Middle East Specialized Cables Co. (MESC)

INDUSTRIALS | COMPANY UPDATE

12 August 2026

2Q26 margin miss overshadows strong revenue growth; sell-off appears overdone, reiterate TP of SAR 40

Revenue strength offsets margin disappointment: MESC's 2Q26 results disappointed on margins, with gross margin declining to 15.1%, below management's guidance of 16.0-16.5%. However, revenue was materially ahead of our expectations (SAR 506mn; +12% vs. est.), which largely offset the margin shortfall and resulted in gross profit of SAR 76.3mn, in line with our estimate. The stock declined by c.10% following the results, reflecting the market's disappointment with the margin compression. In our view, however, the reaction appears overdone. The key concern is likely that MESC may be prioritizing revenue growth at the expense of profitability, potentially leading to a repeat of 9M25, when revenue increased 30% y/y while net profit remained broadly flat. We believe this concern requires some context. Management has indicated that MESC operates with an internal gross-margin threshold of approximately 15%. As long as this threshold is maintained, the company does not appear inclined to turn away incremental volumes, even when the product mix carries relatively lower margins, such as a higher contribution from power cables compared with instrumentation cables. Accordingly, we view the strong revenue growth positively, while the 15.1% gross margin remains broadly consistent with management's internal minimum threshold. The results suggest that management prioritized growth in absolute profit rather than maximizing unit margins (GP/ton). Importantly, gross profit remained strong, coming in line with our estimate and broadly consistent with the elevated levels recorded over the past two quarters, despite weaker margin percentage. We believe the resilience in absolute gross profit should remain the key focus.

Higher operating expenses driven mostly by strong sales performance: Net operating expenses reached SAR 35.0mn, materially above our SAR 29.8mn estimate. We had anticipated stronger cost efficiency, forecasting operating expenses at ~6.6% of revenue compared with the reported 6.9%. Nevertheless, a significant portion of the variance appears linked to the stronger sales performance given the variable nature of these costs. In its Tadawul result announcement, management attributed the increase to higher sales volumes, increased product-transportation costs consistent with volume growth, and higher sales-incentive provisions. Operating expenses were also affected by higher consulting fees as the company undertook several performance improvement initiatives. While we acknowledge that these expenses can remain relatively sticky, any fixed component should create scope for operating leverage as revenue and utilization increase. We expect operating expenses to moderate toward 6.0-6.5% of revenue from ~7% currently. Achieving this improvement will depend on successful capacity debottlenecking and higher utilization following the planned capacity expansion to 50k tpa by 2027 end from ~30-35k tpa currently.

Margin volatility masks resilient profitability: Product mix will remain a source of quarterly margin volatility. However, management retains some ability to steer the mix when necessary to protect its ~15% minimum gross margin threshold. We also take comfort in the management's ability to pass on higher input costs with minimum to no lag. We therefore believe investors should adopt a more nuanced view of MESC's performance, focusing on absolute profitability, cash conversion and benefits from higher copper prices alongside reported margin.

Potential volume growth supports capacity expansion: We view the post-results decline as an attractive buying opportunity. The stock appears to have been disproportionately penalized for the weaker margin profile, while the market is not giving sufficient credit to the strong revenue growth and resilience of absolute gross profit. While we await additional disclosure from the company during earnings call, the 2Q26 numbers suggest MESC is likely to far exceed its FY26 tonnage guidance of 12% y/y, which implies there is strong demand for its products and thus underpins the case for capacity expansion. Thus, the 2Q margin miss though a bit disappointing, does not weaken our investment thesis. The stronger top line, gross profit broadly in line with recent quarters, management's ability to protect a minimum gross margin threshold, and the strong case for capacity expansion all suggest that the sharp stock price correction post results is excessive.

Valuation: Our target P/E multiple of 12.5x and FY26 EPS estimate of SAR 3.22, implies target price of SAR 40.2. Compared with the stock's current trailing P/E of ~10.5x, this implies a considerable rerating which we believe to be well justified by certain medium-term tailwinds such as: **1.** Capacity debottlenecking, supporting higher output from the existing asset base **2.** Planned capacity expansion to 50k tpa by 2027 end from ~30-35k tpa currently **3.** Diversification beyond Oil and Gas, demonstrating management's efforts to broaden the company's end-market exposure **4.** The introduction of higher-margin instrumentation-cable production in the UAE **5.** Improving operating leverage as utilization increases and fixed operating expenses decline as a percentage of revenue **6.** Strong backlog visibility.

Our DCF-based valuation, factors in a 11.8% WACC and a 2% terminal growth rate and yields a target price of SAR 39.9. By applying an equal weightage to both the DCF and relative valuation methodologies, we arrive at a blended target price of SAR 40.0, representing an upside potential of 30%.

Result Summary (In SARmn unless stated otherwise)	2Q25a	1Q26a	2Q26a	2Q26e	Vs. Est.	Y/Y	Q/Q
Revenue	380.9	462.5	505.6	451.4	12.0%	32.7%	9.3%
Gross Profit	59.6	76.7	76.3	74.5	2.4%	28.0%	-0.5%
GPM%	15.6%	16.6%	15.1%	16.5%	-1.4 pp	-0.6 pp	-1.5 pp
Operating Expense	-24.8	-32.5	-35.0	-29.8	17.5%	41.1%	7.7%
as % of Sales	6.5%	7.0%	6.9%	6.6%	0.3 pp	0.4 pp	-0.1 pp
Operating Profit	34.8	44.2	41.3	44.7	-7.6%	18.7%	-6.6%
OPM%	9.1%	9.6%	8.2%	9.9%	-1.7 pp	-1.0 pp	-1.4 pp
Net Income	29.9	32.6	32.3	32.7	-1.3%	8.0%	-0.8%
NI%	7.8%	7.0%	6.4%	7.2%	-0.9 pp	-1.5 pp	-0.7 pp
EPS (SAR)	0.75	0.81	0.81	0.82	-1.3%	8.0%	-0.8%

Source: Company data, Derayah Financial

Rating	**BUY**
Target price	SAR 40.00
Last price*	SAR 30.72
Upside potential	30%

**As on 11th Aug 2026*

Stock info

Saudi Exchange / Bloomberg symbol	2370 / MESC:AB
MCap (SARmn / USDmn)	1,229 / 328
Daily traded value 3M avg. (SARmn / USDmn)	12.5 / 3.3
Free float %	96.1%
Foreign ownership* / limit	6.4% / 49.0%

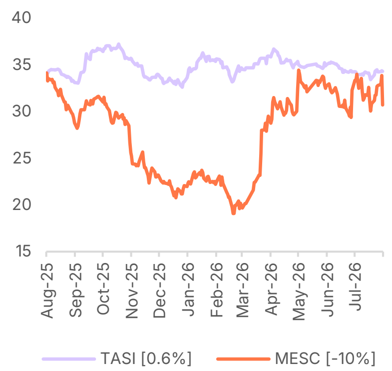
**As on 09th Aug 2026*

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, TASI rebased to MESC share price (SAR)

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

Key risks

- A slower-than-expected ramp-up of new capacity, delaying the expected revenue growth and operating-leverage benefits
- Limited visibility on receivables provisions and the adequacy of impairment reserves
- A deterioration in the geopolitical environment, disrupting logistics and constraining the availability of copper and other raw materials

Income Statement
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Revenue	926.9	1,143.9	1,482.0	1,995.2	2,081.6	2,281.2
Revenue growth	13.8%	23.4%	29.6%	34.6%	4.3%	9.6%
COGS	-774.8	-943.2	-1,244.5	-1,681.9	-1,722.5	-1,882.0
Gross Profit	**152.0**	**200.8**	**237.5**	**313.2**	**359.1**	**399.2**
Gross Profit margin	16.4%	17.6%	16.0%	15.7%	17.3%	17.5%
Total operating expenses	-73.7	-83.4	-103.3	-140.2	-136.9	-148.3
Operating profit	**78.3**	**117.4**	**134.2**	**173.1**	**222.2**	**250.9**
Operating margin	8.5%	10.3%	9.1%	8.7%	10.7%	11.0%
Finance costs	-12.0	-14.7	-20.5	-29.6	-32.0	-40.0
Other Non-Operating Income	0.4	2.1	1.5	0.3	0.0	0.0
Profit before tax	**66.7**	**104.8**	**115.2**	**143.7**	**190.2**	**210.9**
Zakat/tax	-16.6	-13.8	-13.5	-15.0	-28.5	-31.6
Net income	**50.1**	**91.0**	**101.7**	**128.7**	**161.6**	**179.3**
Net margin	5.4%	8.0%	6.9%	6.5%	7.8%	7.9%
y/y	NM	81.5%	11.7%	26.6%	25.6%	10.9%
EPS	1.25	2.28	2.54	3.22	4.04	4.48
DPS	0.00	0.00	1.00	1.21	1.52	1.79
Payout	0%	0%	39%	37%	38%	40%
EBITDA	**95.74**	**135.5**	**143.1**	**201.8**	**274.2**	**308.0**
Net Debt/(cash) - excl. lease	-12.0	66.4	136.5	144.0	70.4	28.8
Net Debt/(cash) - incl. lease	-4.9	73.1	144.1	155.0	81.4	39.8

Source: Company data, Derayah Financial

Balance Sheet (selected items)
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Inventories	207.4	261.0	340.9	414.7	424.7	464.0
Trade receivables and other balances	386.1	457.8	588.0	777.5	811.2	888.9
Cash and cash equivalents	21.0	19.3	39.5	119.0	192.6	234.2
Total Current Assets	**621.0**	**738.1**	**979.6**	**1,311.5**	**1,428.8**	**1,587.5**
Property and equipment	126.6	132.4	131.8	145.0	145.0	145.0
Intangible assets	3.2	5.0	8.9	10.9	13.0	15.3
Right of use assets	6.8	6.2	7.4	11.8	11.8	11.8
Total Non-Current Assets	**150.2**	**190.6**	**201.3**	**232.7**	**237.3**	**245.4**
Total Assets	**771.1**	**928.7**	**1,180.8**	**1,544.2**	**1,666.1**	**1,832.9**
Short-term loans	9.0	85.7	124.5	202.3	202.3	202.3
Trade payables and other balances	293.1	304.0	399.8	576.0	589.9	644.5
Current Liabilities	**343.1**	**422.4**	**567.7**	**826.7**	**840.6**	**895.2**
Non-current portion of long-term loans	0.0	0.0	40.3	49.4	49.4	49.4
Lease liability - non-current portion	6.4	5.7	6.3	9.9	9.9	9.9
Non-current Liabilities	**50.4**	**42.1**	**74.3**	**87.3**	**87.3**	**87.3**
Equity	377.6	464.3	538.8	630.2	738.2	850.4
Total Equity and Liabilities	**771.1**	**928.7**	**1,180.8**	**1,544.2**	**1,666.1**	**1,832.9**
BVPS	9.4	11.6	13.5	15.8	18.5	21.3

Source: Company data, Derayah Financial

Abridged cash flow statement
In SARmn, unless otherwise stated

	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Cashflow from Operations	81.6	-45.5	5.0	89.0	213.4	208.0
Cashflow from Investing	-13.2	-25.2	-24.3	-43.5	-54.1	-59.3
Cashflow from Financing	-90.9	68.9	39.5	34.0	-85.7	-107.1
Total Cashflow	**-22.5**	**-1.7**	**20.3**	**79.5**	**73.6**	**41.6**

Source: Company data, Derayah Financial

Key financial ratios and indicators	FY 2023	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Profitability ratios						
RoA	6.5%	10.7%	9.6%	9.4%	10.1%	10.2%
RoE	14.2%	21.6%	20.3%	22.0%	23.6%	22.6%
EBITDA margin	10.3%	11.8%	9.7%	10.1%	13.2%	13.5%
Net margin	5.4%	8.0%	6.9%	6.5%	7.8%	7.9%
Liquidity ratios						
Current Assets / Current Liabilities	1.8x	1.7x	1.7x	1.6x	1.7x	1.8x
Debt to Total Equity (incl lease liab.)	0.0x	0.2x	0.3x	0.2x	0.1x	0.0x
Receivable Days	119.3	112.8	115.1	114.5	127.3	130.0
Inventory Days	97.3	90.6	88.3	82.0	88.9	90.0
Payable days	128.3	115.5	103.2	105.9	123.5	125.0
Cash conversion cycle	88.3	87.9	100.1	90.6	92.7	95.0
Debt ratios						
Net Debt/EBITDA (incl lease liab.)	-0.1x	0.5x	1.0x	0.8x	0.3x	0.1x
Net Debt/EBITDA (excl lease liab.)	-0.1x	0.5x	1.0x	0.7x	0.3x	0.1x
Debt/Assets (incl lease liab.)	0.0x	0.1x	0.2x	0.2x	0.2x	0.1x
Net Debt/Equity (incl lease liab.)	0.0x	0.2x	0.3x	0.2x	0.1x	0.0x
Valuation ratios						
P/E	24.5x	13.5x	12.1x	9.5x	7.6x	6.9x
P/B	3.3x	2.6x	2.3x	1.9x	1.7x	1.4x
P/S	1.3x	1.1x	0.8x	0.6x	0.6x	0.5x
EV/EBITDA	22.2x	15.7x	14.9x	10.5x	7.8x	6.9x
FCF Yield	5.0%	-5.5%	-3.1%	1.6%	12.8%	11.9%
Dividend Yield	0.0%	0.0%	3.3%	3.9%	4.9%	5.8%

Source: Company data, Derayah Financial

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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)
research@derayah.com