6.8%
EPS (SAR)	1.22	2.27	2.34	2.62	3.18
DPS (SAR)	0.00	0.00	1.00	1.00	1.21
PE	18.4x	9.9x	9.6x	8.6x	7.1x

Source: Company data, Derayah Financial

Rating	**BUY**
Target price	SAR 33.50
Last price*	SAR 22.56
Upside potential	**48%**

** as at 1 Feb 2026*

Stock info

Saudi Exchange / Bloomberg symbol	2370 / MESC:AB
MCap (SARmn / USDmn)	902 / 241
Daily traded value 3M avg. (SARmn / USDmn)	13.5 / 3.6
Free float %	96.1%
Foreign ownership* / limit	7.3% / 49.0%

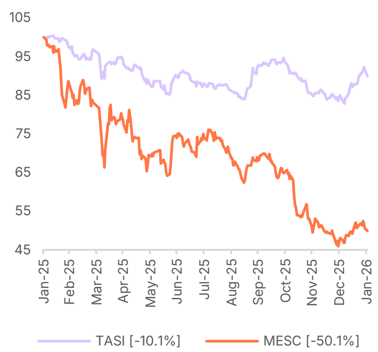
** as at 29 Jan 2026*

Key shareholders

Mansour Abdelaziz Mohammed Kaaki	6.4%
Al Namlah Mohammed Abdulaziz	2.8%
Al Namlah Sulaiman Bin Mohammed	1.0%

Source: Bloomberg

Share performance (1-yr return)



Source: Bloomberg

ANALYST CONTACTS

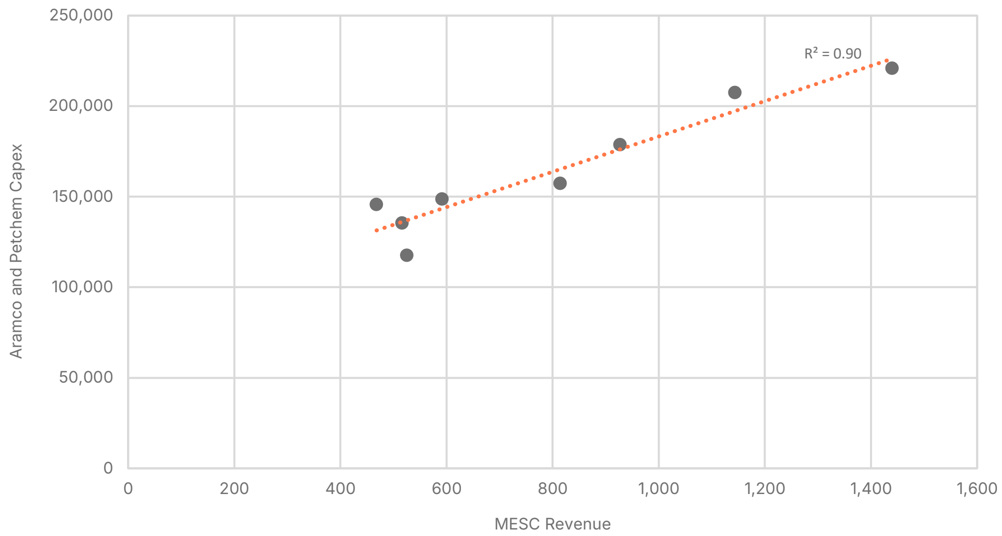
Aditya Takkar
Senior Research Analyst
+966 11 271 6740
aditya.takkar@derayah.com

Investment thesis

Strong linkage to Oil & Petrochemical capex underpins growth and profitability

MESC's revenue base is largely driven by leading Oil & Gas and Petrochemical customers. While the company does not disclose a detailed revenue breakdown by end market, management has consistently indicated that these sectors represent its primary revenue contributors. Moreover, MESC's performance shows a strong correlation with the capital expenditure cycles of Saudi Aramco and other major petrochemical players. The specialized cables supplied to these industries typically command higher margins due to their technical complexity and customization requirements. Consequently, we believe that at a fundamental level MESC benefits from a superior product mix and higher margin profile.

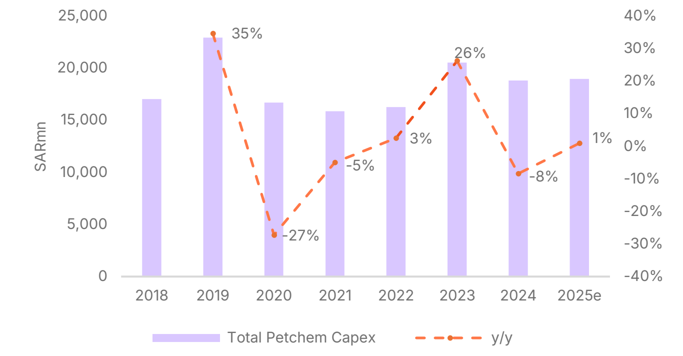
Figure 1: Strong correlation between Aramco and Petchem co. capex and MESC's revenue



Source: Company data, Bloomberg

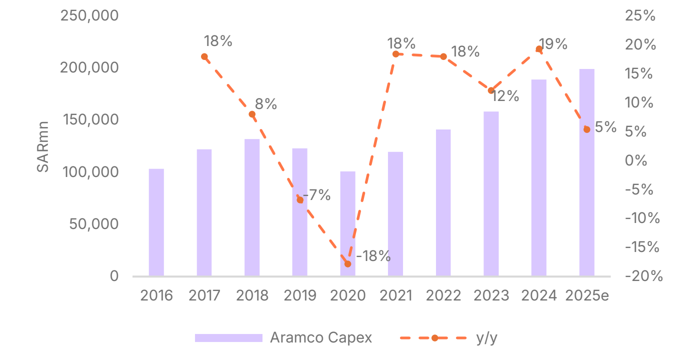
MESC is strategically positioned to benefit from its strong exposure to key customers in the Oil & Gas and Petrochemical sectors. While the overall petrochemical sector's capex has been subdued so far and is expected to end 2025 with just a low-single digit year over year increase, MESC's potential clients spending has been resilient. For instance, based on guidance, Aramco capex is likely to show c.5% increase while SABIC, a cornerstone petrochemical player, could post a c.21% rise year-on-year. MESC has supplier approvals from many prominent players in the sector such as ADNOC, Sadara Chemical Company, Petro Rabigh, Tasnee, Sipchem, Kuwait Oil Company, Qatar Petroleum and Advanced Petrochemical Company which is a testimony to its strong technical capabilities, product quality, and compliance with the stringent qualification standards of leading regional oil & gas, and petrochemical companies. MESC's recent notable achievement includes a c.SAR 225mn contract awarded by the NPCC-Saipem JV (a large EPC contractor in energy sector) in mid-2024 to its UAE (Ras Al Khaimah) subsidiary. Scheduled for execution over 18 months, this contract is expected to support the topline through the end of this year. While the broader capex cycle is in a downtrend, MESC stands to gain as investment recovers. The combination of approvals from major clients, a premium product mix, and steady medium-term capex from strategic customers provides structural support to topline, in our view. Overall, MESC's revenue outlook appears resilient even amid low oil prices and selective capex growth (such as Aramco's spending on Jafurah gas field), positioning the company as a compelling beneficiary of a potential turnaround in the GCC energy and petrochemical investment cycle.

Figure 2: Petchem sector capex subdued however Sabic, key player in the industry, stays resilient and has guided c.21% y/y increase for 2025



Source: Bloomberg

Figure 3: Aramco capex guidance also implies mid-single-digit growth



Source: Bloomberg

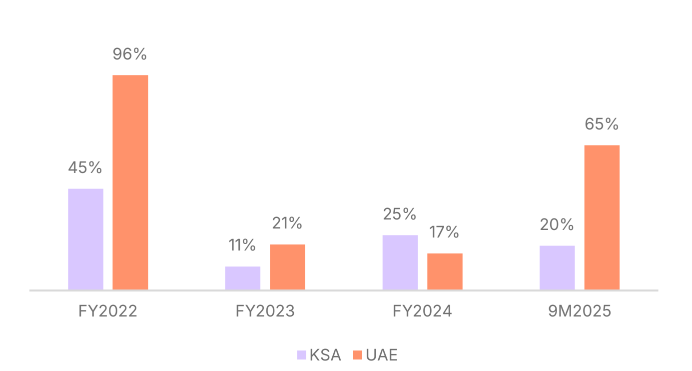
Tailwinds for the UAE business balance the geographic mix and bode well for sustained revenue growth

ADNOC push: ADNOC recently signed long-term framework agreements worth AED 6bn to manufacture critical industrial equipment in the UAE. The agreements explicitly include cables as part of its localization and In-Country Value (ICV) program, and they were awarded to UAE-based manufacturers. This initiative represents a significant demand driver for regional cable producers. MESC, through its Ras Al Khaimah subsidiary, is well positioned to benefit from this push, as it can participate in these projects and capture a share of the rising cable demand in the UAE market.

Operation 300bn: The UAE government is positioning the industrial sector as a key driver of the country's economic transformation. Under the "Operation 300bn" initiative, the goal is to increase the industrial sector's contribution to GDP from AED 133bn to AED 300bn by 2031. The program focuses on strengthening national industries and boosting their global competitiveness, creating a supportive environment for industrial growth and investment. The SAR 225mn contract awarded to MESC's UAE subsidiary in 2024 is a testimony to the company's ability to benefit from such initiatives

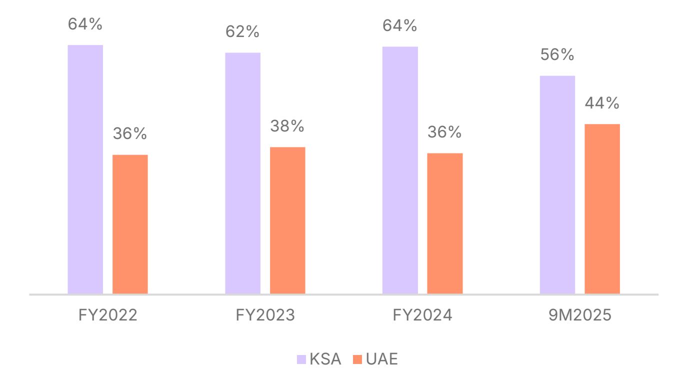
Such tailwinds have resulted in a more balanced geographic mix of revenue – 56% KSA and 44% UAE for 9M25 vs. the longer-term mix of around 65% KSA and 35% UAE.

Figure 4: UAE almost consistently delivers significantly higher revenue growth y/y compared to KSA



Source: Company data

Figure 5: UAE's share in revenue is increasing



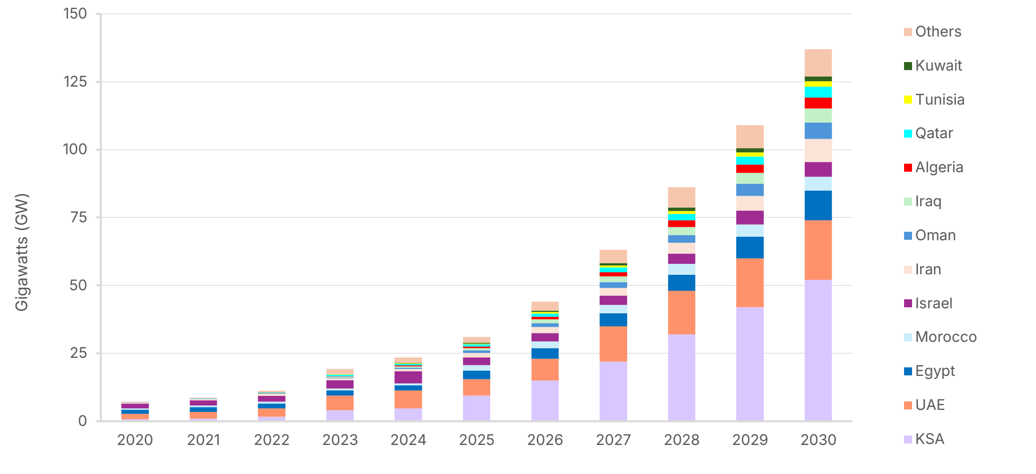
Source: Company data

Urbanization, energy transition and electrification to bolster and diversify the revenue streams

The cables business benefits from favorable demand drivers beyond the Oil & Gas and Petrochemical sectors. MESC has a well-established Specialized and Low Voltage cable product line, used in the transmission of electrical energy across commercial, residential, industrial, and renewable energy projects. Rising demand from energy transition, electrification initiatives, and building & construction projects is expected to drive growth, supporting both topline expansion and end-market diversification.

Solar projects: Despite abundant sunlight, solar energy alternatives have historically received limited investment in the MENA region, resulting in a modest total output of around 25 GW as of 2024 (compared to China's 887 GW, the US's 177 GW, and India's 97 GW). However, this landscape is set to change with renewed emphasis on transitioning to green energy. The government plans to invest approximately SAR 120bn in a green energy pipeline between 2025 and 2030 that includes solar, wind, energy storage, and green hydrogen projects.

Figure 6: Solar capacity projection for MENA countries imply significant potential and investment spend until 2030, creating an ample opportunity for cable providers such as MESC



Source: Rystad Energy

This expansion of solar capacity, targeting c.40 GW by 2030 and aiming for 50% of electricity generation from renewables, creates significant and recurring demand for cables. As of end-2025, Saudi Arabia is estimated to have 12.7 GW of installed renewable energy capacity (a substantial increase from 6.55 GW in 2024) of which 12 GW is likely to be solar and the rest is expected to be wind. The government has tendered a total of 64 GW of renewable energy capacity as of 2025 end and around 20.6 GW was tendered in 2025 alone indicating the increase in momentum towards the renewable initiative. Renewable capacity is expected to reach 16.5 GW and 20 GW by 2026 and 2027 respectively. It is important to note that under the National Renewable Energy Program (NREP), 70% of the planned capacity is developed by ACWA Power, a domestic renewable giant and a key customer of MESC while only the remaining 30% is allocated through a competitive tendering process.

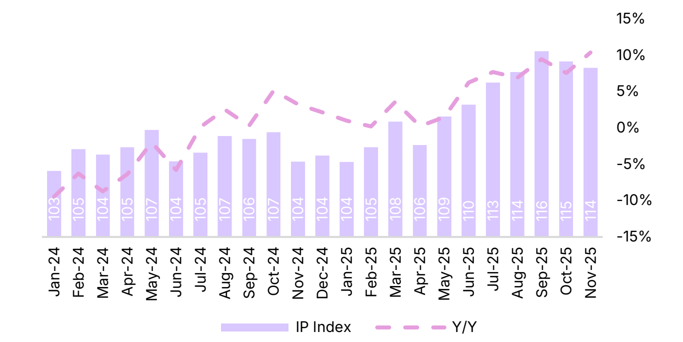
Similarly, the UAE is also pursuing aggressive energy diversification goals, emerging as one of the fastest-growing utility-scale renewable energy markets in the MENA region, with approximately 2 GW of renewable capacity installed annually. By 2050, the UAE aims to generate 44% of electricity from renewable sources, including 25% from solar, and achieve a total installed solar capacity of 44 GW.

In large solar projects, cables typically account for 5–10% of total EPC material costs, representing a meaningful opportunity. Most projects are photovoltaic-based, and MESC is well positioned to serve as a key supplier, given its ability to meet the majority of cable requirements. To give some context of its ability and scale, MESC had supplied more than 40,000 km of high-quality solar cables to the Red Sea Project during 2021–22, covering major projects with Shandong/SEPCO, ACWA, and Marafiq, as well as the 3B Jubail project. The company operates a large-scale solar cable manufacturing facility in Riyadh, producing cables from 1.5mm² to 185mm² that are fully compliant with EN and IEC standards and approved by DEKRA, a leading international testing and certification body.

Metro project – The planned expansion of the Riyadh Metro, estimated at around SAR 80bn, represents a significant medium-term demand catalyst for domestic cable manufacturers such as MESC. Large-scale infrastructure projects of this scale require substantial volumes of low- and medium-voltage (LV/MV) cables for power distribution, signaling, and control systems. Given MESC's strong presence in Saudi Arabia's infrastructure and industrial cable segments, along with its proven execution track record in major government and EPC projects, the company is well positioned to capture a meaningful portion of this demand as it is already an approved supplier for Riyadh Metro. Beyond the direct metro works, such projects typically stimulate secondary demand from associated urban, commercial, and utility developments, providing sustained order inflows. We therefore view the metro expansion as a multi-year driver for MESC's domestic revenue growth and capacity utilization over the medium term.

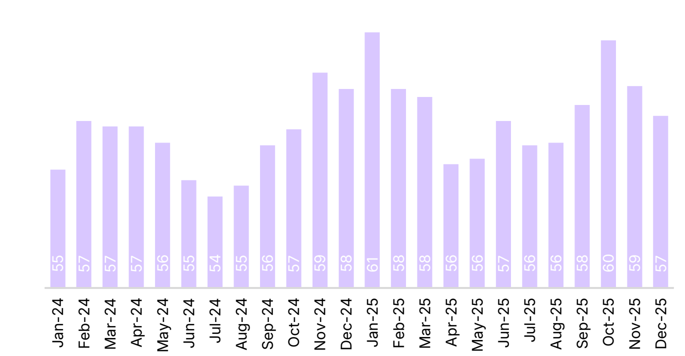
Industrial growth – In 2025 so far, the industrial sector has shown early signs of recovery. In November, the Industrial Production Index (IPI) rose 10.4% y/y, extending the positive momentum. The non-oil private sector also ended 2025 in expansion territory, as reflected in the December PMI reading of 57.4, although growth momentum has moderated for the second consecutive month following October's sharp acceleration to 60.2. While a PMI reading above 50 continues to signal expansion, driven by higher output, new orders, and employment, the latest survey indicates a gradual easing in the pace of growth, alongside more cautious business sentiment and selective demand softness. This suggests that although activity remains expansionary, near-term momentum is normalizing from recent highs. For the cables industry, the ongoing expansion in industrial production, particularly in manufacturing, continues to underpin demand for low and medium voltage cables. However, the moderation in PMI momentum points to a more measured demand trajectory in the near term, with project execution and order flows likely to remain uneven rather than uniformly strong.

Figure 7: Industrial Production continues its upward trajectory



Source: GASTAT

Figure 8: PMI ends 2025 in expansion, albeit with a slowing pace of growth



Source: Riyadh Bank PMI

Residential and commercial - MESC is well-positioned to capitalize on the robust expansion of Saudi Arabia's residential and commercial real estate sectors. In the first half of 2025, the Kingdom recorded approximately 93,700 residential transactions valued at SAR 77.5bn, with a notable 7% year-on-year increase in transaction volume, as per Knight Frank research. The residential real estate market is projected to grow from SAR 575bn in 2025 to SAR 800bn by 2030, reflecting a CAGR of 6.7%, as per Mordor intelligence. Simultaneously, the commercial real estate sector is experiencing a steady growth. The market size was valued at SAR 255bn in 2024, with expectations to reach SAR 341bn by 2033, reflecting a CAGR of 3.35%, as per IMARC research.

Moreover, starting January 2026, Saudi Arabia has allowed foreigners to own residential and commercial properties in designated zones. This marks a major liberalization of the real estate sector, aimed at attracting foreign investment and boosting market liquidity.

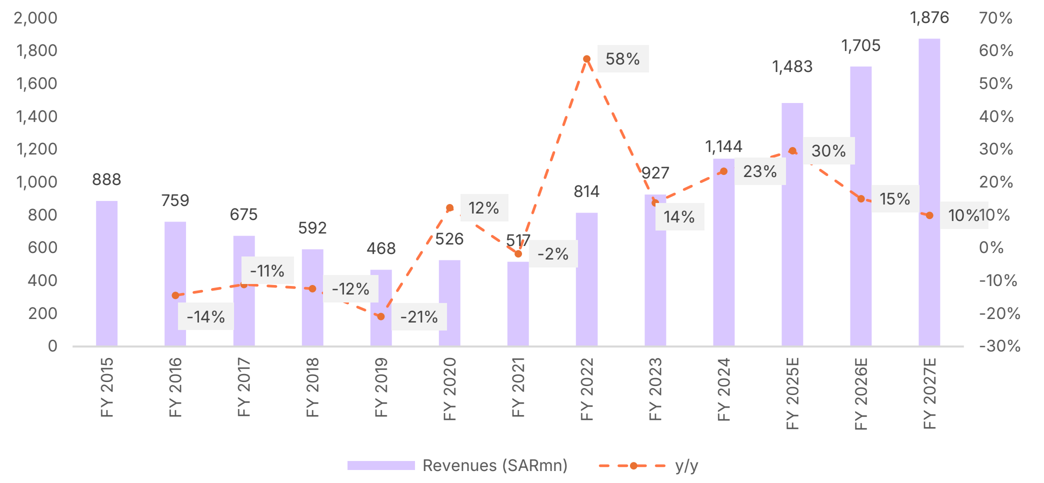
MESC's established presence in the Kingdom positions it to benefit from this growth. The company's Low Voltage (LV) cables, essential for electrical distribution in residential, commercial, and industrial sectors, are integral to the infrastructure developments underway. With ongoing urbanization, population growth, and government-backed initiatives under Vision 2030, including large-scale housing programs, commercial developments, and smart city projects, the demand for LV cables is expected to rise steadily. This is also evident from the recent shift in the product mix, which is tilting towards the LV/LC segment.

Revenue turnaround, demonstrating strong revenue growth since 2022

We estimate the growth to be stemming from the below:

- Premium product mix, particularly specialized cables for Oil & Gas, petrochemical, and industrial projects.
- End-market diversification, with growing revenues from residential, commercial, and renewable energy (e.g., solar) projects. We expect the demand from energy transition and electrification projects to be very substantial and our channel checks suggest MESC could be a key beneficiary.
- Regional expansion, including the UAE operations through the Ras Al Khaimah subsidiary, enabling participation in NPCC-Saipem JV projects and benefiting from ADNOC's localization/ICV initiatives.
- Government and Vision 2030 infrastructure projects, such as Riyadh Metro expansions, urban housing programs, and commercial developments, driving consistent demand for Low Voltage cables.
- Operational efficiency and timely execution
- Reputation and supplier approvals from leading EPC and industrial players, providing recurring and predictable order flow.

Figure 9: MESC annual revenue growth
In SAR million, unless otherwise stated



Source: Company data, Derayah Financial

Poised to Potentially Benefit from Saudi Arabia's AI and Data Center Expansion

Middle East Specialized Cables (MESC) could possibly benefit from Saudi Arabia's ongoing investments in data center and AI infrastructure, particularly from flagship initiatives like Humain, which is projected to be one of the largest AI data center developments globally. As Saudi Arabia pushes to become a regional hub for AI and cloud computing, with substantial funding and government support, there is increasing demand for advanced cabling infrastructure essential for these high-density compute facilities. MESC's current product portfolio does not align with this requirement, however it could consider introducing products that specifically cater to this demand. As such, even though the demand from AI and data center projects suggests there could be a significant value unlock, this potential is not factored into our base case valuation assumptions at this time, presenting a future upside if the company were to expand its product portfolio to cater to this demand.

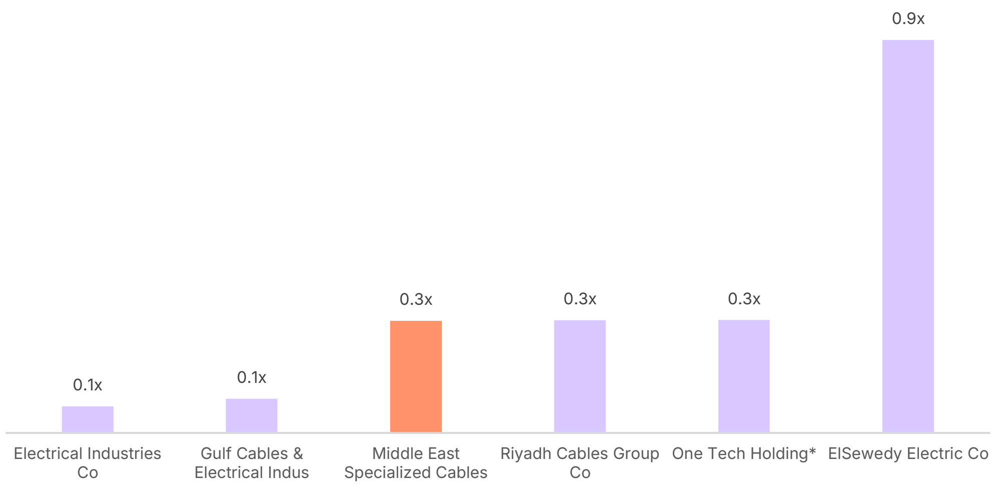
Enough spare capacity to capitalize on increase in order flow

MESC is currently operating at an aggregate capacity utilization rate of around 70% across its plants which implies there is enough spare capacity to tackle additional contract inflows. Given the structural demand drivers for the cables market, we see utilization increasing further while improving the operating leverage which bodes well for the margins.

Leverage position in favor of capacity expansion, if needed

MESC maintains a solid financial position, with cash holdings of approximately SAR 23mn and a moderate debt-to-equity ratio (including leases) of 0.3x as of 3Q 2025. Based on our estimates, a potential 30,000 TPA capacity expansion in KSA or the UAE aimed at meeting rising demand would require an investment of around SAR 350–450mn. Even if this expansion were fully debt-financed, the leverage would increase only to about 0.7x by 2028e (assuming 3-year construction period), indicating sufficient balance sheet flexibility. We therefore believe that capacity expansion is unlikely to constrain MESC's growth prospects.

Figure 10: Debt-to-equity ratio comparison for select MENA industrial players (as on 3Q25)

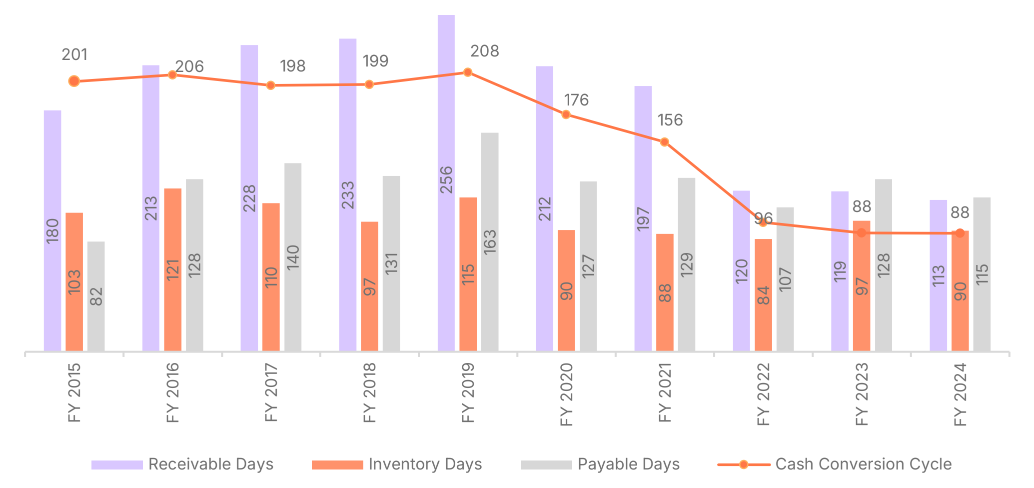


*Source: Bloomberg. *For One Tech Holding the data is available as on FY24*

Cash conversion cycle has shown considerable improvement

MESC has demonstrated a marked improvement in its operational efficiency, particularly evident in the reduction of its cash conversion cycle from over 200 days in 2019 to approximately 90 days as of 2024. This improvement is primarily due to a decrease in receivable days followed by a reduction in inventory days, while maintaining a relatively stable payable turnover. However, there remain some concerns regarding receivables, which are detailed in the Risk section, and these concerns have been factored into our valuation assumptions.

Figure 11: Improving working capital cycle decrease the need for external financing



Source: Company data

Changes in copper prices could have a delayed effect on MESC's margins

Our analysis indicates that margins could be susceptible to raw material inflation and, conversely, benefit from deflation. There seems to be a lag of around 6 to 12 months in the copper prices movements and its impact on gross margin, as per our analysis.

In 2019, average copper prices declined by 8%, and the revenue was down by 21%. However, gross margin improved to 11% (vs. 8% in 2018), reflecting the positive impact of lower input costs, in our view. This margin benefit extended into the following year where despite a 3% increase in copper prices in 2020, gross margin further expanded to 15%, suggesting that MESC might have secured raw materials at favorable prices in the prior year.

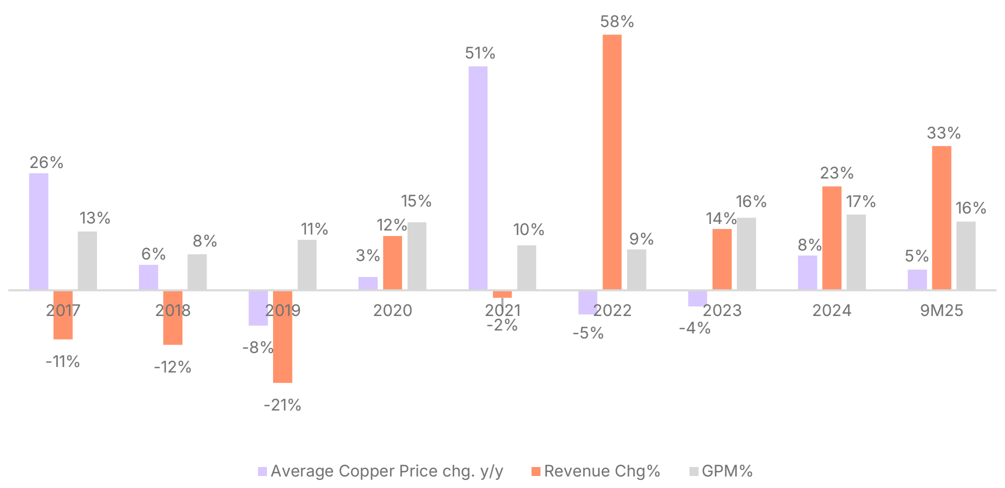
A similar trend was observed in 2023, with gross margin rising to 16% (vs. c.9% in 2022) amid consecutive declines in average copper prices (-5% in 2022 and -4% in 2023). And notably, despite a 58% increase in revenue in 2022, gross margin contracted by some 100bps vs. 2021, reflecting the lagged impact of the substantial copper price increase (c.51%) in 2021.

In 2024, MESC managed to protect its gross margin, which increased by c.70bps y/y, benefitting from robust topline growth (+23% y/y) and possibly the lagged effect of lower copper prices in the preceding two years, which more than offset the 8% copper price inflation recorded in 2024.

However, in 9M 2025, the persistent rise in copper prices (+5% y/y), in addition to the 8% rise in 2024, led to a contraction in margins, with gross margin declining to 15.5% from 17.9% in 9M 2024. One peculiar thing about 2024 is that the company has started hedging for the copper price movements and as such have decided to enter into forwards contracts for materials (mainly copper) related to instrumentation and power cables.

While the margins have been volatile given its sensitivity to copper price movements, we expect them to decouple to some extent, considering the hedging activity by the company and the improved focus of Saudi government on copper mining and related activities (discussed later in the note) which should increase the copper availability in the country. We do note that there could be other factors such as favorable/unfavorable product mix at play. However, the margin sensitivity to copper price movements, as implied by our analysis, is also noteworthy.

Figure 12: Analysis of margin sensitivity to copper price fluctuations suggests a delayed impact (6 to 12 months lag) of changing input costs on the company's profitability



Source: Company data, Bloomberg

Saudi Arabia's copper expansion likely to secure raw material stability and benefit MESC's cable production

First domestic copper smelter: Saudi Arabia is constructing its inaugural copper smelter in collaboration with Glencore, with a planned capacity of 400,000 TPA. This facility is expected to commence operations by mid of 2026.

Potential International partnerships: Saudi Arabia, through Manara Minerals (a joint venture between PIF and Ma'aden), has expressed interest in acquiring stakes in African copper assets. Reports indicate ongoing discussions with governments in Zambia and the Democratic Republic of the Congo regarding potential minority stakes in copper projects. These efforts are part of a broader strategy to secure long-term copper supply for industrial and energy transition needs. No transaction has been publicly finalized to date.

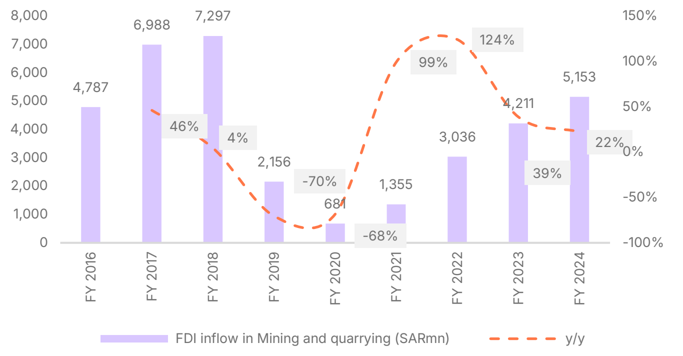
International Mining Conference: In Q1 FY2025, the Kingdom hosted the fourth edition of the International Mining Conference, bringing together participants from more than 89 countries, including 50 ministers at the International Ministerial Meeting of Mining Ministers. The event attracted around 18,000 attendees from 165 countries, underscoring Saudi Arabia's growing stature as a key global destination for mining investment

Strategic investments by the Public Investment Fund (PIF): Saudi Arabia's PIF is backing Vale, a leading global miner, to enhance copper production. In 2024, Manara Minerals, acquired a 10% stake in Vale Base Metals (VBM) for USD 2.5bn, providing Saudi Arabia with exposure to copper, nickel, and cobalt operations in Brazil, Canada, and Indonesia. VBM intends to invest USD 25–30bn in new projects over the coming decade, moving towards a significant increase in copper production from 350kt/year to 900kt/year.

Exploration incentives: In 2024, the Saudi government launched a USD 182mn exploration incentive program and issued 33 new mining licenses, including areas rich in copper deposits such as Jabal Sayid and Al Hajar.

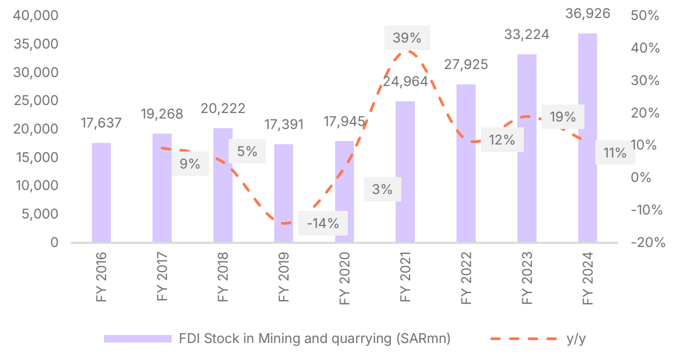
While Vision 2030 aims to boost the mining sector's GDP contribution from USD 17bn to USD 75bn by 2030, these initiatives are also likely to improve copper supply and price stability in the region, which could be a substantial benefit for MESC.

Figure 13: FDI inflow in mining and quarrying is experiencing a recovery boding well for improved raw material availability



Source: GASTAT

Figure 14: Cumulative FDI in mining and quarrying

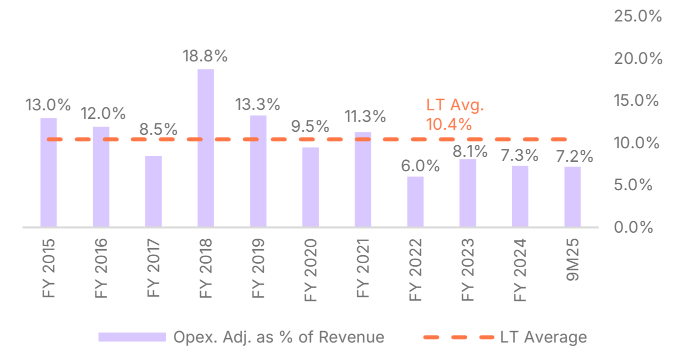


Source: GASTAT

Strong cost management enhances profitability

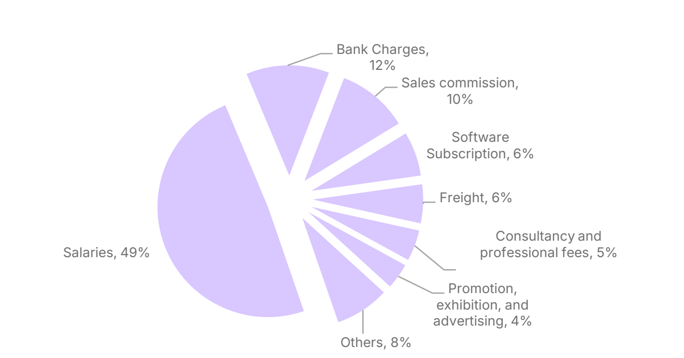
Another factor enhancing MESC's investment case is its ongoing focus on operating expense management, which has helped improve overall efficiency. As noted earlier, 9M 2025 gross margins declined to 15.5% amid persistently high copper prices in addition to the adverse product mix (more LV cables vs. specialized cables). However, the company continued to reduce operating expenses, which fell to 6.8% of revenue (excluding the one-off late delivery provisions) from 7.4% in 9M 2024, partially offsetting the pressure on gross margins. We expect MESC to maintain its low-cost profile, while noting a potential upside risk from higher impairment charges on receivables. For the elevated late delivery provision charges in 3Q 2025, we expect a partial reversal in coming quarters.

Figure 15: Operating efficiency is being sustained in recent years



Source: GASTAT

Figure 16: SG&A cost mix



Source: GASTAT

Competition unlikely to get hostile as market is big enough and no major product overlap with key competitor

We believe the competitive landscape is unlikely to turn hostile for MESC for two key reasons:

1. **Market size and growth:** The cable market is large and expanding at a healthy pace, in our view, which supports favorable supply-demand dynamics. This reduces the likelihood of aggressive competition. According to IMARC research, the GCC cable market is expected to grow at healthy CAGR of 12.5% between 2025 to 2033.

2. **Limited product overlap in specialized categories:** MESC's primary product currently is industrial specialized cables used in petrochemical, oil & gas, energy, and heavy industrial projects. In contrast, its largest competitor (in listed space), Riyadh Cables, derives majority of its revenue from overhead high-voltage cables, and this segment has no overlap with MESC's core offerings.

3. **Low-voltage cable market big enough to warrant stable competitive landscape:** The low-voltage cable segment, where there could be some overlap in product offering, is expected to experience strong demand, and we anticipate that overall supply-demand conditions will remain favorable across the cable industry. This should continue to discourage hostile competitive behavior as MESC improves its positioning in this segment, benefiting from the overall market growth.

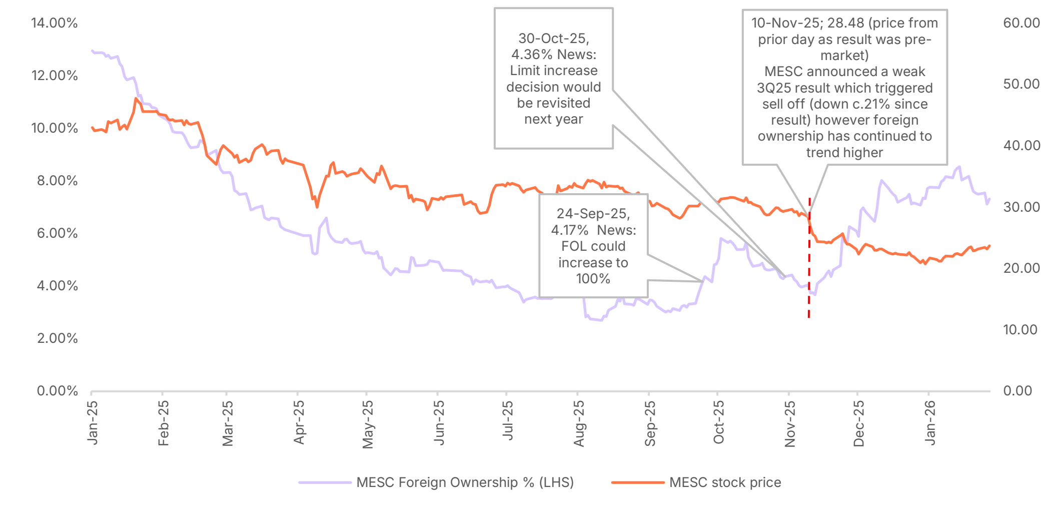
Dividend initiation and sustainable payout outlook

After a long hiatus of 15 years, MESC resumed dividend payments in 2025. The company's dividend payment for 2025 is likely to be SAR 1 per share (SAR 0.50 already paid for first half and another SAR 0.5 is declared), amounting to a total payout of SAR 40mn, which translates into a trailing 12-month dividend yield of 4.4%. We expect the company to maintain this level of dividend distribution, supported by strong growth and healthy cash-flow generation. In our model, we assume a sustainable payout ratio of c.40%, which balances shareholder returns while allowing for capital expenditure and working capital requirements without the need to take on significant new debt.

Foreign ownership increasing

Despite the uncertainty surrounding foreign ownership limit regulations for Saudi stocks and the sell-off in MESC following weaker 3Q25 results (driven largely by margin pressure attributable to adverse mix and the one off related to late delivery charge), the steady rise in its foreign ownership (c.7.3% currently) allude to continued long position buildup driven by attractive valuations. Since latest result the stock in down around 21% while the foreign ownership has increased from 3.7% to 7.3%. In our estimates, the adverse product mix is expected to continue to pressure gross margins in the near term; however, the increase in input costs is likely to be passed on to customers. Accordingly, we do not expect gross margins to fall below 15%. We are also optimistic on the late delivery charges front and even expect some reversal in coming quarters.

Figure 17: Foreign ownership has continued its upward trajectory despite FOL uncertainty and recent sell off following weaker 3Q 2025 results



Source: Argaam, Derayah Financial

Valuation

We value MESC using an equal blend of DCF and relative PE multiple approaches.

DCF: Under the DCF methodology, assuming a WACC of 11.3% and a terminal growth rate of 2.0%, and a target capital mix of 25% debt and 75% equity, we derive a target price of SAR 31.3 per share.

Relative valuation: We apply a 20% discount to the industry-average PE multiple mainly to account for potential risk to trade receivables, resulting in a target multiple of 13.6x. Applying this target multiple to our FY26e EPS, we arrive at a target price of SAR 35.7 per share.

By giving equal weight to both approaches, we arrive at a blended target price of SAR 33.5 per share (c.48% upside from CMP), and accordingly, we initiate coverage on the company with a BUY rating.

Figure 18: Summary of DCF valuation
In SARmn, unless otherwise stated

DCF Model	FY 2023	FY 2024	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net Income	48.9	91.0	93.7	104.8	127.3	148.4	170.1	193.7
Add: D&A	18.6	19.8	21.9	25.6	28.1	30.4	32.5	34.1
Add: Interest*(1-t)	9.0	7.8	16.1	14.2	12.6	10.7	9.7	7.5
Less: Capex	-13.3	-29.0	-18.3	-44.3	-48.8	-52.7	-56.4	-59.2
Less: Capex (intangibles)	-0.5	-2.3	-1.4	-1.7	-1.9	-2.0	-2.2	-2.3
Add/Less: Changes in Working Capital	-5.0	-162.2	-143.8	1.4	-44.9	-39.3	60.0	-28.9
Free Cash Flow to Firm (FCFF)	57.8	-74.9	-31.8	100.0	72.4	95.4	213.8	144.9
PV of FCFF*			-14.2	94.8	61.6	73.0	146.9	89.5

Sum of present values of FCFs	451.6	Less:		Add:	
Free cash flow (t+1)	147.8	Debt	-131.2	Cash and cash equivalents	23.2
Terminal value	1,587.8	Lease liabilities	-8.7	Investments	6.0
Present value of terminal value	937.7	Employees' defined benefits obligations	-28.4	Equity value	1,250.4
Enterprise Value (EV)	1,389.3	NCI	0.0	**Value per share as per DCF**	**31.3**

*Source: Derayah Financial, *For FY25 the present value of the FCFF includes only 4Q25e free cash flow as 9M25 numbers are reported*

Figure 19: Valuation inputs

Cost of Equity (ke)	13.2%
After tax cost of debt (kd)	5.5%
Debt To Capital	25.0%
WACC	11.3%

Source: Derayah Financial

Figure 20: Peer comparison table
In SARmn, unless otherwise stated

	MCap (SARmn)	GPM%	EBITDA%	OPM%	ROA	ROE	P/S	P/E	P/B (curr)	EV/EBITDA	Dividend Yield	D/E
Middle East Specialized Cables	902	15.5%	10.0%	8.4%	9.4%	19.0%	0.6x	9.8x	1.7x	9.6x	4.4%	0.3x
Riyadh Cables Group Co	19,170	15.8%	12.7%	12.0%	16.0%	38.5%	1.8x	17.9x	6.6x	14.7x	3.1%	0.3x
Saudi Cable Co	1,134	-14.0%	-68.3%	-79.0%	14.5%	NA	8.9x	10.6x	NA	NA	NA	NA
Electrical Industries Co	14,636	37.3%	29.6%	27.9%	23.4%	54.3%	7.1x	27.9x	13.4x	20.0x	1.9%	0.1x
One Tech Holding	954	NA	NA	5.6%	4.0%	7.9%	0.7x	23.3x	1.8x	NA	2.9%	0.3x
Gulf Cables & Electrical Indus	5,149	12.1%	10.5%	8.5%	6.7%	7.8%	4.3x	18.3x	1.3x	44.1x	3.5%	0.1x
ElSewedy Electric Co	13,213	15.3%	11.1%	10.1%	6.5%	25.5%	0.6x	11.3x	2.6x	6.2x	1.3%	0.9x
Industry Median		15.4%	10.8%	8.5%	9.4%	22.3%	1.8x	17.9x	2.2x	14.7x	3.0%	0.3x
Industry Average		13.7%	0.9%	-0.9%	11.5%	25.5%	3.4x	17.0x	4.6x	18.9x	2.9%	0.3x

*Source: Derayah Financial, Bloomberg, *All ratios are calculated on TTM basis, D/E is as on 3Q25 except for One Tech Holding which is as on FY24*

Figure 21: Relative valuation

Industry PE Multiple	17.0x
Premium/(Discount)	-20%
Target PE	13.6x
EPS 2026E	2.6
Target Price (TP)	**35.7**

Source: Derayah Financial, Bloomberg

Figure 22: Valuation summary per share

DCF	31.3
RV (based on PE)	35.7
Average TP (SAR)	**33.5**

Source: Derayah Financial, Bloomberg

Risks

We identify the following key downside risks to the company and our valuation and projections:

- **Copper volatility –** The company has initiated copper price hedging to safeguard margins. However, this approach may not succeed if the hedges incur losses. Unrealized gains or losses are initially recorded in OCI and subsequently reclassified to the income statement upon material purchase. The final outcome depends on the variance between the actual purchase price and the hedge contract price.

- **Trade receivables –** Impairment provisions for trade receivable currently account for 4.1% of the total trade receivables. The vast majority of net receivables (c.98%) are aged under 180 days. However, should the aging of receivables materially exceed 180 days, impairment charges could increase, as existing reserves may not fully cover potential losses. As of FY 2024, of the SAR 393mn in total trade receivables, approximately SAR 63mn (c.16% of gross receivables) were past due for which the company had not recognized expected credit losses in line with its policy. A portion of these balances is secured through Letters of Credit issued by customers' banks, and some are subject to rescheduling agreements with the respective customers. One customer comprises 10% of the total trade receivables balance.

- **Late delivery penalties** – The company has to record a penalty for late delivery as per the contract terms. Usually, it gets reversed basis their strong relations with their clients, however in case of a substantial delay such a reversal may not be possible. Moreover, even if reversed such charges add to the margin volatility.

- **Concentration risk –** Although no single customer accounted for more than 10% of revenue in 2024, there was one customer that represented 10% of the total trade receivables at year-end.

- **Continued low oil prices –** If Oil prices continue to remain subdued the Petchem capex downcycle could prolong which would in turn impact the sales growth of cables, especially specialized cables.

- **Liquidity risk –** If the cash conversion cycle lengthens, the company may need to rely more on debt financing to support operations and growth, which would lead to higher interest burden on its P&L.

- **No backlog data** – Unlike peers, MESC does not disclose backlog information, which limits topline visibility.

- **Geopolitical Tension** – MESC's expansion in the UAE could face setbacks if geopolitical tensions between Saudi Arabia and the UAE continue to escalate, potentially resulting in regulatory hurdles, project delays, or economic restrictions.

Company profile

Middle East Specialized Cables Company (MESC), founded in 1993 in Riyadh, Saudi Arabia, is a leading manufacturer of specialized cables and wires serving industrial, commercial, and infrastructure sectors across the GCC and Middle East. The company's overall manufacturing capacity exceeds 43,000 tons per year, spread across its Riyadh cable and PVC plants (~36,000 tpa) and the Ras Al Khaimah facility (~7,000 tpa). The company serves diverse sectors, including oil & gas, petrochemical, industrial manufacturing, construction, utilities, railways, military, and renewable energy. It has vendor approval from key Oil & Gas, Petchem, Utility companies such as Saudi Aramco, SABIC, Saudi Electric Company (SEC), ADWEA, and also some major EPC contractors in the region, reflecting its strong presence in project-based industrial cable solutions.

Figure 23: Summary of MESC key product offerings

Product category	End market	Country of production
Industrial Specialized Cables	Petrochemical cables, oil & gas, energy, and heavy industries projects (largest category)	Saudi Arabia, UAE
Low Current Cables	Transmission of audio/video signals, surveillance & alarm systems, fire alarms, local networks, telephone devices; used in malls, hotels, hospitals, markets, commercial buildings	Saudi Arabia
Low Voltage Cables	Transmission of electrical energy in commercial, residential, industrial, and renewable (solar) projects	Saudi Arabia, UAE
Bare Conductor – Grounding Cables	Grounding and protection purposes in various projects	Saudi Arabia, UAE

Source: Company data

Figure 24: Summary of MESC capacity by location

Plant	Capacity (tpa)	Main Activity	Commissioned year
Riyadh Cable Plant	NA	Production of specialized electrical and industrial cables and wires	1993
Ras Al Khaimah (RAK) Cable Plant — UAE	7,000	Production of LV power, control, data transmission and power cables	2008
PVC (PVC-compound) Plant — Riyadh	36,000	Production of polyvinyl chloride compounds used as raw materials for cable insulation and jacketing and other PVC applications.	2012

Source: Company data

Figure 25: Summary of Subsidiary and Investments

Subsidiary/ Investments	Legal Status	Current legal ownership% 2024	Current legal ownership% 2023	Country of Incorporation
Middle East Specialized Cables Company-Jordan (MESC Jordan) *	Joint Stock Company	19.9	19.9	Jordan
MESC for Medium and High Voltage Cables Company**	Closed Joint Stock Company	-	-	Jordan
MESC - Ras Al-Khaimah	Limited Liability Company	100	100	UAE

Source: Company data

** Fair value for Middle East Specialized Cables Company – Jordan (MESC Jordan) in Jordan is zero. ** "MESC for Medium and High Voltage Cables Company's Extra Ordinary General Assembly decided on October 11, 2017, to liquidate the Company. As a result of that, Middle east specialized Cables Co (MESC KSA) lost the control on MESC for Medium and High Voltage Cables Company. Consequently, MESC KSA stopped consolidating MESC for Medium and High Voltage Cables Company from October 11, 2017.*

Jordan Exit and Settlement Overview

April 2023: MESC KSA's share in *MESC for Medium and High Voltage Cables Company* was transferred to syndication banks in Jordan, per the settlement agreement signed in May 2022.

Strategic focus: MESC KSA decided to focus on KSA and UAE markets and engaged legal advisors to review the settlement proposal.

Settlement terms:

- Syndication banks' agency agreed to drop all lawsuits against MESC KSA
- MESC KSA agreed to drop its rights on a SAR 12.6mn loan provided to MESC for Medium and High Voltage Cables Co
- MESC KSA agreed to pay SAR 11.9mn due to MESC Jordan

Financial impact: All financial liabilities arising from the settlement were provisioned in previous periods, with no expected future financial impact

December 2024: A clearance letter from the syndication banks' agency confirmed:

- Settlement agreement executed
- Lawsuits against MESC KSA dropped
- MESC KSA and its Board of Directors are released from any current or future liabilities related to its investment in MESC Jordan and MESC for Medium and High Voltage Cables Company

Description of MESC's activities

The company's main activity is the production and sale of specialized (industrial) cables, flexible electric cables, coaxial cables, rubber cables, nylon-coated electrical cables, telephone cables for internal installations, computer cables, fire-resistant cables, control and information transmission cables, low voltage cables, building cables, and reinforcing cables. It was established in 1992 and was listed on Tadawul in 2007.

MESC Products and its Subsidiaries

It has a wide variety of cables with various specifications, as the number of subcategories of products at the present time exceed five thousand varieties, and these products can generally be classified into four main groups, which are as follows:

1. Industrial Specialized Cables

Petrochemical Cables, oil and gas, energy, and heavy industries projects. This is the largest category of cables produced by MESC in its factories in Saudi Arabia and the UAE.

2. Low Current Cables

Used in transmission of audio and video signals, surveillance and alarm, and applications of these cables include their use in fire alarms, local networks and telephone devices; they are therefore widely used in commercial centers, hotels, hospitals, markets and commercial buildings and are manufactured in the company's factories in Saudi Arabia.

3. Low Voltage Cables

These cables and wires are used to transmit electrical energy in most commercial, residential, industrial and renewable energy projects (solar energy) and are produced in the company's factories in both Saudi Arabia and the UAE.

4. Bare Conductor – Grounding Cables

These cables are mainly used for grounding and protection purposes in various projects. It is produced in the company's factories in Saudi Arabia and the UAE.

Local and regional presence of MESC

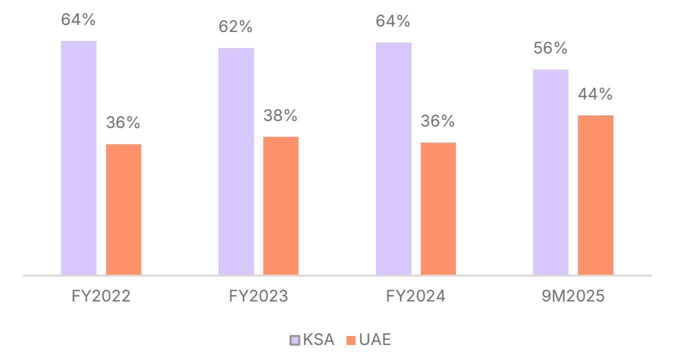
MESC has established a strong presence in both local and regional markets through continuous expansion of its industrial facilities over the years. By building the largest specialized cable manufacturing base in the Middle East, the company has become one of the leading producers in the region's specialized cable industry.

Leveraging its extensive market experience, MESC has earned a solid reputation and gained accreditation from major project contractors and companies involved in large-scale developments across Saudi Arabia, the GCC, and other international markets.

Driven by a clear vision for growth, MESC remains committed to strengthening its competitiveness and expanding its sales of specialized cables across the GCC, Middle East, and North Africa. The company continues to pursue its strategic goal of sustained expansion, particularly in the specialized cables segment, while also growing its regional sales of low-voltage (LV) cables which encouraged it to enter emerging and neighboring markets to further increase its overall sales volume.

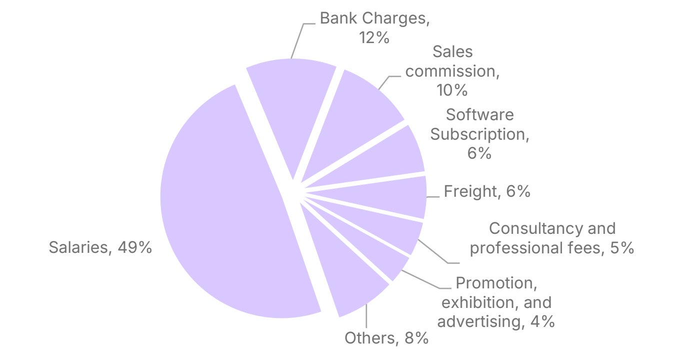
MESC in charts

Figure 26: Revenue mix by geography



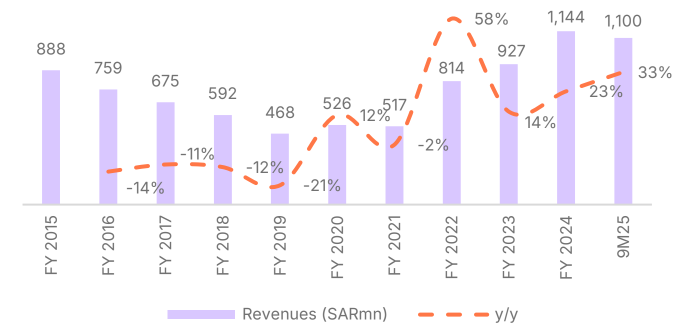
Source: Company data

Figure 27: SG&A cost mix as on FY24



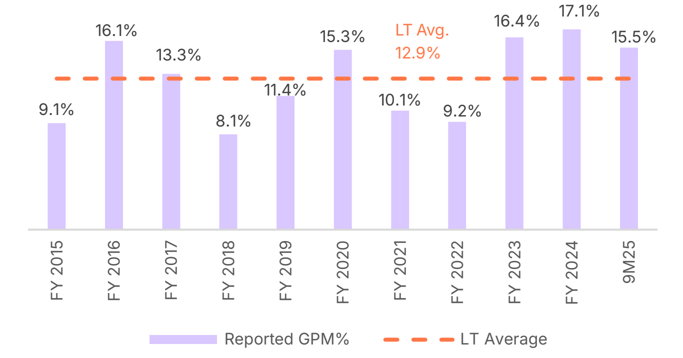
Source: Company data

Figure 28: Topline continues its robust growth



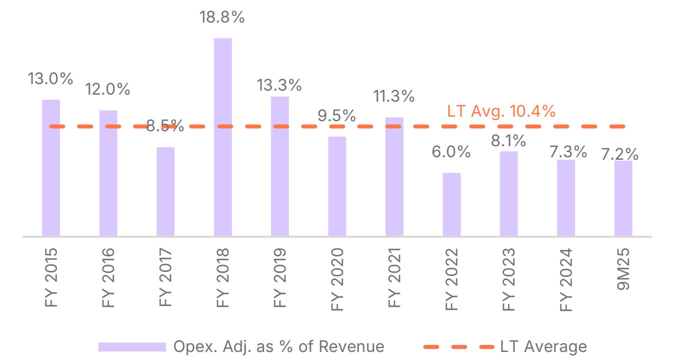
Source: Company data

Figure 29: Gross Margin still healthy despite adverse product mix



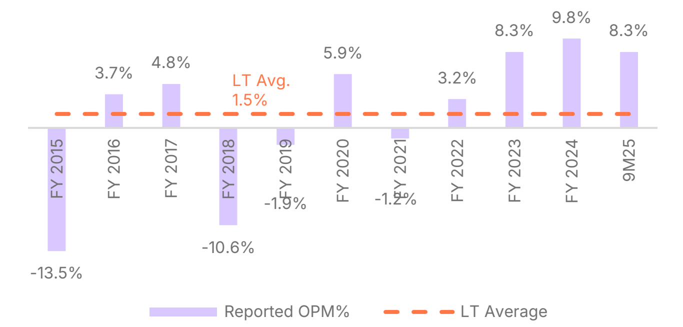
Source: Company data

Figure 30: Operating Expenses controlled despite 3Q25 one-off uptick



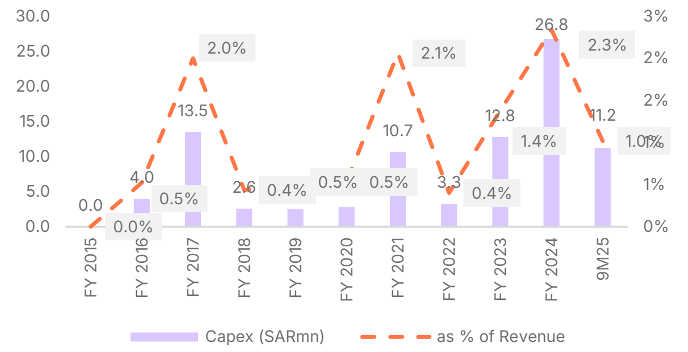
Source: Company data

Figure 31: GPM and Opex headwinds impact 9M25 operating margin



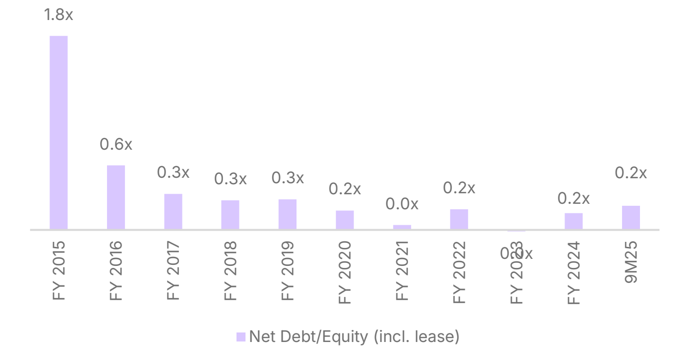
Source: Company data

Figure 32: Capex evolution



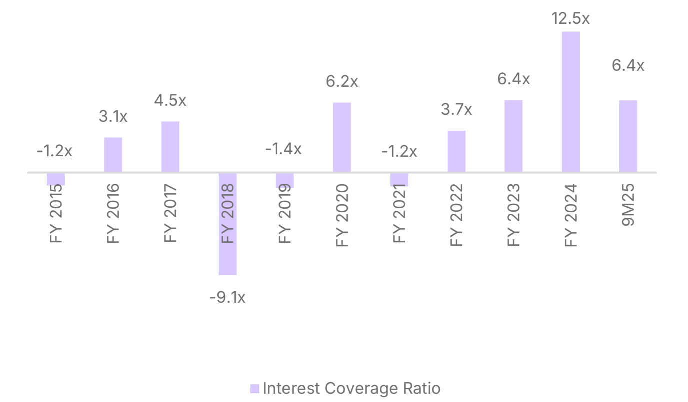
Source: Company data

Figure 33: Evolution of net debt-to-equity ratio



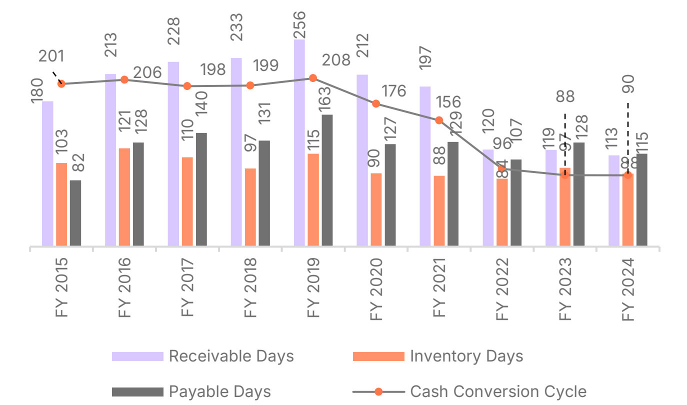
Source: Company data

Figure 34: Interest coverage ratio



Source: Company data

Figure 35: Cash conversion cycle trend

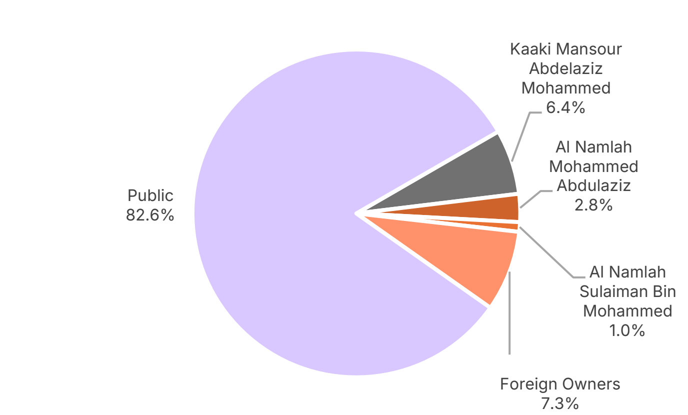


Source: Company data

Ownership

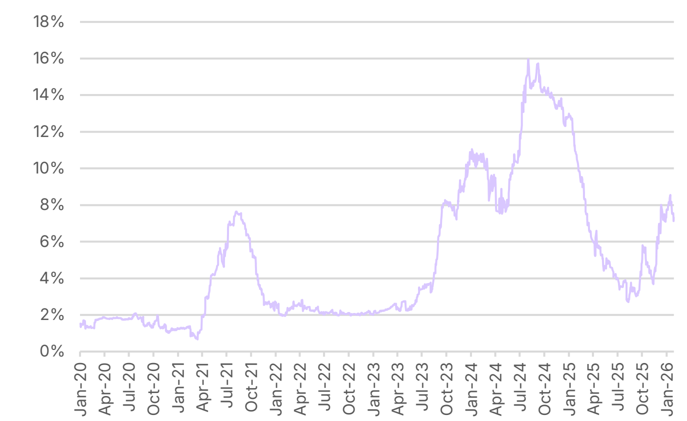
The major shareholders of MESC are Kaaki Mansour Abdelaziz Mohammed (6.4%), Al Namlah Mohammed Abdulaziz (2.8%), Al Namlah Sulaiman Bin Mohammed (1.0%)

Figure 36: Current ownership



Source: Company data, Saudi Exchange

Figure 37: Foreign ownership trend



Source: Saudi Exchange

Summarized financial statements projections and key financial ratios

Income statement
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025E	FY 2026E	FY 2027E
Revenue	926.9	1,143.9	1,483.0	1,705.4	1,875.9
Revenue growth	13.8%	23.4%	29.6%	15.0%	10.0%
COGS	-774.8	-948.7	-1,254.1	-1,449.6	-1,585.2
Gross Profit	**152.0**	**195.2**	**228.8**	**255.8**	**290.8**
Gross Profit margin	16.4%	17.1%	15.4%	15.0%	15.5%
Total operating expenses	-74.9	-83.5	-104.6	-115.8	-126.3
Operating profit	**77.1**	**111.7**	**124.2**	**140.0**	**164.5**
Operating margin	8.3%	9.8%	8.4%	8.2%	8.8%
Finance costs	-12.0	-8.9	-18.4	-16.7	-14.8
Other Non-Operating Income	0.4	2.1	1.2	0.0	0.0
PBT	**65.5**	**104.8**	**107.0**	**123.3**	**149.7**
Zakat/tax	-16.6	-13.8	-13.3	-18.5	-22.5
Net income	**48.9**	**91.0**	**93.7**	**104.8**	**127.3**
Net margin	5.3%	8.0%	6.3%	6.1%	6.8%
y/y	-515.1%	86.0%	2.9%	11.9%	21.4%
EPS	1.22	2.27	2.34	2.62	3.18
DPS	0.00	0.00	1.00	1.00	1.21
Payout	0%	0%	43%	38%	38%
EBITDA	95.74	131.49	146.10	165.60	192.61
Net Debt/(cash) - excl. lease	-12.0	66.4	125.3	77.0	59.4
Net Debt/(cash) - incl. lease	-4.9	73.1	134.0	85.7	68.1

Source: Company data, Derayah Financial

Balance sheet
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025E	FY 2026E	FY 2027E
Inventories	207.4	261.0	346.6	357.4	390.9
Trade receivables and other balances	386.1	457.8	587.4	614.8	663.5
Cash and cash equivalents	21.0	19.3	5.9	54.2	71.8
Total Current Assets	**621.0**	**738.1**	**940.3**	**1,026.8**	**1,126.6**
Property and equipment	126.6	132.4	128.4	145.4	164.2
Intangible assets	3.2	5.0	6.1	7.8	9.6
Right of use assets	6.8	6.2	7.6	7.6	7.6
Total Non-Current Assets	**150.2**	**190.6**	**192.2**	**213.1**	**237.4**
Total Assets	**771.1**	**928.7**	**1,132.5**	**1,239.9**	**1,363.9**
Short-term loans	9.0	85.7	131.2	131.2	131.2
Trade payables and other balances	293.1	304.0	395.1	436.9	477.7
Current Liabilities	**343.1**	**422.4**	**554.3**	**596.0**	**636.9**
Non-current portion of long-term loans	0.0	0.0	0.0	0.0	0.0
Lease liability - non-current portion	6.4	5.7	7.0	7.0	7.0
Non-current Liabilities	**50.4**	**42.1**	**35.3**	**35.3**	**35.3**
Equity	377.6	464.3	542.9	608.5	691.7
Total Equity and Liabilities	**771.1**	**928.7**	**1,132.5**	**1,239.9**	**1,363.9**
BVPS	9.4	11.6	13.6	15.2	17.3

Source: Company data, Derayah Financial

Abridged cash flow statement
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025E	FY 2026E	FY 2027E
Cashflow from Operations	81.6	-52.2	-20.3	131.8	110.5
Cashflow from Investing	-13.2	-25.2	-18.3	-44.3	-48.8
Cashflow from Financing	-90.9	75.7	25.3	-39.2	-44.1
Total Cashflow	**-22.5**	**-1.7**	**-13.4**	**48.3**	**17.6**

Source: Company data, Derayah Financial

Key financial ratios and indicators

	FY 2023	FY 2024	FY 2025E	FY 2026E	FY 2027E
Profitability ratios					
RoA	6.4%	10.7%	9.1%	8.8%	9.8%
RoE	13.9%	21.6%	18.6%	18.2%	19.6%
EBITDA margin	10.3%	11.5%	9.9%	9.7%	10.3%
Net margin	5.3%	8.0%	6.3%	6.1%	6.8%
Liquidity ratios					
Current Assets/ Current Liabilities	1.8x	1.7x	1.7x	1.7x	1.8x
Debt to Total Equity (incl lease liab.)	0.0x	0.2x	0.2x	0.1x	0.1x
Receivable Days	119.3	112.8	130.0	120.0	120.0
Inventory Days	97.3	90.1	88.4	88.6	86.2
Payable days	128.3	114.9	115.0	110.0	110.0
Cash conversion cycle	88.3	88.1	103.4	98.6	96.2
Debt ratios					
Net Debt/EBITDA (incl lease liab.)	-0.1x	0.6x	0.9x	0.5x	0.4x
Net Debt/EBITDA (excl lease liab.)	-0.1x	0.5x	0.9x	0.5x	0.3x
Debt/Assets (incl lease liab.)	0.0x	0.1x	0.1x	0.1x	0.1x
Net Debt/Equity (incl lease liab.)	0.0x	0.2x	0.2x	0.1x	0.1x
Valuation ratios					
P/E	18.4x	9.9x	9.6x	8.6x	7.1x
P/B	2.4x	1.9x	1.7x	1.5x	1.3x
P/S	1.0x	0.8x	0.6x	0.5x	0.5x
EV/EBITDA	20.4x	14.8x	13.3x	11.8x	10.1x
FCF Yield	6.4%	-8.3%	-3.5%	11.1%	8.0%
Dividend Yield	0.0%	0.0%	4.4%	4.4%	5.4%

Source: Company data, Derayah Financial

Disclosures and Disclaimers

Analyst Certification

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Sales contacts

Mina Iskander
Head of Institutional Brokerage
+966 11 299 4334
mina.iskander@derayah.com

Derayah Financial

Third Floor, Prestige Center
Al Takhassousi Street, Al Olaya
P.O.Box 286546
Riyadh 12331
Kingdom of Saudi Arabia

920024433 (KSA)
+966112998000 (outside KSA)
support@derayah.com

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@derayah

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