

Target Price: SAR153/share
 Current Price: SAR139.0 /share
 Upside: 10% (+Div. Yield: 1.8%)
Rating: Overweight

Middle East Pharmaceutical Industries Co.

Solid growth trajectory, raise TP to SAR153/share

- Top-line to grow at a CAGR of ~19% over 2023-27e on the back of capacity expansion, expanding customer base and a consistent NUPCO tender wins.
- Margins to be broadly stable in the mid-run as top-line mix and operational efficiency to mitigate the ramp-up pressure on margins. Expect a GP margin of 61.5% over 2025e with a gradual improvement afterwards, and a bottom-line CAGR of 21.6% during the period.
- Post rolling forward our valuation, we raise our TP to SAR153/sh. (from SAR127 earlier) using both DCF and P/E valuations and keep our rating the stock at "Overweight".

New capacity addition along with expanding customer base to drive the topline growth:

Avalon is set to commence commercial production at its new facility, Avalon 2, by 2025 (previously expected in 2Q24). This expansion will more than double the company's total annual capacity to ~124mn units (+112% vs. current 58.4mn units). While the new facility is currently in the phase of producing the variation patches, we expect Avalon to benefit from this strategic expansion in the mid-long run as utilization rates ramp up in the next years, in line with the growth of demand. We also note that Avalon posted a healthy 23% y/y top-line growth in 9M24, reaching SAR258mn, largely aided by NUPCO tenders, an expanding customer base, and new product launches. As a result, we forecast a revenue CAGR of ~19% over 2023-27e, with top-line more than doubling (compared to 2023) to SAR685mn by 2027e, and to surpass the SAR1bn level by 2030.

Margin pressure from new capacity ramp-up to be partially offset by a favorable sales mix: As Avalon ramps up operations at its new facility, we anticipate a short-term margin contraction. However, this impact should be mitigated by a more favorable revenue mix (higher contribution from retail and export sales), an improved product portfolio (greater share of high-margin dermatological products), and operational efficiency gains. Accordingly, we expect GP margins to decline to 61.5% in 2025e (vs. an expected margin of 62.8% in 2024), with a gradual improvement afterwards, reaching 62% by 2027e. Similarly, operating margins are projected to decline to 22.6% in 2025e (vs an expected margin of 23.5% in 2024), with a gradual improvement, reaching to 23.3% in 2027e. Consequently, we forecast earnings to grow at a CAGR of 21.6% over 2023-27e, reaching SAR 144mn.

Figure 1: Key financial metrics

SARmn	2023a	2024e	2025e	2026e	2027e
Revenue	338	412	494	580	685
Revenue growth	11.8%	21.7%	20.0%	17.4%	18.1%
Gross Profit	207	259	304	358	425
Gross Profit margin	61.3%	62.8%	61.5%	61.8%	62.0%
Op. income	78	97	112	133	159
Net profit	66	85	98	119	144
Net profit growth	10.7%	28.5%	16.2%	20.6%	21.5%
Net profit margin	19.5%	20.5%	19.9%	20.4%	21.0%
EPS (SAR)	3.3	4.2	4.9	5.9	7.2
DPS (SAR)	1.8	2.1	2.5	3.0	4.3
P/E	42.2x	32.9x	28.3x	23.4x	19.3x

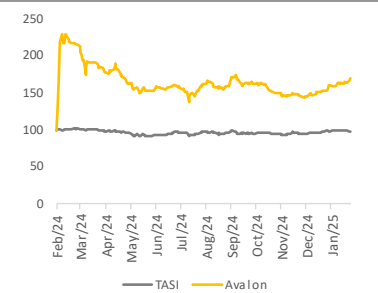
Source: Company data, GIB Capital

Stock data

TASI ticker	4016
Mcap (SARmn)	2,780
Trd. Val (3m) (SARmn)	6.8
Free float	43.1%
QFI holding	2.8%
TASI FF weight	0.07%

Source: Bloomberg

Prices indexed to 100



Source: Bloomberg

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Healthy balance sheet, improving working capital and strong cash flow to support payouts:

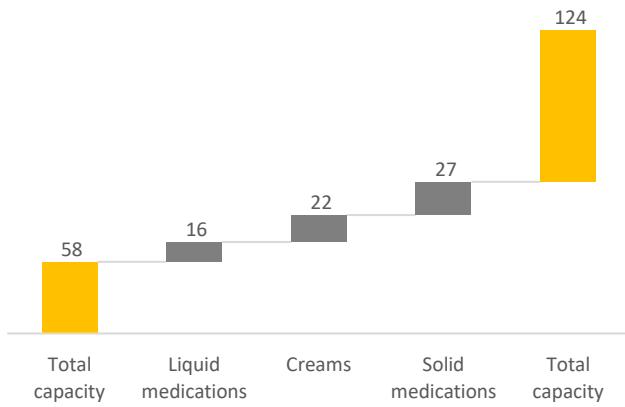
Avalon's total debt increased to SAR74mn by 3Q24 (up from SAR62mn in 2023), primarily through short-term financing facilities. However, leverage remains healthy, with a net debt/equity ratio of 0.18x in 3Q24. Moreover, working capital management has improved over the past two years, driven mainly by enhanced payment processes by Nupco and better inventory management. Going forward, we expect the cash conversion cycle to improve on better collection measures. Accordingly, we expect a strong balance sheet visibility, leading to reduced dependence on debt, and estimate that the company's net debt to reach below zero by 2027e. Additionally, Avalon maintains a strong FCF profile, positive since 2019, and projected at ~SAR 47-80mn in 2024-25e. Accordingly, Avalon is likely to maintain a ~50% payout ratio in the mid-run, with a DPS of SAR2.1/sh (DY = 1.6%) in 2024e and SAR2.5/sh (DY = 1.9%) in 2025e.

Valuation and risks: After revision in our estimates and rolling forward valuation to 2025, we revise our 1Y Fwd target price to **SAR153/share** (SAR 127/share earlier) based on an equal mix of DCF (10.0% WACC; 4.5% terminal growth; SAR156 TP) and P/E (30x on 2025e EPS; SAR150 TP) methods and maintain our **"Overweight"** rating. The stock currently trades at a P/E of 28.3x based on our 2025e EPS.

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 distributor's commission rates.

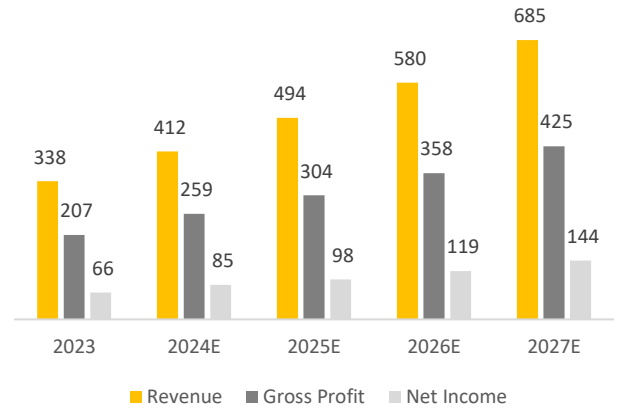
Financial analysis in charts

Figure 2: Incremental addition of Avalon 2 facility (mn units)



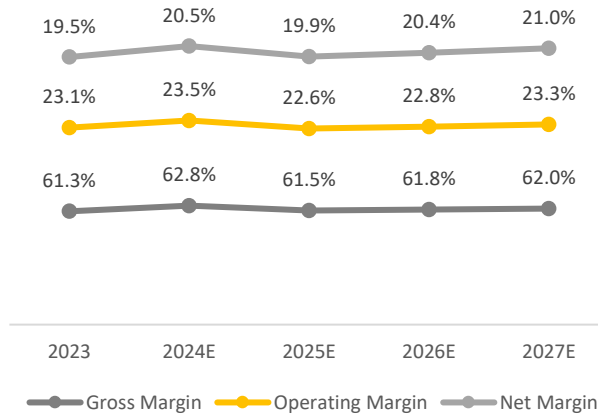
Source: Company data, GIB Capital

Figure 3: Financial Outlook (SARmn)



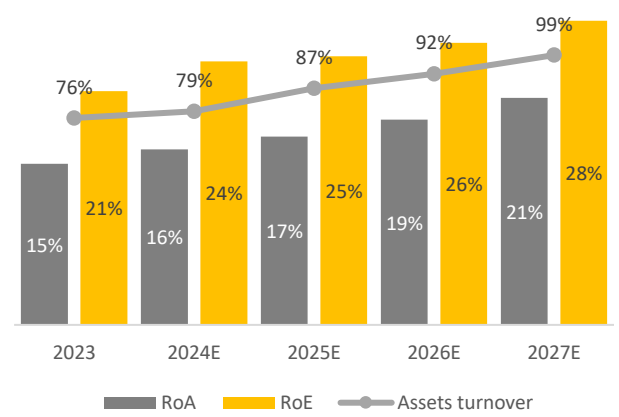
Source: Company Data, GIB Capital

Figure 4: Margins Trend



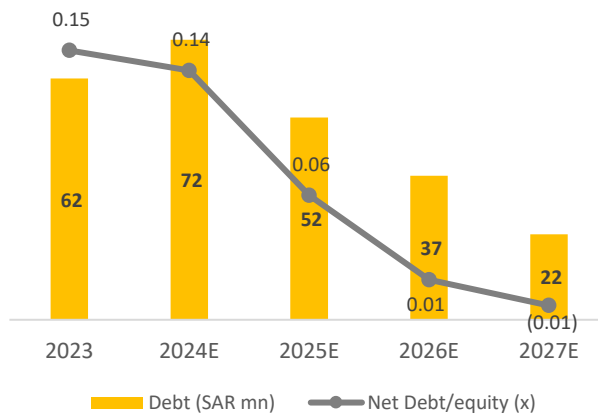
Source: Company Data, GIB Capital

Figure 5: Profitability trend



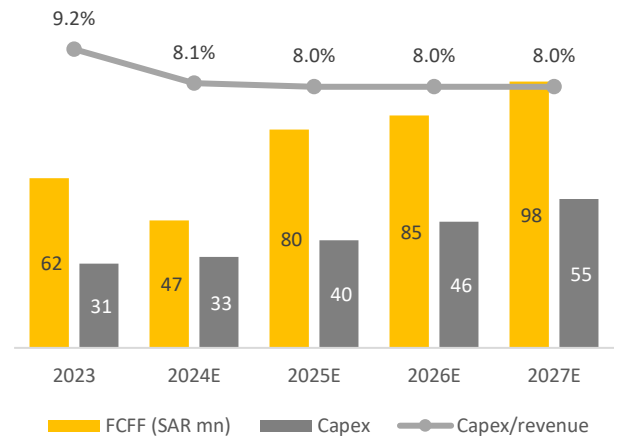
Source: Company Data, GIB Capital

Figure 6: Leverage trend



Source: Company Data, GIB Capital

Figure 7: Cash flow & Capex trend (SARmn)



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

Financials

Figure 8: Summarized basic financial statements (SARmn)

Income statement	2023a	2024e	2025e	2026e	2027e
Revenue	338	412	494	580	685
revenue y/y	12%	22%	20%	17%	18%
COGS	(131)	(153)	(190)	(222)	(260)
Gross Profit	207	259	304	358	425
Gross Profit margin	61%	63%	62%	62%	62%
SG&A	(130)	(160)	(190)	(223)	(263)
Other (expenses)/Income	1	(2)	(2)	(2)	(2)
Operating profit	78	97	112	133	159
Operating margin	23%	24%	23%	23%	23%
Finance costs	(7)	(6)	(5)	(4)	(3)
PBT	71	91	107	129	157
Zakat/tax	(6)	(6)	(9)	(10)	(13)
Net income	66	85	98	119	144
EPS (In SAR)	3.3	4.2	4.9	5.9	7.2
DPS (In SAR)	1.8	2.1	2.5	3.0	4.3
Payout	55%	50%	50%	50%	60%
EBITDA	97	110	128	152	181
Net debt	47	49	24	3	(6)

Balance Sheet	2023a	2024e	2025e	2026e	2027e
Cash and cash equivalents	15	23	28	34	28
Inventories	87	122	130	140	157
Trade receivables	156	171	176	191	206
Prepayments and other receivables	20	22	24	26	29
Total Current Assets	278	338	358	391	420
Property, plant and equipment	119	134	150	170	193
Intangible assets	47	52	59	66	76
Total Non-Current Assets	167	187	210	237	270
Total Assets	445	525	568	628	690
Current Liabilities	113	149	143	143	146
Non-current Liabilities	25	27	27	28	29
Equity	306	349	398	457	515
Total Equity and Liabilities	445	525	568	628	690
BVPS (In SAR)	15.3	17.5	19.9	22.9	25.8

Cashflow	2023a	2024e	2025e	2026e	2027e
Cashflow from Operations	93	79	119	131	152
Cashflow from Investing	(31)	(33)	(40)	(46)	(55)
Cashflow from Financing	(71)	(38)	(74)	(78)	(104)
Total Cashflows	(9)	8	5	6	(7)

Source: Company, GIB Capital

Figure 9: Key ratios

Key ratios	2023a	2024e	2025e	2026e	2027e
Profitability ratios					
RoA	15%	16%	17%	19%	21%
RoE	21%	24%	25%	26%	28%
Sales/Assets	76%	79%	87%	92%	99%
Net margin	19%	21%	20%	20%	21%
EBITDA margin	29%	27%	26%	26%	26%
Liquidity ratios					
Current Assets/ Current Liabilities	2.5	2.3	2.5	2.7	2.9
Debt to Total Equity	0.2	0.2	0.1	0.1	0.0
Receivable days	168	155	130	120	110
Inventory days	243	290	250	230	220
Payable days	78	120	110	110	110
Cash conversion cycle	332	325	270	240	220
Debt ratios					
Net Debt/EBITDA	0.5	0.4	0.2	0.0	0.0
Net Debt/Equity	0.2	0.1	0.1	0.0	0.0
Debt/Assets	0.1	0.1	0.1	0.1	0.0
Valuation ratios					
P/E	42.2	32.9	28.3	23.4	19.3
P/B	9.1	8.0	7.0	6.1	5.4
EV/EBITDA	29.0	25.6	22.0	18.7	15.6
Div. yield	1.3%	1.5%	1.8%	2.1%	3.1%
FCF Yield	2.2%	1.7%	2.9%	3.1%	3.5%

Source: Company, GIB Capital

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