

Target Price: SAR143/share
 Current Price: SAR102.60/share
 Upside: 39.5% (+Div. Yield: 2.9%)
Rating: Overweight

Middle East Pharmaceutical Industries Co. (Avalon Pharma)

Capacity additions anchor growth; Set TP at SAR143/share

- Capacity expansion and healthy local demand to drive revenue performance; expect top-line to grow at a CAGR of 17.2% over 2025-28e.
- Margins to show resilience in 2026-27e, with anticipated ramp-up pressure likely in 2028e, translated into bottom-line CAGR of 19.7% over 2025-28e.
- We set our 1Y forward TP at SAR143/sh, using both DCF and P/E valuations methods with an "Overweight" rating.

Capacity accelerates toward 500mn+ units by 2027–28e... Avalon has expanded its total annual production capacity to over 200mn units in 2025, up from ~151.2mn units in 2024, driven by gradually operating Avalon 2 production lines, and further aided by automation of previous manual processes. This was also reflected by the additional ~46.3mn units in solids, ~26mn units in creams, and ~4.8mn units in liquids, all of which came from Avalon 2 facility. Looking ahead, an additional annual capacity of 288mn units at Avalon 2 (+272mn units of solids, +16mn units of liquids) and 18mn at Avalon 4 (including injectables, ophthalmic and oncology lines) are expected to come online by 2027-28e, significantly strengthening the company's production base, and solidifying Avalon's strategic position in the market in the long run. We expect aggregate production capacity to exceed ~500mn units annually by 2027-28e.

...with gradual ramp-up and robust local market to drive revenue growth: We model a phased revenue build-up, with Avalon 2 contributing from 2027e and Avalon 4 from 2028e, reflecting conservative approval timelines and gradual utilization ramp-up. On the commercial front, we remain positive on the demand from both public and private sectors in Saudi Arabia, which we expect to be the primary anchor for Avalon's revenue trajectory. For export sales (12.4% of 2025 revenue), Avalon is relatively insulated from current geopolitical tensions; as ~70% of exports are directed to Iraq & GCC markets, via land-bridge routes, avoiding vulnerable sea-shipping channels.

Figure 1: Key financial metrics

SARmn	2024a	2025a	2026e	2027e	2028e
Revenue	394	460	534	626	740
Revenue growth	16.4%	16.9%	16.0%	17.2%	18.3%
Gross Profit	243	287	331	391	457
Gross profit margin	61.8%	62.3%	62.0%	62.5%	61.7%
Op. income	91	108	133	157	187
Net profit	80	97	118	140	167
Net profit growth	21.3%	21.5%	21.2%	18.7%	19.4%
Net profit margin	20.3%	21.1%	22.0%	22.3%	22.5%
EPS (SAR)	4.0	4.9	5.9	7.0	8.3
DPS (SAR)	2.0	2.4	2.9	3.5	4.2
EV/EBITDA	19.5x	16.2x	13.0x	11.1x	9.4x
P/E	25.7x	21.2x	17.5x	14.7x	12.3x

Source: Company data, GiB Capital

Stock data

TASI ticker	4016
Mcap (SARmn)	2,052
Trd. Val (3m) (SARmn)	8.6
Free float	43.1%
QFI holding	3.5%
TASI FF weight	0.05%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

Ahmed Almutawah

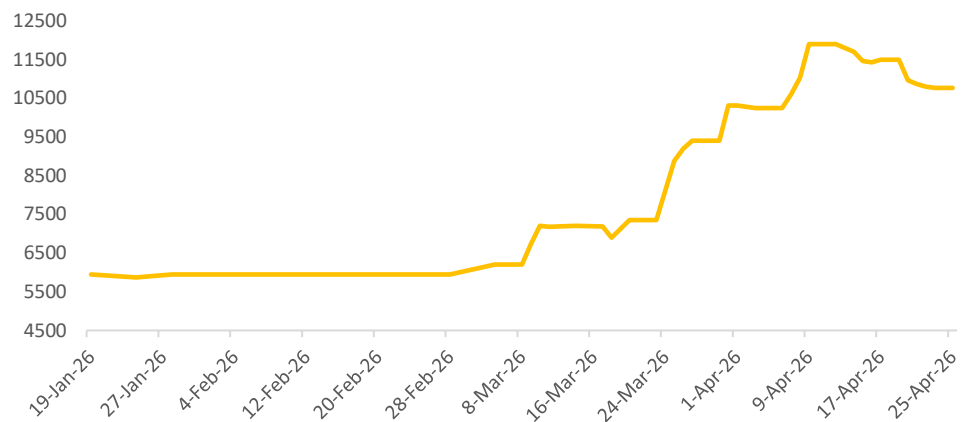
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That said, risks could emerge if demand in these markets softens or if logistical movements are restricted. We believe such pressures would be largely offset by the strength of the domestic market, limiting downside to the overall revenue outlook. Accordingly, we forecast 16% y/y top-line growth in 2026e, reaching SAR534mn, broadly aligned with management’s guidance of 16–17%. Beyond 2026e, we expect Avalon’s revenue trajectory to accelerate as capacity additions ramp up and utilization rates improve, supporting stronger volumetric output. This underpins our forecasts of SAR626mn in 2027e (+17.2% y/y) and SAR740mn in 2028e (+18.3% y/y), reflecting a sustained step-up in operational scale, at a CAGR of 17.2% over 2025–28e.

Rising global raw material costs to have a limited impact on Avalon’s cost structure... Current geopolitical tensions in the Middle East are directly impacting supply chains, energy prices, and production costs for producers worldwide. The spot price of Propylene Glycol, a widely used ingredient, for example, has surged by ~100% in China at the peak of the conflict and has kept most of the gains despite recent declines (Figure 2). Further, BASF Pharma Solutions Company, a worldwide recognized player, which also operates in the Saudi market, has recently [announced a global price adjustment for pharmaceutical excipients and selected APIs by 20%, with immediate effect.](#)

Figure 2: China Propylene Glycol Spot Price (RMB/ton)*



Source: SunSirs commodity data group, GIB Capital. *Grade: High-class, Content: ≥ 99.5.

Regarding Avalon, while the company’s raw material (including APIs and packaging) represents ~60% of Avalon’s COGS, the company has only a 25% exposure to global prices, thanks to local procurement, indicating a relatively contained impact. Additionally, Avalon may explore other options to pass rising costs to customers by revisiting contract conditions of regulated prices and passing on increased costs of free-priced products. Nonetheless, as Avalon seeks to secure at least 6 months of stock sufficiency, any potential impact of rising API prices on Avalon’s GPM is likely to be delayed until 3Q26 (partially) and 4Q26 onwards in our view.

...with gross margin remaining mostly resilient till 2027 before coming under pressure in 2028 as Avalon 4 ramps up: We expect Avalon’s margin profile to remain largely resilient through 2026–27e, with gross margins of 62–62.5%. The Avalon 2 facility, despite an anticipated acceleration in production by 2027e, is not expected to add further pressure on margin as the related costs are already reflected in the financials. However, the expected ramp-up of Avalon 4 (likely beginning in 2028e) is set to place some pressure on gross margins due to a higher depreciation base, moderating margin to ~61.7% in 2028e. Beyond 2028e, we anticipate gradual margin improvement as utilization rates increase and operating leverage strengthens.

Earnings to remain solid despite rising finance costs: Avalon is positioned to maintain a comfortable leverage profile, supported by its solid balance sheet, even as borrowings rise temporarily due to elevated CAPEX. We expect net D/E to average ~0.13x over 2026–28e, indicating continued balance-sheet strength. Further, finance costs are set to increase gradually but remain manageable, forecasting SAR5.6mn in 2026e (vs. SAR4.7mn in 2025), further rising to SAR6.2mn in 2027e and SAR7.2mn in 2028e following the commercial operation of Avalon 4. Overall, we expect earnings to grow 21% y/y to SAR118mn with 22% net margin (within the 21–25% guidance range) in 2026e, which is expected to further rise to SAR167mn (+19.4% y/y) by 2028e, supported by the gradual ramp-up of new capacity, reflecting a CAGR of 19.7% over 2025-28e.

CAPEX to surge in 2026-27e before normalizing thereafter, ensuring healthy FCF: We expect Avalon to deploy ~SAR166mn in CAPEX over 2026–27e, of which Avalon 4 accounts for ~SAR135mn capex during the same period. Despite higher capex requirements, Avalon is set to continue generating positive FCFF, with some pressure anticipated in 2026e due to the heavy concentration of Avalon 4-related spending. However, from 2027e onward, FCF should strengthen meaningfully, reaching SAR66mn in 2027e and SAR111mn in 2028e, supported by moderating CAPEX and expanding operating cash flows. This healthy FCFF profile should comfortably support the company’s targeted 50% payout ratio, translating into DYs of 2.9–3.4% over 2026–27e, respectively.

Strategic partnership with global partners to anchors suitability on the long-run: The company signed in Feb-2026 a strategic marketing agreement with China’s Bio-Thera Solutions, a global biopharmaceutical company specializing in innovative biologics and biosimilars, obtaining exclusive rights to register and market the drug Pembrolizumab, a generic version of Keytruda, in Saudi and across the Middle East and North Africa, with the option of localizing the product manufacturing in the future. Avalon stated that the agreement extends for 15 years and is renewable and expects to generate more than SAR500mn over the term of the agreement, cumulatively, starting from 2030. We look at this development positively, as it reflects Avalon’s strategic perspective, which ensures the sustainability of the company in the long run. However, we conservatively expect that the financial impact of the contract is likely to be beyond our forecast’s horizon (2026-30e), hence we did not include the expected impact in our forecasts.

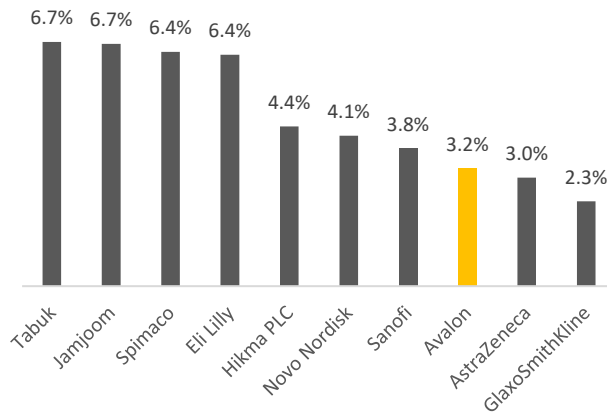
Valuation and risks: We set our 1Y Fwd target price at **SAR143/share**, based on an equal mix of DCF (9.0% WACC; 4.5% terminal growth; SAR145 TP) and P/E (24x on 2026e EPS; SAR141 TP) methods with an **“Overweight”** rating, indicating a 39.5% upside potential from the current market price. The stock currently trades at a Fwd P/E of ~17.5x based on our estimates of 2026e EPS, compared to ~22x, on average over the past 1 year.

Key downside risks are lower-than-expected utilization rates of new facilities, slower-than-expected launches of new products, regulatory changes, increased competition, cost inflation of raw materials, supply chain issues, lower sales volume, geopolitical risks, and a change in distributors’ commission rates.

Avalon market positioning

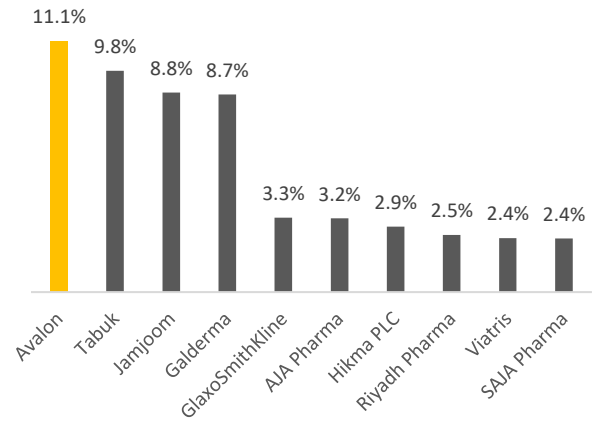
According to IQVIA data, Saudi private pharma market size reached ~SAR30bn by November 2025, following a CAGR of 15.5% in the last 4 years, with a 3.23% market share for Avalon. However, Avalon’s market position in its defined market (size of ~SAR8.7bn) remains superior, as it ranks 1st with a market share of ~11%. This comes as a result of the company’s products performance, as 7 of Avalon’s products rank 1st in their therapeutic areas: Avocin (93% market share), salinose (79%), AVOHEX (78%), AVOGAIN (74%), PRILA (67%), ALPHA PLUS (51%), and Avalon Activ (28%), while other 6 products rank 2nd in their areas, as 2025. In our view, this reflects Avalon strategic position in the Saudi market as a leader in its defined therapeutic areas.

Figure 3: Top 10 market shares in the Saudi pharma private market*



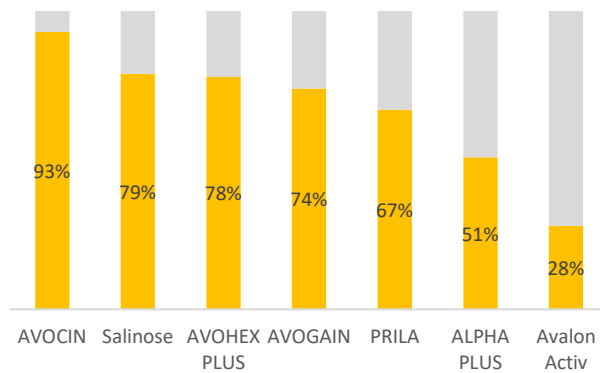
Source: IQVIA, GIB Capital. *MAT Nov 2025 - Excluding Infant Formulas

Figure 4: Top 10 market shares in Avalon’s defined market*



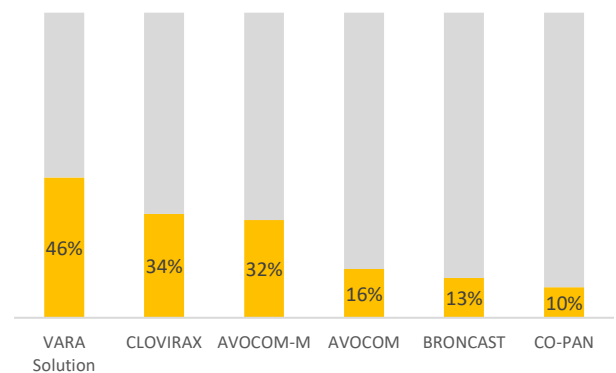
Source: IQVIA, GIB Capital. *MAT Nov 2025 - Excluding Infant Formulas

Figure 5: Avalon’s products ranking 1st in their defined markets*



Source: IQVIA, Company’s data, GIB Capital. *MAT Dec 2025

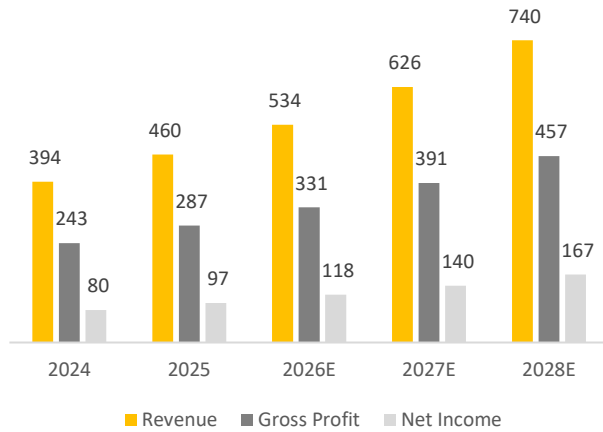
Figure 6: Avalon’s products ranking 2nd in their defined markets*



Source: IQVIA, Company’s data, GIB Capital. *MAT Dec 2025

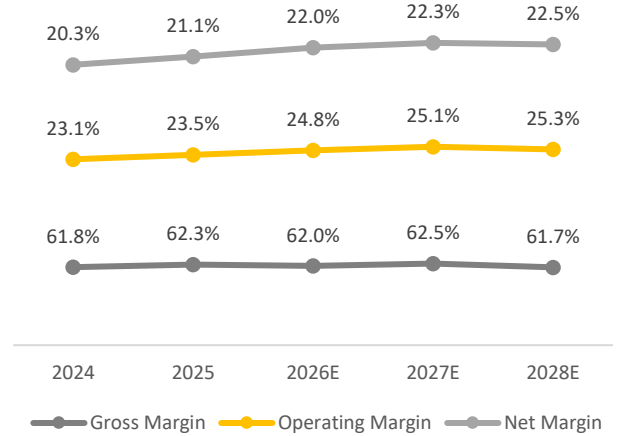
Financial analysis in charts

Figure 7: Financial outlook (SARmn)



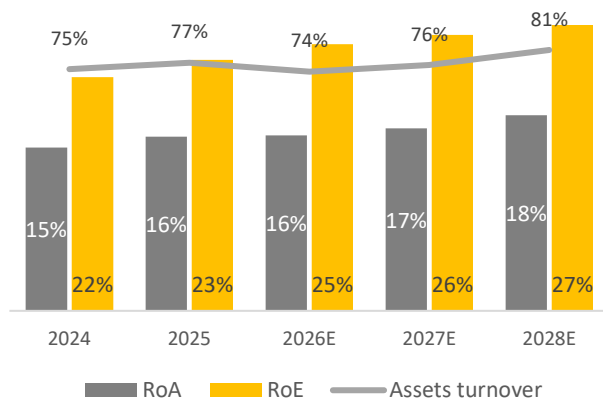
Source: Company data, GIB Capital

Figure 8: Margins trend



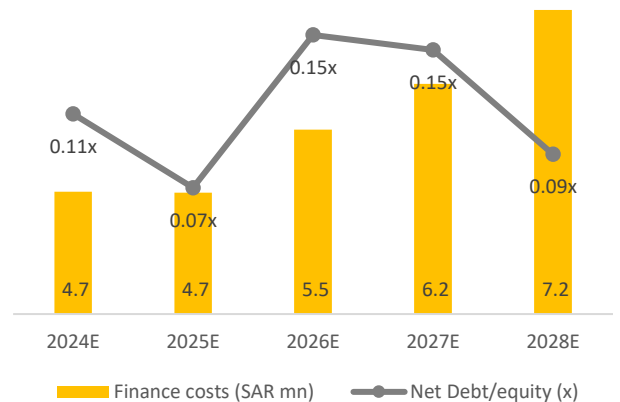
Source: Company Data, GIB Capital

Figure 9: Profitability trend



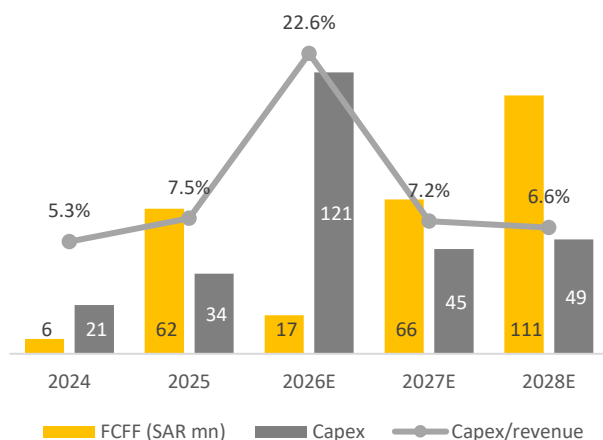
Source: Company Data, GIB Capital

Figure 10: Leverage trend



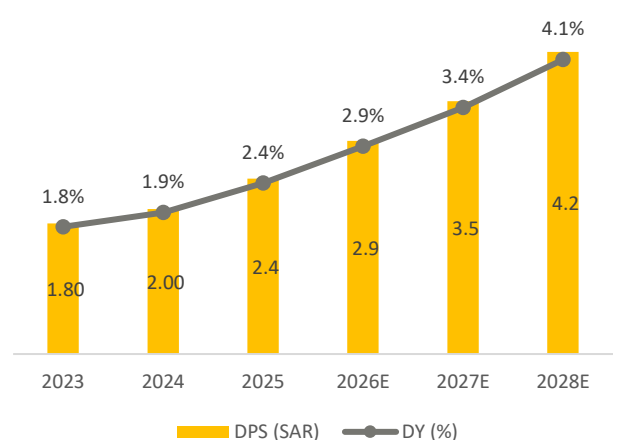
Source: Company Data, GIB Capital

Figure 11: FCFF & Capex trend (SARmn)



Source: Company Data, GIB Capital, *Including intangible assets

Figure 12: Dividends trend



Source: Company Data, GIB Capital

Financials

Figure 13: Summarized basic financial statements (SARmn)

Income statement	2024a	2025a	2026e	2027e	2028e
Revenue	394	460	534	626	740
revenue y/y	16%	17%	16%	17%	18%
COGS	(151)	(174)	(203)	(235)	(284)
Gross Profit	243	287	331	391	457
Gross Profit margin	62%	62%	62%	63%	62%
SG&A	(150)	(177)	(196)	(231)	(266)
Other (expenses)/Income	(2)	(1)	(3)	(3)	(4)
Operating profit	91	108	133	157	187
Operating margin	23%	24%	25%	25%	25%
Finance costs	(5)	(5)	(6)	(6)	(7)
PBT	86	104	127	151	180
Zakat/tax	(7)	(7)	(9)	(11)	(13)
Net income	80	97	118	140	167
EPS (In SAR)	4.0	4.9	5.9	7.0	8.3
DPS (In SAR)	2.0	2.4	2.9	3.5	4.2
Payout	50%	50%	50%	50%	50%
EBITDA	107	128	160	188	221
Net debt	41	29	74	80	56

Balance Sheet	2024a	2025a	2026e	2027e	2028e
Cash and cash equivalents	23	34	35	39	43
Inventories	94	104	111	129	152
Trade receivables	217	257	274	335	382
Prepayments & other receivables	22	19	22	27	32
Total Current Assets	355	413	442	529	608
Property, plant and equipment	121	123	169	175	181
Intangible assets	51	62	110	119	127
Total Non-Current Assets	171	186	280	294	309
Total Assets	527	600	722	823	917
Current Liabilities	134	132	175	198	209
Non-current Liabilities	25	51	72	81	80
Equity	368	416	475	545	628
Total Equity and Liabilities	527	600	722	823	917
BVPS (In SAR)	18.4	20.8	23.8	27.2	31.4

Cashflow	2024a	2025a	2026e	2027e	2028e
Cashflow from Operations	33	89	141	115	164
Cashflow from Investing	(20)	(34)	(121)	(45)	(49)
Cashflow from Financing	(5)	(50)	(19)	(66)	(110)
Total Cashflows	8	4	1	4	4

Source: Company, GIB Capital

Figure 14: Key ratios

Key ratios	2024a	2025a	2026e	2027e	2028e
Profitability ratios					
RoA	15%	16%	16%	17%	18%
RoE	22%	23%	25%	26%	27%
Sales/Assets	75%	77%	74%	76%	81%
Net margin	20%	21%	22%	22%	22%
EBITDA margin	27%	28%	30%	30%	30%
Liquidity ratios					
Curr. Assets/ Curr. Liabilities	2.7	3.1	2.5	2.7	2.9
Debt to Total Equity	0.2	0.2	0.2	0.2	0.2
Receivable days	176	188	190	190	185
Inventory days	219	207	200	200	195
Payable days	67	75	90	91	92
Cash conversion cycle	328	320	300	299	288
Debt ratios					
Net Debt/EBITDA	0.4	0.2	0.5	0.4	0.3
Net Debt/Equity	0.1	0.1	0.2	0.1	0.1
Debt/Assets	0.1	0.1	0.2	0.1	0.1
Valuation ratios					
P/E	25.7	21.2	17.5	14.7	12.3
P/B	5.6	4.9	4.3	3.8	3.3
EV/EBITDA	19.5	16.2	13.0	11.1	9.4
Div. yield	1.9%	2.4%	2.9%	3.4%	4.1%

Source: Company, GIB Capital

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