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KSA Pharma Industry Report

Sector Report | August 2026

A More Sustainable Growth Cycle Underpinned by Strong Structural Tailwinds Following Near-Term Normalization

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Executive Summary

Saudi Arabia's pharmaceutical market has entered a structurally attractive phase of growth, with multiple fundamental drivers now converging to support continued expansion beyond the initial policy-driven spike. The market grew at an exceptional c.15% CAGR during 2022-25, more than 3x its 5% CAGR during 2016-22, after CHI's Insurance Drug Formulary (IDF) reset generic economics in September 2022 – pushing generic medicine claims from 40% to 73% of the total within nine months and driving the market's highest-ever Y/Y growth of 17% in 2023. Along with this, the exponential growth of GLP-1 drugs also further supported this growth momentum (i.e. 5-YR CAGR of 55%). We do not expect this pace of outperformance to persist: IQVIA forecasts the broader MEA pharmaceutical market to grow at an 8.1% CAGR over 2025-29, which, given Saudi Arabia's c.37% share and central role in the regional market, broadly supports our expectation of a normalization toward high-single-digit growth in the Kingdom following the exceptional 2022-25 expansion. Along with this, we also flag scope for a moderation in 2026 given geopolitical uncertainty, restrictions by healthcare insurance providers for prescription refills, slowdown in Wasfaty sales through private retail chains and the post-IDF normalization already underway. Beyond IDF, the growth base is broadening: rising population and ageing, expanding insurance coverage, higher healthcare utilization, growing disease prevalence and the continued build-out of private healthcare all provide structural support, while Vision 2030's localization agenda is pulling domestic manufacturers into oncology, biologics, biosimilars and vaccines – local players' value share in total KSA Pharma market now reached 40% in 2025 (up from 35% in 2024, and from just 20% in 2016), hitting the government's original 2030 target five years early, with local companies revenue growing at a 17% CAGR over the last decade versus an 8.4% decline for MNCs. Against this backdrop, we remain selective within our coverage: we have an "Overweight" rating on Avalon Pharma (TP: SAR 72.0/sh, +17.1% upside), and "Neutral" ratings on Jamjoom Pharma (TP: SAR 144.9/sh, +2.9%), Astra Industrials (TP: SAR 142.0/sh, +3.3%) and SPIMACO (TP: SAR 35.6/sh, +13.4%). Avalon is our preferred pick, combining above-market near-term execution with a genuinely differentiated medium-term pipeline that the rest of our coverage lacks.

MEA growth engine, with localization now a genuine earnings driver rather than a policy slogan: The Middle East & Africa pharmaceutical market grew from USD 20.0bn in 2019 to USD 28.0bn in 2024 (c.6.0% CAGR, below the global 7.9% rate), with Saudi Arabia generating nearly 50% of the region's USD 8.0bn incremental market over that period – the single largest contributor by a wide margin. IQVIA expects MEA growth to accelerate to 8.09% CAGR over 2025-29, with the UAE's nationwide mandatory insurance rollout capturing a growing share of regional growth even as Saudi Arabia continues to outperform the broader region by roughly 10%. Domestically, SFDA's pricing framework actively incentivizes local manufacturers to expand generic and biosimilar versions of imported drugs, with the entry of a first generic triggering a 25% price reduction for the innovator (20% for biosimilars), while first entrants can be priced at up to 70% of the pre-reduction innovator price (75% for biosimilars), with lower caps for subsequent entrants. This creates a more attractive economic incentive to localize manufacturing, particularly as Saudi companies expand into complex and high-value categories historically dominated by imports. The regulatory framework further supports local production through faster market access: an IQVIA study estimates that generics and locally manufactured drugs can be registered in less than a year in Saudi Arabia, compared with 14-18 months for new imported drugs and biological products. These SFDA incentives are reinforced by preferential economics in government procurement, including NUPCO's localization scoring and an 8-10% pricing premium for local manufacturers, alongside LCGPA's mandatory 365-SKU localization list offering 10-30% pricing incentives. Together, these regulatory and pricing incentives are structurally reinforcing the shift toward domestic manufacturers – a trend also mirrored across other emerging pharma markets (Pakistan, Egypt, India, Bangladesh and Vietnam). Uniquely for Saudi Arabia, however, no MNC is listed on Tadawul, leaving our four covered names as the only public equity route into this theme.

Sector fundamentals stayed strong through Q2-26, with growth broadening beyond the domestic market: Our coverage universe delivered 19.5% Y/Y revenue growth in Q2-26 despite a broader slowdown in the Retail market, primarily driven by accelerated deliveries to the public channel and strong export growth. Sector gross margins remained broadly stable at 58.3%, versus 58.2% in Q2-25, despite higher shipping costs and some increase in API prices, while earnings grew 22.3% Y/Y to SAR 347mn. Meanwhile, average DSO remained elevated at 185 days, although sector RoE improved by 243bps Y/Y to 29.0%. Encouragingly, exports across Jamjoom, Avalon and SPIMACO grew 21.0% Y/Y despite regional geopolitical disruptions, government-mandated pre-export approvals and shipment-phasing delays. We believe underlying demand across export markets remains intact, positioning exports as a meaningful medium-term growth lever as these temporary constraints normalize.

Avalon Pharma – our top pick, Overweight, TP SAR 72.0/sh: Avalon delivered 24.0% Y/Y revenue growth in H1-26 and is on track for its 16-17% FY26 guidance, with Q2-26 revenue up 16.0% Y/Y to SAR 136.5mn (Retail +27.5%, Export +11.9%) and 1H-26 net profit of SAR 55.7mn. What separates Avalon from the rest of our coverage is a genuinely new medium-term growth legs: three biosimilar commercialization agreements with Bio-Thera and Adalvo covering Keytruda/pembrolizumab (Saudi market SAR 911mn, 25% 5-YR CAGR), Wegovy/semaglutide (SAR 2.2bn market, ~55% 5-YR CAGR) and, signed in August 2026, Dupixent/dupilumab (SAR 879mn market, 32% 5-YR CAGR) – with Avalon targeting cumulative revenue of at least SAR 400mn in the first seven years post-launch on the dupilumab deal alone. We forecast a 12.6% FY25-30E revenue CAGR, the fastest in our coverage, though gross margins are expected to dilute from 62.6% to 59.6% over the same period as these initially lower-margin trading products scale. The key risk to the pipeline is semaglutide, where tirzepatide's continued dominance of the Saudi GLP-1 market (c.71% share) and patent protection until 2032 could limit the anticipated switching opportunity.

Broader coverage – differentiated, not inferior, exposure: **Jamjoom Pharma** (Neutral, TP SAR 144.9/sh) remains the highest-quality operator in our coverage – debt-free, industry-leading 65.9% Q2-26 gross margin, the shortest cash conversion cycle at 145 days, and a 60% dividend payout – but we think that quality is now priced in at c.18.6x FY27E P/E, its Lifera vaccines/biosimilars optionality only turns financially material from FY28. **Astra Industrials** (Neutral, TP SAR 142.0/sh) is increasingly a Pharma story wearing an industrials wrapper: Pharma revenue grew 25% Y/Y in Q2-26 and remains the only segment carrying group growth, while Energy & Steel (down 23% Y/Y in H1-26) and Turkey-exposed Specialty Chemicals remain drags (down 4% Y/Y in H1-26), with consolidated gross margin normalizing from 48.5% to 45.5% by FY30E. **SPIMACO** (Neutral, TP SAR 35.6/sh) is our turnaround case – Q2-26 net profit surged 110% Y/Y to SAR 68.4mn on a sharp Public-channel and export mix shift, and Endosa (the first end-to-end GCC-manufactured biosimilar) has already surpassed SAR 165mn in sales within two years of launch – but a 300-day cash conversion cycle, 33% debt-to-assets and continued Retail-channel weakness (historically just a 4.0% 5-YR revenue CAGR vs. 15% for listed peers) keep us on the sidelines pending sustained execution.

Bottom line: The IDF-driven sugar rush is normalizing, but what replaces it – demographics, insurance penetration, localization moving up the value chain, and a genuine specialty/biosimilar pivot – is more durable, if slower. Within that setup, we prefer companies with a credible second growth leg over those simply riding sector beta, which is why Avalon remains our preferred way to play the theme.

Key risks: i) Delayed SFDA price adjustments amid sustained geopolitical tensions and elevated shipping and API costs, ii) delays in the commercial launch and scaling of off-patent products, iii) a greater-than-expected influx of lower-cost imported medicines, and iv) underperformance in key export markets.

Fig 1. Target Price & Recommendation

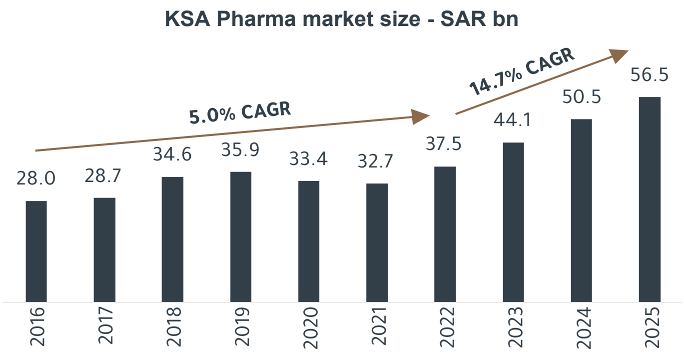
Company	TP (SAR/share)	Upside/(Downside)	Recommendation	FY25 PAT	FY26E PAT	Y/Y %	FY27E DY	FY27E P/E
Jamjoom Pharma	144.9	+2.9%	Neutral	464	487	5.0%	3.3%	18.6
Avalon Pharma	72.0	+17.1%	Overweight	97	110	13.2%	2.9%	17.5
Astra Industrials	142.0	+3.3%	Neutral	666	656	-1.5%	3.3%	17.3
SPIMACO	35.6	+13.7%	Neutral	184	195	6.0%	1.6%	15.9

Source: Argaam, Company accounts, AlJazira Capital research; close as of 20th August, 2026

KSA's pharma industry performance at a glance

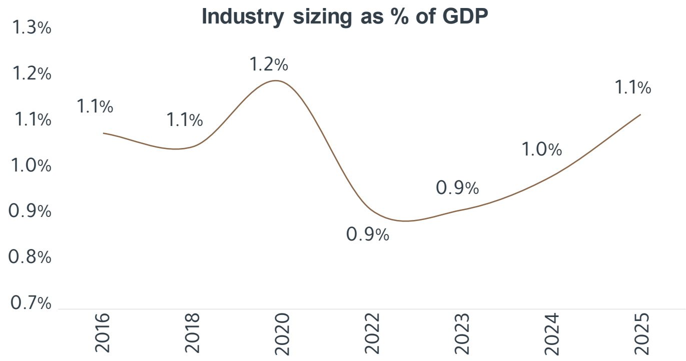
KSA's pharma industry has grown steadily at 7.3% CAGR over 2018-2025 to reach a market size of SAR 56.5bn on ex-factory prices. This growth was driven by a confluence of ageing and growing population, increase in insured lives, introduction of GLP 1 agonists, rise in non-communicable diseases and the government's initiatives like Insurance Drug Formula in 2022 and Wasfaty program along with new products launches by local companies. While the market experienced a temporary slowdown during the COVID-19 period (2020-2021), the pandemic ultimately strengthened health awareness, encouraged greater healthcare utilization, and reinforced long-term demand for pharmaceutical products in the years that followed.

Fig 2.KSA pharma market size



Source: IQVIA MEA Pharma Insights, SPIMACO Board Reports, AlJazira Capital Research

Fig 3.KSA Pharma market as % of GDP



Source: IQVIA, SPIMACO Board Reports, AlJazira Capital Research

Building blocks of Saudi Arab Pharma Sector growth in the last decade

Saudi Arabia's pharma market last 10 years can be categorized into three phases as Pre Covid (2016-2019), during Covid-19 (2020-21) and Post Covid 2022-2025. Among three phases, the market has shown the most exceptional growth of 14.7% between 2022-2025 versus its historical CAGR (2016-2022) of 5.0%. Historically, Saudi Arab's Pharma market remains a unit growth play through the launch of new molecules and therapies, overall increase in disease profile along with the increasing health awareness. This growth in turn depends mostly on the population growth dynamics, ageing, and no of insured population. Under Vision 2030, local pharma sector has gained considerable traction with local companies now counting to 6 out of top 10 companies.

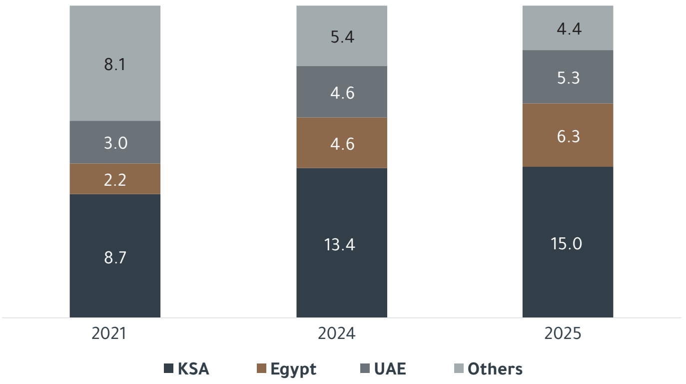
MEA Pharma Market Outlook: Saudi Arabia to Remain the Regional Growth Engine

The Middle East & Africa (MEA) pharmaceutical market expanded from USD 20.0bn in 2019 to USD 28.0bn in 2024, translating into a healthy c.6.0% CAGR, albeit below the Global Pharmaceutical market CAGR of 7.9% over the same period. Although Saudi Arabia's pharmaceutical market broadly grew in line with the regional average during this period, the Kingdom remained the single largest contributor to regional expansion owing to its dominant market size. Of the USD 8.0bn incremental pharmaceutical market created across the MEA region between 2019 and 2024, nearly 50% was generated by Saudi Arabia alone, underscoring its importance as the region's primary growth engine.

Looking ahead, IQVIA forecasts the MEA pharmaceutical market to accelerate, registering an 8.09% CAGR during 2025-29, exceeding the expected Global Pharmaceutical market CAGR of 7.2%. We believe this marks a structural inflection in the region's growth profile, supported by accelerating pharmaceutical localization in Saudi Arabia and the UAE, expanding health insurance penetration across both markets, and the continued rise in healthcare demand. In particular, the UAE's nationwide expansion of mandatory health insurance to all seven emirates from 2025, coupled with strong growth in medical tourism, is expected to materially increase the insured population and support faster pharmaceutical demand.

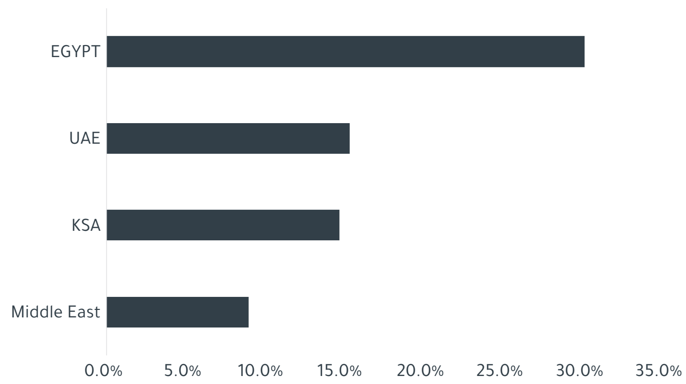
Saudi Arabia has been one of the standout performer in the more recent period, with its pharmaceutical market growing at approximately c.1.5x the broader MEA market during 2022-25 following the implementation of the Insurance Drug Formulary (IDF) in 2022. We do not expect this level of outperformance to persist indefinitely. After delivering an exceptional 14.7% CAGR over the last three years, the Saudi pharmaceutical market is beginning to normalize, while the UAE is expected to capture a larger share of regional growth supported by favorable structural catalysts. Nevertheless, we continue to expect the Saudi market to outperform the broader MEA region by around 10%, implying an 8.9% CAGR during 2025-29 versus 8.09% for MEA. This would expand the Saudi pharmaceutical market from USD 15.1bn in 2025 to approximately USD 21.2bn by 2029. While the long-term demand outlook remains favorable, growth could moderate during 2026 due to geopolitical uncertainties and the normalization following the strong post-IDF expansion witnessed since 2022.

KSA vs. Other Regional Players: Market Size (USD bn)



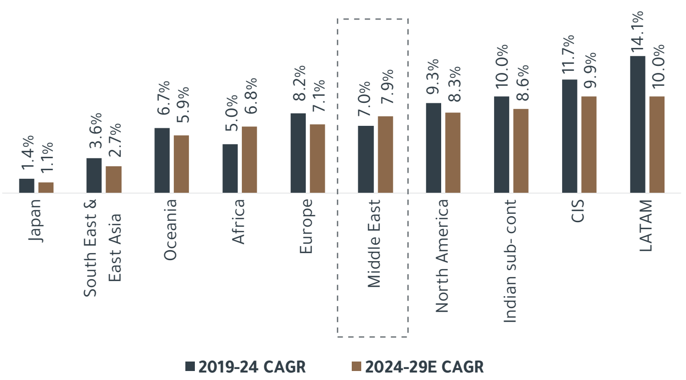
Source: IQVIA MEA Pharma Insights, Aljazira Capital Research

Fig 5.Last 5-year CAGR of KSA and Middle East market



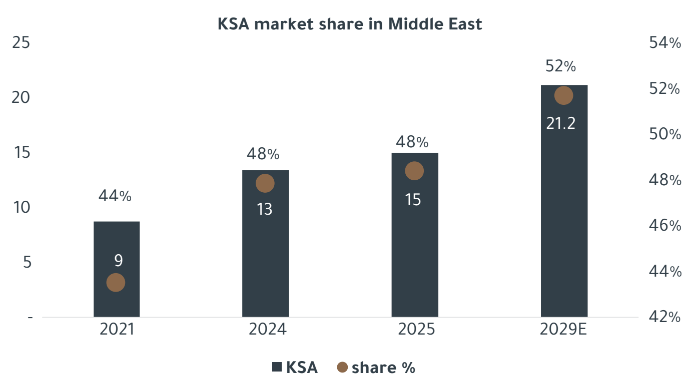
Source: IQVIA, SPIMACO Board Reports, AlJazira Capital Research

Fig 6.Middle East pharma growth outpaces most global regions



Source: IQVIA, AlJazira Capital Research

Fig 7.KSA consolidates its leadership in the regional pharma market-USD bn

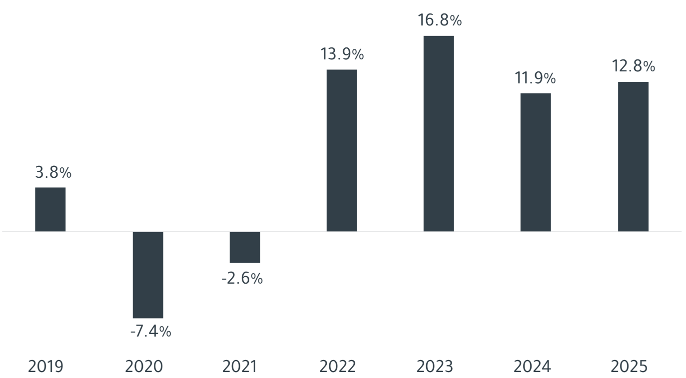


Source: IQVIA, AlJazira Capital Research.

Insurance Drug Formulary 2022: Major catalyst of KSA Pharma Sector Growth between 2022-2025

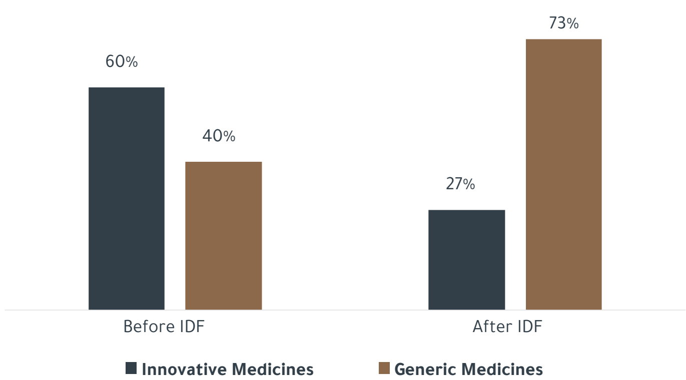
The introduction of Insurance Drug Formula in Sep-22 by CHI remains major trigger in boosting KSA Pharma sector's growth in subsequent years. As a policy intervention through IDF, CHI directed healthcare providers to prescribe and substitute brand name drugs with the cheaper generic equivalents while levying lower copayments for generic drugs. Under this policy, co-payments for generic medicines were set at 0-20% with a maximum payment of SAR 30 for the total prescription whereas Brand medications co-payment was set at 0-50% for each medication. As a result of this policy intervention, CHI reported a notable increase in the share of Generic medicines insurance claims in 2023 which rose to 73% from 40% while share of innovative medicines claims reduced to 27% from 60% in a short span of 9 months (Sept-22 to June-23). In nutshell, despite having lower value per unit of generic medicines, this intervention helped in increasing medicines access to previously underserved patients' pool. As a result, KSA's pharma market recorded its highest Y/Y growth of 17% in 2023, the strongest growth rate in the past decade.

Fig 8.KSA pharma market YoY growth trend



Source: IQVIA MEA Pharma Insights, SPIMACO Board Reports, AlJazira Capital Research

Fig 9.Generic vs Innovative medicine claims in 2023

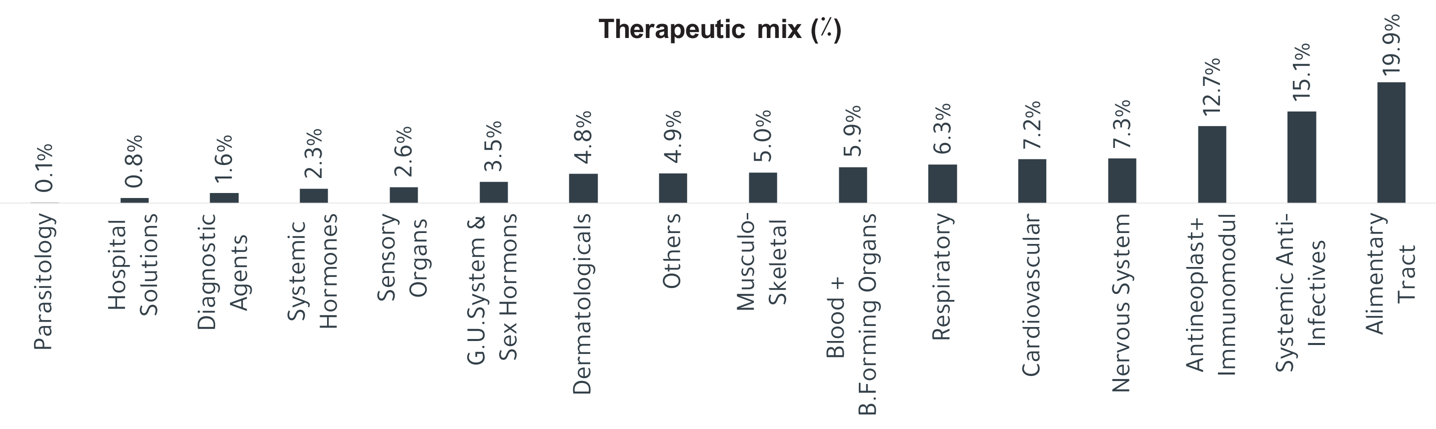


Source: CHI Annual Reports, AlJazira Capital Research

KSA's Pharma market classification in different therapeutic areas

The Saudi pharmaceutical market exhibits a relatively concentrated therapeutic mix, with the three largest therapeutic areas—Alimentary Tract & Metabolism (19.9%), Systemic Anti-Infectives (15.1%) and Antineoplastics & Immunomodulators (Oncology; 12.7%)—collectively accounting for 47.7% of the market. Within Alimentary Tract & Metabolism, diabetes therapies represent the largest sub-segment (54%), reflecting the Kingdom's high diabetes burden, followed by anti-acid & anti-ulcerants (16%) and vitamins (9%). Meanwhile, Systemic Anti-Infectives is primarily driven by systemic antibacterials (44%) and vaccines (31%). Beyond the top three therapeutic areas, the remaining 13 therapeutic categories collectively account for 52.3% of the market, indicating a well-diversified demand base across chronic, acute and specialty therapies. Notably, Cardiovascular, Respiratory, Nervous System and Blood-related therapies each represent meaningful standalone segments, highlighting broad-based pharmaceutical demand rather than dependence on a single disease area.

Fig 10.Disease category mix highlighting dominance of alimentary, systemic and anaplasias cases

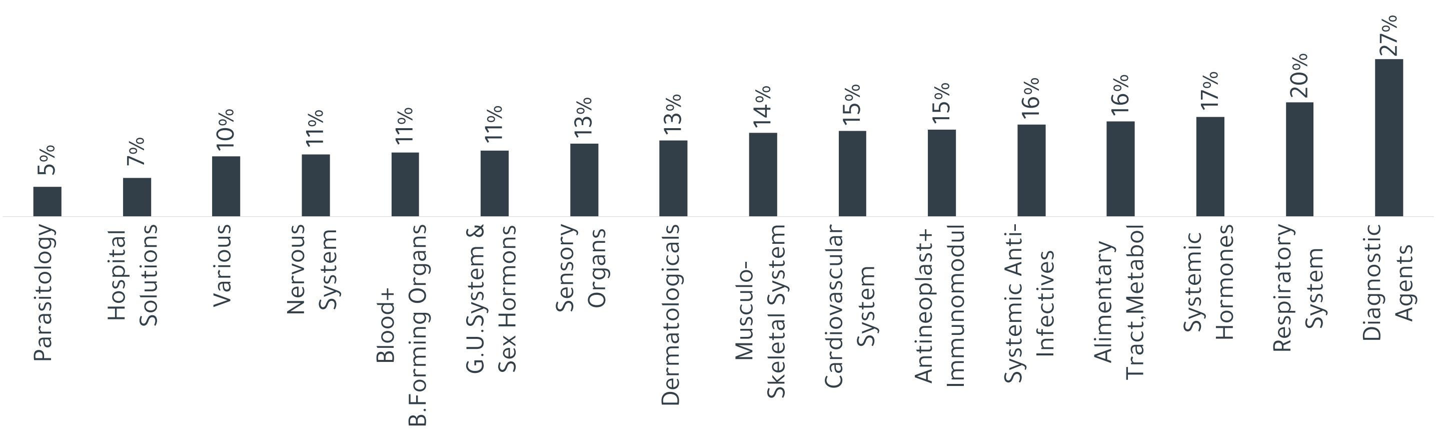


Source: IQVIA, AlJazira Capital Research

KSA's therapeutic areas growth trends in the last five years

Growth over the past five years has been broad-based across the Saudi pharmaceutical market, with several large therapeutic areas continuing to expand at healthy double-digit rates. While Diagnostic Agents recorded the highest 5-year CAGR of 27%, it accounts for just 1.6% of the total market, suggesting its strong growth has had a relatively limited impact on overall market expansion due to its small base. Similarly, the Respiratory System delivered an impressive 20% CAGR while representing a more meaningful 6.3% of the market. More importantly, the three largest therapeutic areas—Alimentary Tract & Metabolism (19.9% market share), Systemic Anti-Infectives (15.1%), and Antineoplastics & Immunomodulators (Oncology; 12.7%)—all recorded robust 15-16% CAGR, indicating that Saudi Arabia's pharmaceutical market has been driven by sustained growth in its largest therapeutic segments rather than relying solely on niche categories. In particular, Alimentary Tract & Metabolism, the largest therapeutic area, continued to grow at 16% CAGR, underscoring the structural demand for diabetes and other metabolic therapies. Conversely, mature categories such as Hospital Solutions (7% CAGR) and Parasitology (5% CAGR) remained the slowest-growing segments, reflecting their comparatively limited growth potential.

Fig 11.Growth performance across categories shows accelerating demand in high value therapeutic areas-5-yr CAGR

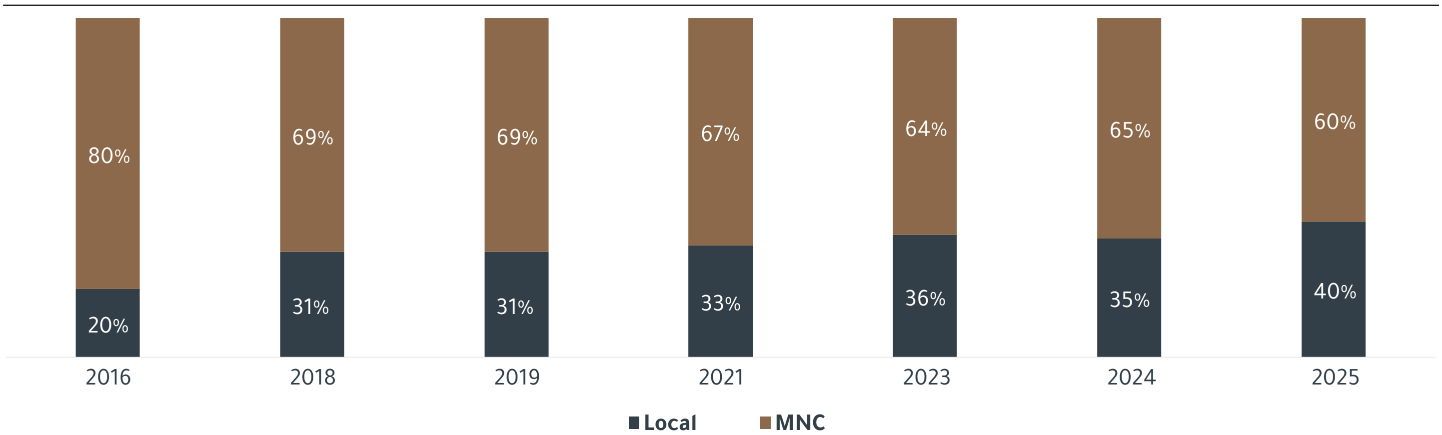


Source: IQVIA, AlJazira Capital Research

KSA's shift toward local pharma players is a key structural growth driver for local companies

Over the last 10 years, Vision 2030 policies have supported a structural shift in Saudi Arabia's Pharma market toward local companies, providing the much-needed impetus to the industry. From a 20% share of local companies in total KSA Pharma sales in 2016, the share of local companies has now reached 40% in 2025, effectively achieving the Government's initial 2030 target five years ahead of schedule. Importantly, we believe the growth opportunity for local players extends beyond achieving this initial target, as Government procurement policies continue to favor companies with greater local presence and manufacturing capabilities. Favorable and consistent policy environment remains the cornerstone of Vision 2030 targets. Under the current SFDA regime, local companies are allowed priority review and quicker registration of generics and new local products. According to an IQVIA study in 2022, it takes less than a year for the registration of generics and local drugs in KSA as compared to 14-18 months required for the registration of new imported drugs or biologicals. Along with this, in the Public Market (i.e., 51% of total KSA Pharma Market), Government entities such as NUPCO and NAMAA score MNCs on seven localization criteria, thus putting pressure on MNCs to localize their medicines. Apart from the scoring mechanism in place, our channel checks within the industry suggest that local companies are given price premiums as compared to MNCs under a certain pricing formula. Clarity on the exact pricing premium is not established; however, as per industry sources, a ballpark premium of 8-10% is usually given to local companies in Government procurement. In a similar way, the Local Content and Government Procurement Authority (LCGPA) has categorized 365 SKUs of the Pharma sector in the Mandatory List of products that must be sourced locally by the Government. To develop local capabilities, LCGPA also offers pricing incentives in the 10-30% range for these SKUs. These policies have translated into a clear structural shift in market share toward local manufacturers, with local companies recording a 17% revenue CAGR in the last 10 years compared with an 8.4% decline in the sales of MNCs. We believe continued growth in the share of local companies, particularly in Government procurement and higher-value therapeutic areas, should remain a structural tailwind for domestic Pharma players.

Fig 12.KSA's local pharma companies continue to capture market share from the MNCs

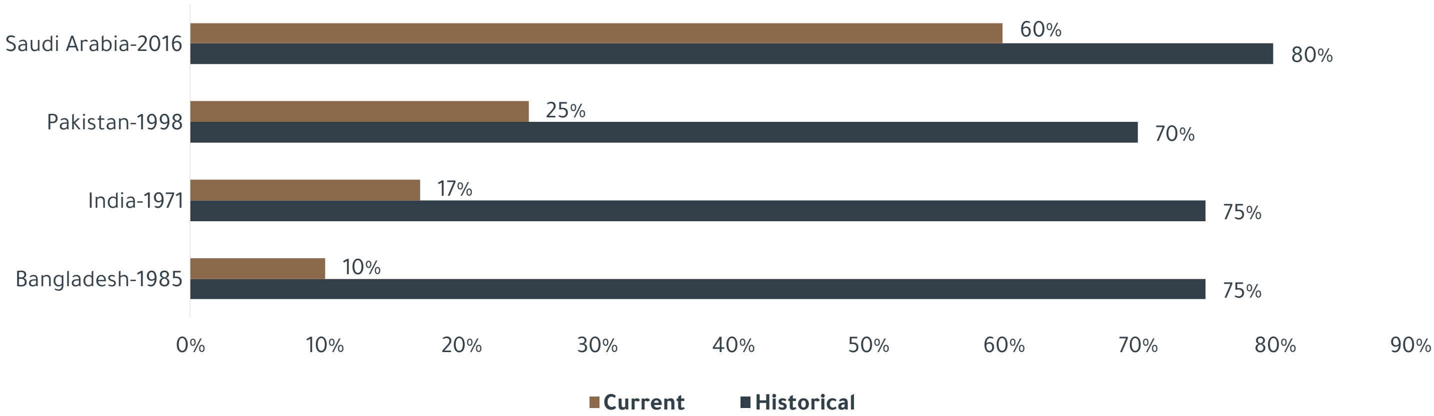


Source: IQVIA, Aljazira Capital Research. Note: Some years missing due to data unavailability

KSA's pharma market is following the broader emerging-market shift toward local players

Apart from the Government's strong focus on localization of the Pharma industry, Saudi Arabia's Pharma market broadly follows the same structural pattern observed across other emerging markets. Over the last 20 years, we have seen the share of MNCs reduce significantly in countries such as Pakistan, Egypt, India, Bangladesh and Vietnam, among others. Variety of factors can explain this phenomenon, among them Patent expiries and subsequent opportunities for generic manufacturers, Governments preference of cheap generics for procurement, gradual improvement in the manufacturing practices of local companies and higher cost structure of MNCs remained one of the primary reasons. Along with these factors, MNC's deliberate strategy to shift away from commoditized generics and redirection of capital towards more innovative therapies has also added further impetus to this shift. Therefore, we believe the shift toward local players in Saudi Arabia is supported by structural industry dynamics in addition to favorable Government policies, providing a potential long-term tailwind even as policy incentives evolve. Coincidentally, unlike other emerging markets, no MNC Pharma company is listed on the Saudi stock exchange, providing investors with a relatively unique opportunity to gain direct exposure to the growth of local pharma players and the broader evolution of the Saudi pharma market.

Fig 13.Historical vs current market share of MNCs in emerging countries



Source: IQVIA, Economic Times, Dawn, Financial Express, Aljazira Capital Research

Fig 14.Strategic divestitures by global pharmaceutical companies

Year	Company	Transaction	Business Divested	Buyer/Structure	Strategic Rationale
2025	Sanofi	Partial divestiture of Consumer Healthcare	Opella (Consumer Healthcare)	Majority stake sold to private equity while retaining a minority interest	Sharpen strategic focus on innovative biopharma, particularly immunology, vaccines and rare diseases.
2023	Novartis	Spin-off	Sandoz (Generics & Biosimilars)	Spin-off to existing shareholders	Transform Novartis into a pure-play innovative medicines company and concentrate capital allocation and management attention on innovative therapies.
2022	GSK	Spin-off	Consumer Healthcare (Haleon)	Demerger to existing shareholders	Create two focused companies, enabling GSK to prioritize vaccines and specialty medicines while Haleon operates independently as a consumer health leader.
2020	Pfizer	Merger / Separation	Upjohn (Established & Off-Patent Brands)	Merged with Mylan to form Viatris	Separate mature off-patent products from Pfizer's innovative biopharmaceutical business, improving strategic focus and capital allocation.
2021	GSK	Portfolio Sale	Global Cephalosporin Antibiotics Portfolio	Sold to Sandoz	Divest mature anti-infective brands and optimize the portfolio, supporting greater investment in growth areas.
2018	Novartis	Portfolio Sale	US Oral Solids & Dermatology Generics (~300 products)	Sold to Aurobindo Pharma	Optimize the Sandoz portfolio by exiting commoditized generic products and increasing focus on biosimilars and differentiated generics.

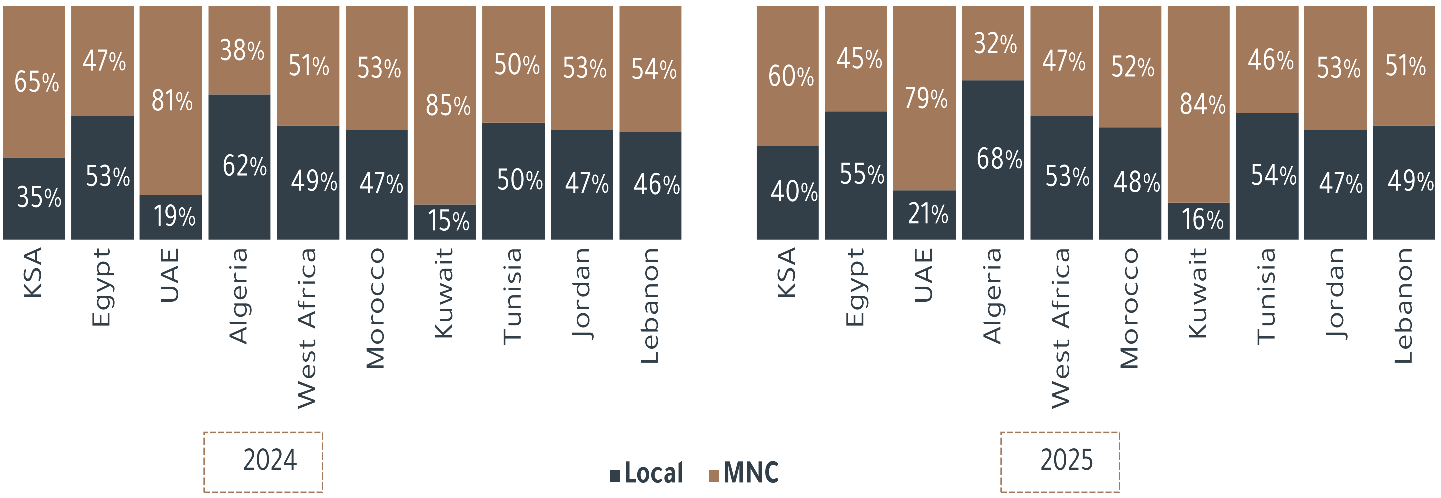
Source: Companies announcements, Aljazira Capital Research

Localization agenda continues to reshape competitive dynamics in MENA region

The Middle East pharmaceutical landscape is also witnessing a steady shift toward localization, supported by government initiatives aimed at improving drug security, reducing import dependence, and developing domestic manufacturing capabilities. Saudi Arabia represents one of the most advanced examples of this transition, with local manufacturers accounting for 40% of market value in 2025, up from 35% in 2024. The gain is even more pronounced in volume terms, where local companies are expected to command 65% of total units sold in 2025 versus 58% in 2024. The significant gap between value share (40%) and volume share (65%) indicates that domestic manufacturers remain heavily concentrated in generic and essential medicines, while multinational companies continue to dominate premium, patented, and specialty therapies.

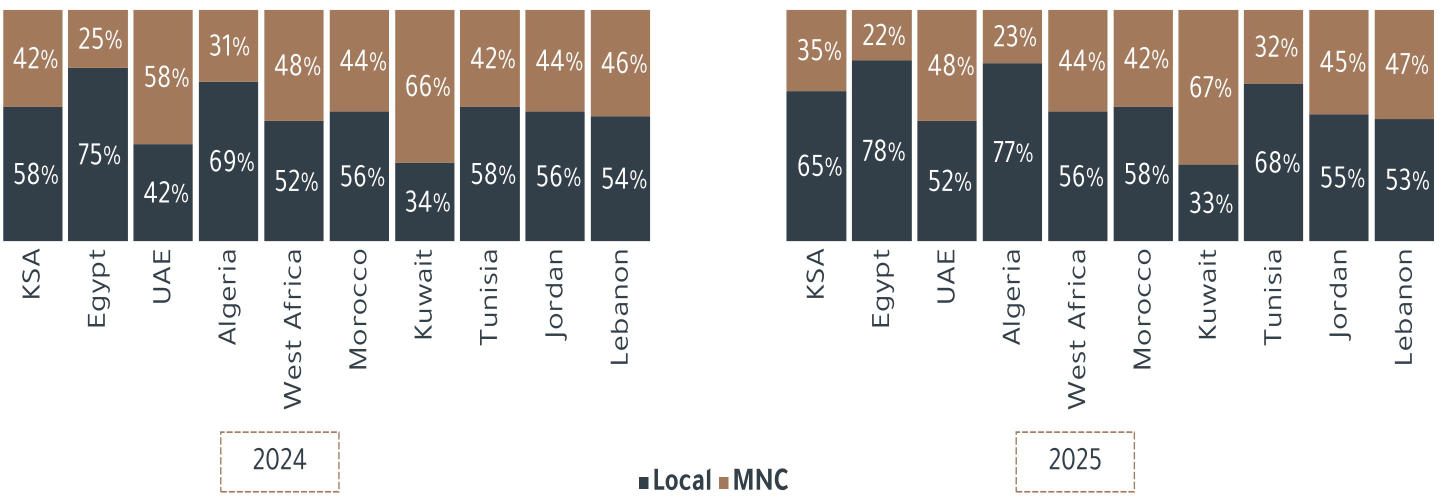
The localization trend is not unique to KSA and is visible across several regional markets including Egypt, Tunisia and Algeria, where local manufacturers command more than half of total pharmaceutical volumes. However, Saudi Arabia's combination of market scale, regulatory support, government procurement preferences and manufacturing incentives positions it as the region's most attractive pharmaceutical production hub. As localization efforts accelerate under Vision 2030, domestic companies are likely to gain further share in mature generic categories, while multinational players increasingly focus on innovative therapies, biologics and specialty medicines. This bifurcation could result in faster volume growth for local manufacturers but sustained value leadership for multinational companies, creating distinct growth avenues across the pharmaceutical value chain.

Fig 15.Local manufacturers continue to gain share in regional pharma markets by value - steep rise in KSA can be seen



Source: IQVIA, AlJazira Capital Research

Fig 16.Domestic players dominate volume consumption across key MEA markets

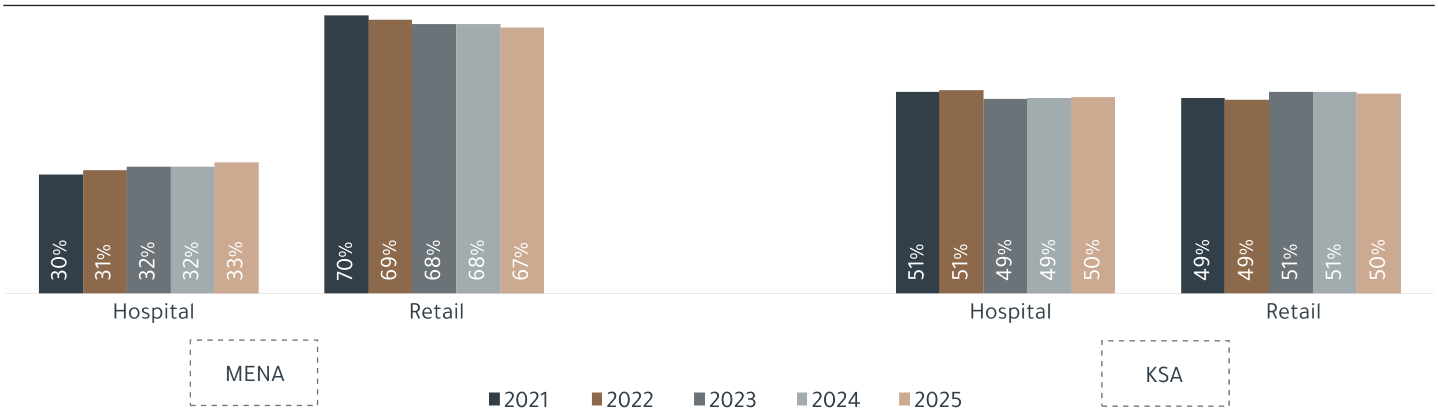


Source: IQVIA, AlJazira Capital Research

Saudi Pharma market has higher public channel exposure, but mix is likely to shift toward private healthcare

Unlike the broader MEA Pharma market, which remains more heavily skewed toward the Retail channel, Saudi Arabia's Pharma market is almost evenly split between Retail and Public/Hospital channels, with the latter accounting for c.51% of total sales. This highlights the relatively high Government exposure of the Saudi Pharma market, largely reflecting the Government's historically dominant role in healthcare delivery and procurement. However, we expect the channel mix to gradually shift toward the private sector as the Government continues to reduce its footprint in healthcare delivery, with the significant expansion of private hospitals planned across KSA over the next 5-6 years likely to accelerate this transition. As a result, while Government procurement will remain an important component of the Saudi Pharma market, we expect the increasing role of private healthcare providers to gradually bring the market mix closer to broader MEA levels.

Fig 17.Hospital pharma consumption gradually expands across KSA and MENA



Source: IQVIA, AlJazira Capital Research

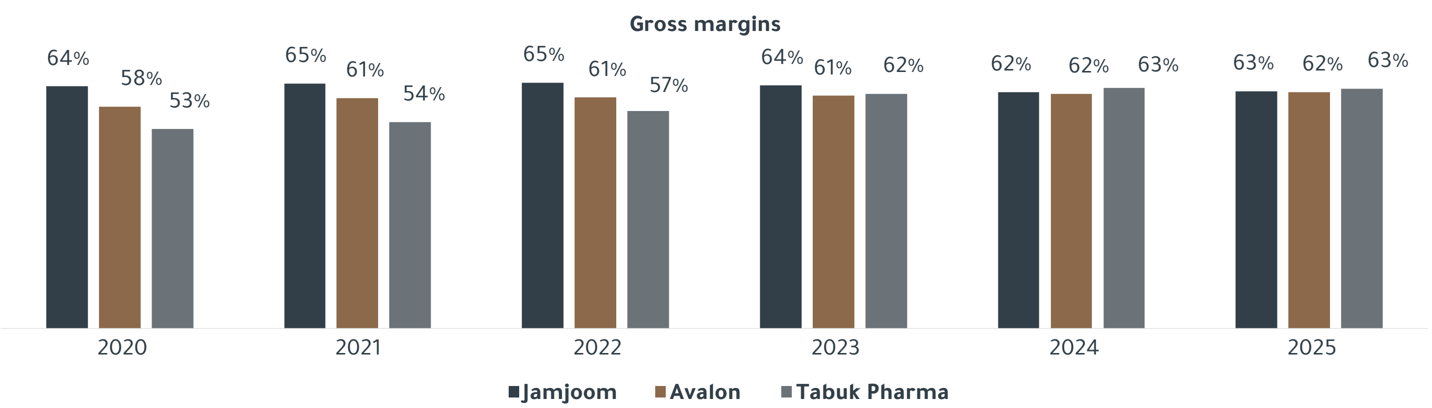
SFDA pricing framework provides a balanced environment for pharma players

All pharmaceutical product prices in Saudi Arabia are regulated by the Saudi Food and Drug Authority (SFDA), with launch prices determined using a multi-factor assessment that incorporates international reference pricing (i.e. 16 countries mostly from developed economies), therapeutic value, pharmacoeconomic evidence, prices of therapeutic alternatives and the company's proposed price. Product prices are not fixed indefinitely, with marketing authorizations renewed every five years, during which the SFDA reassesses pricing under the same principles. However, price reviews are not mechanically linked to price reductions, as the broad assessment criteria under Article 2 of SFDA's regulation (i.e. above mentioned factors) provide the regulator with flexibility to balance healthcare affordability with supply sustainability.

The pricing framework also incorporates several features that encourage competition while supporting industry profitability. Upon registration of the first generic (biosimilar), the innovator's price is reduced by 25% (20%), while the first generic (biosimilar) may be priced at up to 70% (75% for biosimilars) of the innovator's pre-reduction price. Pricing ceilings decline to 65% and 60% (65% and 55% for biosimilars) for subsequent entrants, creating a clear first-mover advantage and incentivizing timely generic and biosimilar launches while facilitating a gradual reduction in healthcare costs through increased competition.

In practice, the SFDA has adopted a pragmatic approach to pricing implementation. Manufacturers may request price re-evaluations when supported by objective justifications such as higher API, raw material or logistics costs, with the SFDA assessing such requests against international reference prices and domestic market conditions. As per our discussions with the management teams of several listed pharmaceutical companies, the review and approval process for repricing applications typically takes around 7-8 months. This regulatory flexibility was evident during the post-COVID 19 commodity and freight inflation cycle, when most listed Saudi pharmaceutical companies—including Jamjoom Pharma, Avalon Pharma and Tabuk Pharmaceuticals—maintained relatively stable gross margins despite significant increases in API and freight costs. In our view, this demonstrates that the SFDA has implemented its pricing framework in a balanced manner, preserving manufacturers' ability to earn sustainable returns while ensuring medicine affordability and supply security. Accordingly, we do not expect recent geopolitical developments and the resulting increase in freight and selected API costs to materially erode the profitability of listed players over the short to medium term. However, given the time lag involved in SFDA approval of price adjustments, we could see some modest gross-margin pressure over the next 1-2 quarters before the impact of repricing is reflected.

Fig 18.Post Covid-19 super commodities cycle, KSA's pharma companies' gross margins remains resilient

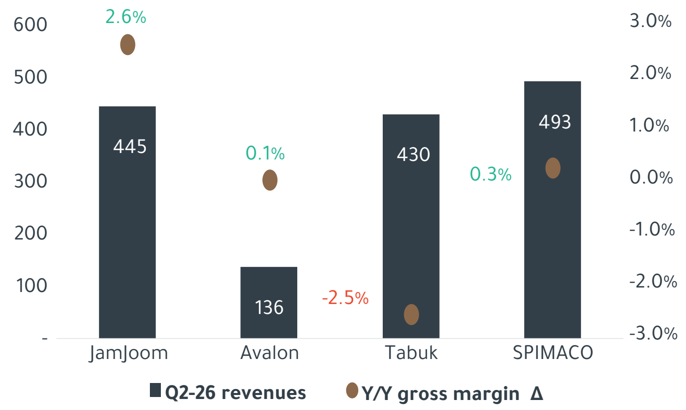


Source: Company, Aljazira Capital Research

Pharma companies Q2-26 financial performance at a glance: During Q2-26 our pharma coverage universe delivered a strong top-line performance with revenue growth of 19.5% Y/Y, with SPIMACO reporting the highest quarterly revenues at SAR 493mn, followed by JamJoom (SAR 445mn) and Tabuk (SAR 430mn), while Avalon generated SAR 136mn. However, despite strong revenue growth, the sector gross margins remained broadly stable at 58.3%, versus 58.2% in Q2-25, despite higher shipping costs and some increase in API prices. Working capital requirement stayed elevated with average DSO days at 185, thereby suggesting limited improvement in cash conversion. Meanwhile sector RoE expanded 243bps Y/Y to 29.0%.

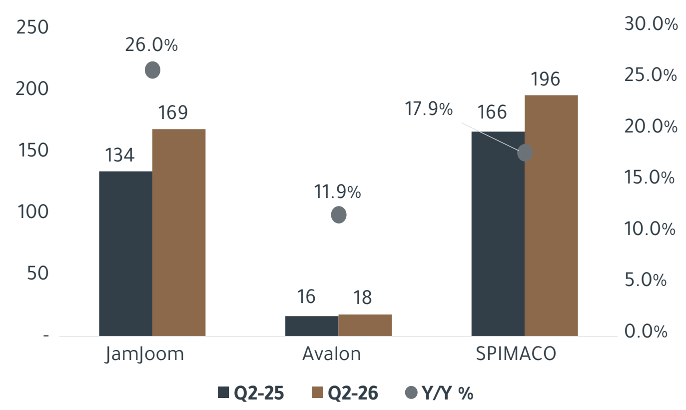
Despite the geopolitical tensions in the Middle East, the export revenues of JamJoom, Avalon & SPIMACO grew in aggregate (ex of Tabuk) at 21.0% Y/Y, with JamJoom's export business outperforming its peers in terms of growth. The geopolitical tensions caused short-term disruptions in the region rather than structural weakness. While Gulf markets delivered modest growth, momentum was uneven due to geopolitical tensions, regulatory friction - including government mandated pre-export approvals to assess domestic availability - and shipment delays that disrupted sales phasing. Our coverage companies adopted calibrated export strategy, prioritizing supply stability and domestic availability over aggressive expansion. Despite near-term pressure, underlying demand across key export markets remains intact, positioning exports as a medium-term growth lever once external conditions normalize.

Fig 19. Revenue grew strong in Q2-26 at 19.5% Y/Y, but gross margins remained broadly stable



Source: IQVIA, AlJazira Capital Research

Fig 20. Export performance was strong, despite short-term disruptions caused by the geopolitical tensions

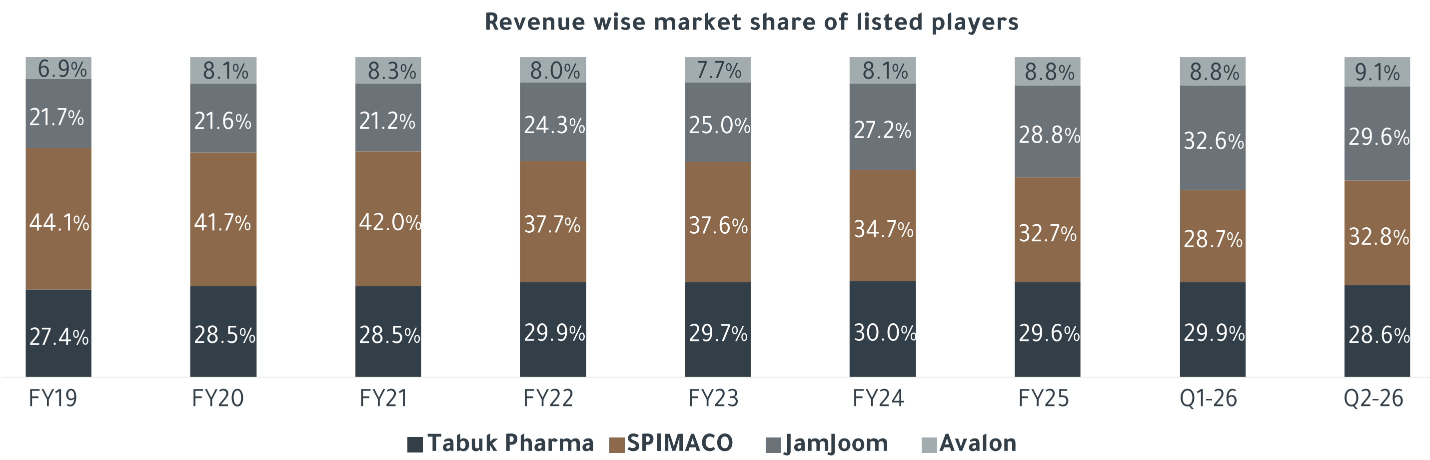


Source: Company, AlJazira Capital research. Note: Tabuk does not report export revenues

KSA's listed pharma manufacturers at a glance

In the Saudi Arabia Pharma sector, around 854 companies are marketing their drugs in the country. Out of which only four players are listed on the Tadawul: i) SPIMACO, ii) JamJoom, iii) Avalon and iv) Tabuk Pharma (subsidiary of Astra Industrials). While multinational companies account for nearly 60% of the Saudi pharmaceutical market, none are listed on Tadawul. All these players focus on the development, manufacturing, marketing and distribution of pharmaceutical products, medical devices and consumer health products. The figure below provides a detailed overview of their business portfolios.

Fig 21. Although SPIMACO is the largest player, it has ceded its market share to JamJoom, who has been the fastest growing company in our coverage companies

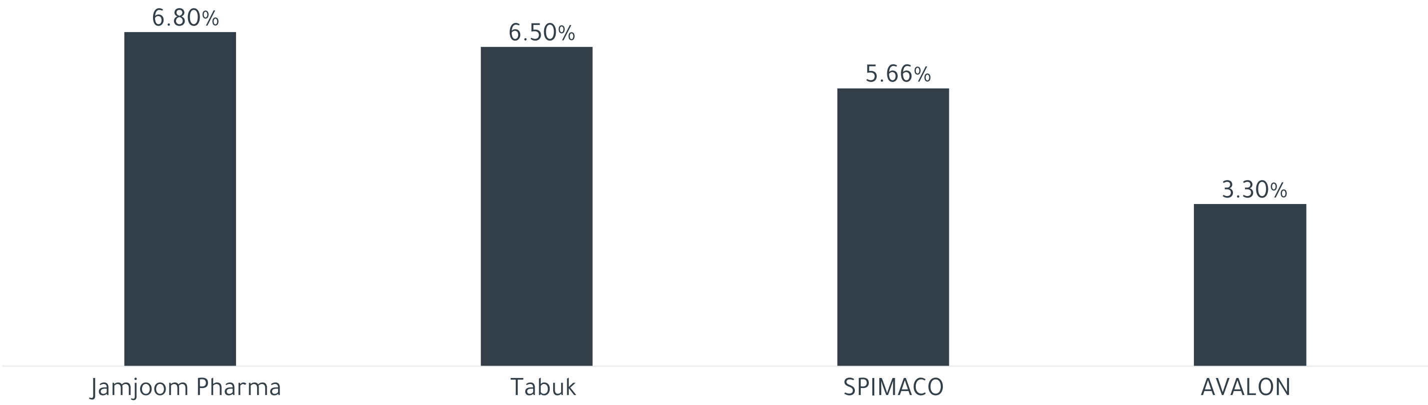


Source: Company, AlJazira Capital Research

KSA's listed pharma players standing in the retail market

Out of SAR 56bn KSA Market, Retail/Private market constitutes c.50% of the share. Within this space, Eli Lilly ranked 1st with a market share of 7.1%, followed by the Jamjoom Pharma share of 6.8%, Tabuk 6.5%, SPIMACO at 5.6% and Avalon at 3.3%. Tying it all together, listed players commands 1/5th of the Retail Market. Owing to introduction of GLP1 agonists like Mounjaro in KSA, Eli Lilly has gained considerable traction in the retail market with last 4-YR revenues CAGR clocking in at 70%.

Fig 22.Retail market share of KSA's listed pharma players



Source: IQVIA, AlJazira Capital Research

Profitability and capital efficiency emerge as key differentiators across KSA Pharma players - Scale advantage doesn't alone translate into superior returns

In the below table, we analyze four dominant players in KSA's listed pharmaceutical space, including Tabuk Pharmaceuticals, the pharmaceutical arm of Astra Industrial Group, based on key financial metrics to assess their relative positioning and financial strength:

- **Revenue size & growth:** SPIMACO remains the largest player with FY25 revenues of SAR 1.7bn, followed closely by Tabuk Pharma (SAR 1.5bn) and JamJoom (SAR 1.5bn), indicating a tight competitive cluster at the top. Avalon, at SAR 460mn, remains relatively smaller. However, the real differentiation lies in growth—JamJoom (13.3% CAGR) and Avalon (8.8%) are growing meaningfully ahead of SPIMACO (1.9%), reflecting a structural shift where newer or more agile players are scaling faster than incumbents.
- **R&D and cost structure:** SPIMACO is the most R&D-intensive player, spending 3.5% of revenues on product development versus the sector aggregate of 2.6%, while Tabuk (2.5%) and JamJoom (2.6%) remain around industry norms. While SPIMACO's OPEX-Revenue stands at 31.8%, slightly above Tabuk's 31.2% despite generating a materially lower operating margin (17.0% vs. 32.0%). Tabuk demonstrates a stronger balance between R&D investment and cost discipline, converting a similar operating cost base into significantly higher profitability. JamJoom, while carrying a marginally higher Opex-to-Revenue ratio (32.0%), delivers an operating margin of 30.6%, supported by superior gross margins and effective operating leverage, highlighting stronger execution across the value chain.
- **Margins:** Profitability within the Saudi pharma universe is largely driven by gross margin differentiation. Tabuk Pharma and JamJoom operate with best-in-class gross margins of 63.2% and 62.6%, respectively, enabling them to convert revenue into sector-leading EBITDA margins (35.3% and 36.4%) and operating margins (32.0% and 31.6%). While Tabuk leads at the operating level, JamJoom ultimately records the highest net margin (30.9%), indicating stronger below-the-line efficiency. Avalon maintains gross profitability broadly in line with sector median (62.3% gross margin) but delivers relatively lower EBITDA and operating margins (27.9% and 23.5%), suggesting a higher cost base. SPIMACO stands out negatively, with a 48.8% gross margin versus the 58.2% sector aggregate, creating a drag on profitability and resulting in the weakest EBITDA (21.3%), operating (15.6%), and net margins (10.8%) among peers.
- **Capital efficiency:** Tabuk Pharma leads the peer set with the highest asset turnover of 1.14x, significantly outperforming the sector median (0.80x) and reflecting superior utilization of invested capital. Avalon (0.82x) and JamJoom (0.79x) operate near sector norms, whereas SPIMACO's asset turnover of just 0.39x points to an asset-heavy business model and suboptimal capital productivity.
- **Working capital efficiency:** On receivables management, JamJoom (125 days) and Tabuk (130 days) exhibit tighter working capital discipline compared with the sector median of 159 days, reflecting stronger collection efficiency and faster cash conversion. In contrast, SPIMACO's elevated DSO of 251 days continues to raise concerns around cash conversion and potential customer concentration risk. Looking at cash flow management, JamJoom leads on cash conversion cycle (CC) days at 179 days, significantly below the sector median of 237 days, highlighting superior end-to-end working capital execution. Tabuk's CC days of 237 are broadly in line with the sector, while Avalon (238 days) remains comparable despite a higher DSO. SPIMACO's CC cycle of 298 days is the weakest among peers, reinforcing concerns that capital remains tied up for prolonged periods across both receivables and inventory, ultimately weighing on balance-sheet efficiency and free cash flow generation.

- **Return profile:** Tabuk Pharma continues to stand out on return metrics, generating an estimated RoE of 70.3% and RoA of 33.1%, significantly ahead of peers and the sector medians of 32.8% and 19.1%, respectively. The superior returns are underpinned by the company's industry-leading margins and strong asset turnover (1.14x). JamJoom also delivers robust returns, with RoE of 27.0% and RoA of 22.7%, reflecting a strong combination of profitability and balance sheet efficiency. Avalon generates healthy shareholder returns (23.3% RoE; 16.2% RoA), broadly supported by solid margins and working capital management. In contrast, SPIMACO's RoE of 10.5% and RoA of 4.2% lag peers materially, reflecting weaker profitability, low asset turnover and a stretched working capital cycle, which constrain value creation and capital efficiency.
- **TTM Valuation:** SPIMACO trades at 18.3x P/E and 12.3x EV/EBITDA, representing the cheapest EV/EBITDA multiple within the covered peer set despite exhibiting the weakest operating performance. JamJoom commands a premium EV/EBITDA multiple of 17.2x, reflecting its superior growth profile and profitability, while Avalon trades at 20.1x P/E and 15.7x EV/EBITDA, supported by a balanced combination of growth and returns. Overall, valuation appears most supportive for SPIMACO on EV/EBITDA basis, while JamJoom's premium multiple seems justified by its stronger operating performance.

Fig 23.Financial benchmarking of KSA Pharma players

in SAR mn	Tabuk Pharma	SPIMACO	JamJoom	Avalon	Sector Aggregate
Revenues:					
FY25 Rev	1,545	1,707	1,501	460	**5,213**
Y/Y growth %	6.3%	1.5%	13.8%	16.9%	**7.5%**
FY20-25 CAGR	7.8%	1.9%	13.3%	8.8%	**6.9%**
FY25:					
Cost drivers:					
Gross margins	63.2%	48.8%	62.6%	62.3%	**58.2%**
R&D as % of rev	2.5%	3.5%	2.6%	DNA	**2.6%**
D&A as % of rev	3.3%	5.7%	2.9%	4.3%	**4.1%**
EBITDA margins	35.3%	21.3%	36.4%	27.9%	**30.0%**
Opt margins	32.0%	15.6%	31.6%	23.5%	**26.0%**
Net margins	29.0%	10.8%	30.9%	21.1%	**23.1%**
Balance Sheet:					
Asset turns	1.14	0.39	0.79	0.82	**0.64**
DSO days	130	251	125	188	**173**
CC days	237	298	179	238	**240**
RoE	70.3%	10.5%	27.0%	23.3%	**32.8%**
RoA	33.1%	4.2%	22.7%	16.2%	**19.1%**
TTM Valuation:					
P/E (x)	DNA	18.3	20.6	20.1	**19.7**
EV/EBITDA (x)	DNA	12.3	17.2	15.7	**15.1**

Source: Company, AlJazira Capital research. Note: TTM valuation is based on the closing of August 23rd, 2026. The sector aggregate number for the TTM Valuation is based on sector average.

Quartile-based pricing analysis highlights Tabuk Pharma's premium portfolio positioning relative to other leading Saudi pharma players

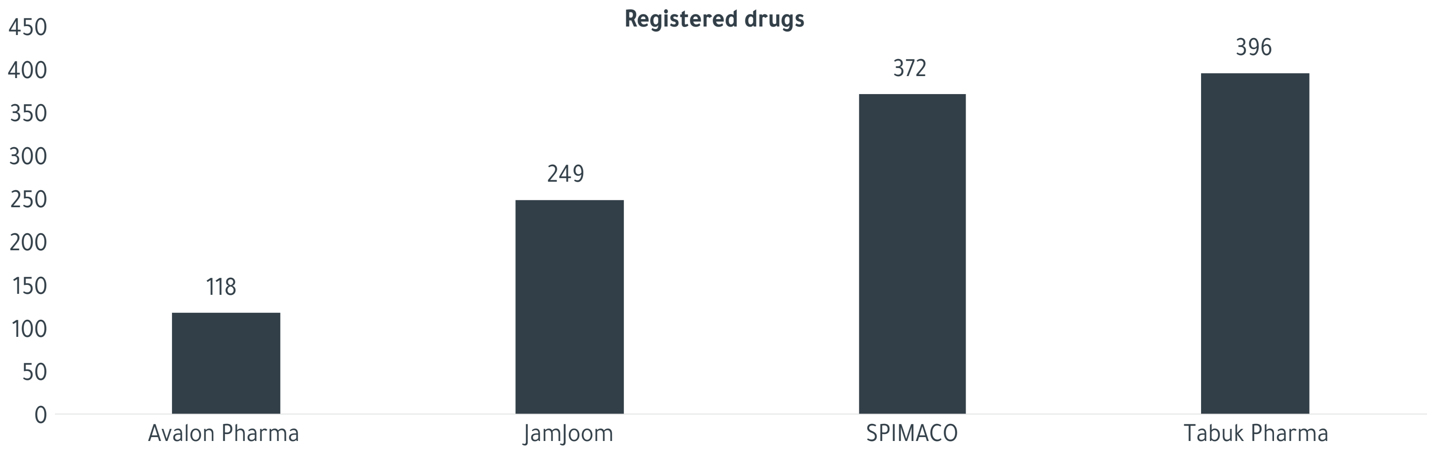
To compare portfolio pricing across our coverage companies, we ranked all registered drugs by price and applied **quartile analysis**, which divides the portfolio into four equal groups. **Q1 (25th percentile)** represents the price below which 25% of products are priced, **Q2 (median)** reflects the typical product price in the portfolio, and **Q3 (75th percentile)** captures the upper end of the core portfolio, below which 75% of products are priced. This approach reduces the influence of a few exceptionally high-priced specialty products that can distort the overall picture. Consequently, the median and upper quartile provide a cleaner view of a company's underlying pricing position and portfolio quality.

The analysis suggests that **Tabuk Pharma** is the clear pricing leader within the peer set. The company not only has the largest portfolio (396 registered drugs) but also reports the highest median price (SAR 64.3) and upper-quartile price (SAR 113.7). This indicates that Tabuk's pricing strength is not driven by a handful of premium products but is embedded across a significant portion of its portfolio, reflecting stronger positioning in higher-value therapeutic segments.

In contrast, **JamJoom**, **SPIMACO** and **Avalon Pharma** appear to operate within a similar pricing band. Their median prices range between SAR 41.0 and SAR 46.4, while their third quartile prices cluster around SAR 78-80, suggesting broadly comparable exposure to mainstream therapeutic categories. Among these players, SPIMACO benefits from substantial scale with 372 registered products, while JamJoom combines a mid-sized portfolio with slightly stronger median pricing. Avalon, despite having only 118 registered drugs, demonstrates a pricing profile comparable to these larger peers, implying a focused rather than broad-based portfolio strategy.

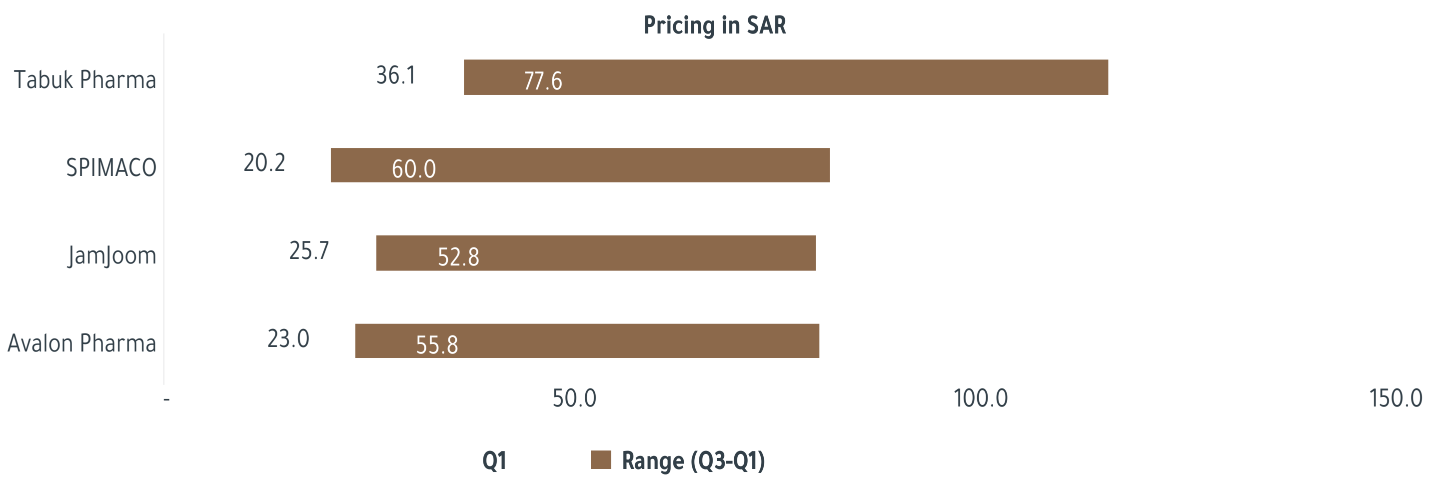
Maximum prices reveal the presence of high-value niche products across the sector, particularly for **Tabuk Pharma** (SAR 11,094.5), **SPIMACO** (SAR 6,115.7) and **Avalon Pharma** (SAR 3,010.3). However, the large gap between Q3 and maximum prices indicates that these products are statistical outliers rather than representative of the broader portfolio. In other words, while several companies participate in specialty or high-acuity therapies, their overall market positioning continues to be defined primarily by products priced within the lower and middle quartiles.

Fig 24. Portfolio breadth highlights scale advantage of Tabuk Pharma and SPIMACO



Source: SFDA, AlJazira Capital Research

Fig 25. Quartile pricing analysis indicates Tabuk Pharma maintains a structurally higher portfolio pricing



Source: SFDA, AlJazira Capital Research

Structural growth intact; Neutral as valuation limits upside

Jamjoom Pharma has established itself as one of the Saudi Arabia's highest-quality pharmaceutical companies, delivering an impressive c.20% revenue CAGR over the past five years, supported by a differentiated branded generics portfolio, industry-leading gross margins and a debt-free balance sheet. However, following an exceptional industry growth cycle during 2022-25, we expect both the Saudi pharmaceutical market and Jamjoom's earnings trajectory to normalize over the medium term. While structural demand across its core therapeutic areas, disciplined capital allocation and strong profitability should continue to support healthy long-term growth, we believe these strengths are largely reflected in the current valuation. We forecast revenue and net profit CAGRs of 9.2% and 8.2%, respectively, over FY25-30E, while maintaining healthy margins despite a gradual shift towards vaccines and biosimilars from FY28 onwards. Accordingly, we maintain a Neutral recommendation with a 12-Months target price of SAR 144.9/share, as the stock's premium valuation relative to broader market adequately captures its long-term growth prospects.

Q2-26 growth improves amid softer market conditions, while margin expansion supports earnings resilience: Following a robust c.20% revenue CAGR over the past five years, Jamjoom Pharma's revenue growth moderated to 8.5% YoY in 1H-26, with Q2-26 revenue growth improving to 12.4% YoY to SAR 445mn, reflecting a broader slowdown in the Saudi pharmaceutical market. From Jan-May 2026, the KSA retail pharmaceutical market declined by 0.7%; however, Jamjoom continued to outperform the market, with its retail sales increasing by 7.5% over the same period. Geographically, exports remained a key contributor to Q2-26 growth, accounting for c.71% of the YoY increase in topline, while KSA sales growth moderated to 5.5% YoY. On a therapeutic-area basis, Ophthalmology delivered solid growth of 22.7% YoY, accounting for 26.7% of revenues, while Dermatology recorded exceptional growth of 36.9% YoY, representing 20.2% of revenues. Cardiometabolic and Consumer Health also grew 13.3% and 9.0% YoY, respectively, with revenue shares of 10.4% and 13.6%. However, these gains were partly offset by General Medicine, the largest therapeutic area at 29.2% of revenues, which declined by 5.4% YoY. Despite the softer revenue growth, gross margin expanded significantly by 265bps YoY to 65.9% in Q2-26, mainly supported by favourable declines in selected raw material prices during the quarter. At the operating level, the 12.4% YoY topline growth was partly offset by higher operating expenses, resulting in operating profit growth of 7.9% YoY and a contraction in operating margin to 32.8% from 34.2% in Q2-25. Nevertheless, the strong gross-margin expansion helped sustain earnings growth, with Q2-26 net profit increasing 4.2% YoY to SAR 138mn (EPS: SAR 1.96), taking 1H-26 net profit to SAR 306mn, up 5.7% YoY.

Near-term growth likely to remain below management guidance, while structural demand across core therapeutic areas underpins long-term outlook: We believe JamJoom is unlikely to achieve its 10-12% revenue growth guidance for FY26-27 as KSA's pharma market enters a normalization phase following an exceptional c.15% CAGR during 2022-25, driven by Insurance Drug Formulary (IDF) implementation, introduction of GLP1s therapies and rapid expansion in insured lives (c.10% CAGR b/w 2022-25). Accordingly, we expect the market to grow at a more sustainable 7-9% over the next two years, with JamJoom broadly tracking industry growth at 8.7% and 9.2% in FY26 and FY27, respectively, reflecting it's larger revenue base and maturing growth profile. While new product launches remain part of the growth strategy, their contribution has been modest, accounting for only 1.5 percentage points of 1H-26 revenue growth of 8.5% and c.3 percentage points of FY25 growth.

Recommendation	Neutral
Target Price (SAR)	144.9
Upside/(Downside)	2.9%

Source: Tadawul *prices as of 20th August, 2026

Key Financials

(in SAR mn, unless specified)	FY24	FY25	FY26E	FY27E
Revenues	1,318	1,501	1,631	1,781
Growth %	19.9%	13.8%	8.7%	9.2%
Gross Profit	821	939	1,033	1,127
Opt Profit	381	475	502	552
Net Income	357	464	487	530
Growth %	21.9%	30.1%	5.0%	8.9%
EPS	5.09	6.63	6.94	7.56
DPS	3.06	4.00	4.20	4.60

Source: Company, AlJazira Capital research

Key Ratios

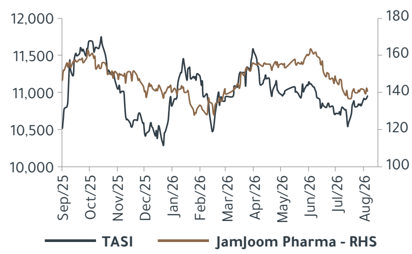
	FY24	FY25	FY26E	FY27E
Gross Margin	62.2%	62.6%	63.4%	63.3%
Opt Margin	28.9%	31.6%	30.8%	31.0%
Net Margin	27.0%	30.9%	29.9%	29.8%
ROA	20.1%	22.7%	21.7%	21.4%
ROE	23.9%	27.0%	25.5%	25.1%
P/E (x)	29.9	21.5	20.3	18.6
P/B (x)	7.2	5.8	5.2	4.7
EV/EBITDA (x)	24.8	18.0	17.2	15.4
Dividend Yield	2.0%	2.8%	3.0%	3.3%

Source: Company, AlJazira Capital research

Key Market Data	
Market Cap (bn)	9.9
YTD%	-1.05%
52-week (High)/(Low)	165.3/125.0
Share Outstanding (mn)	70.2

Source: Company, AlJazira Capital research

Price Performance



Source: Tadawul, AlJazira Capital research

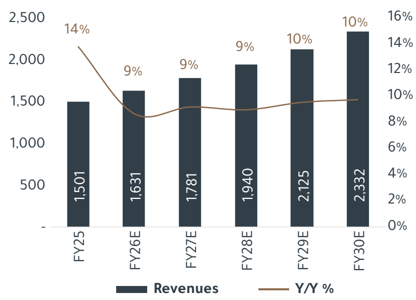
Consequently, we expect growth to be primarily driven by JamJoom's established therapeutic portfolio. In terms of therapeutic wise revenue build up, we anticipate General medicines (29% of revenue) to remain subdued over FY26-27 amid rising competition and broader market slowdown before recovering thereafter mainly because of impressive performance of company's flagship product Azi-Once (5YR CAGR-76%). while Ophthalmology should continue delivering double digit growth supported by favourable market dynamics and across the portfolio growth. Meanwhile, the Cardiometabolic portfolio (9.3% of revenue) remains well positioned to deliver double digit growth in the medium-term growth, supported by the rising prevalence of diabetes and hypertension. Overall, we forecast JamJoom to deliver a decent FY25-30E revenue CAGR of 9.2% to reach revenues of SAR 2.3bn by FY30, underpinned by resilient demand across its core therapeutic areas and an extensive pipeline of new products, which should provide additional avenues for sustainable long-term growth.

Strategic partnerships provide long-term optionality, but near to medium term contribution remains limited: Jamjoom's strategic partnership with Lifera (PIF owned) to locally manufacture vaccines and biosimilars strengthens its positioning within Saudi Arabia's pharmaceutical localization agenda. However, we do not expect meaningful revenue contribution before FY28, given the lengthy technology transfer, regulatory approval and commercialization timelines. Moreover, unlike branded generics, vaccines and biosimilars are scale-driven businesses with structurally lower gross margins (typically 30-40%) and remain dominated by large global manufacturers, suggesting only gradual earnings accretion over our forecast horizon. Similarly, the company's commercialization agreement with Bio-Thera to market a biosimilar version of the Cosentyx molecule across the MENA region is also unlikely to materially influence financial performance, given the relatively small addressable market of approximately SAR 90mn, representing only c.10% of the broader SAR 879mn Saudi's interleukin inhibitors market, as Cosentyx has a more concentrated indication profile than larger molecules such as Dupixent and Stelara within the category. Accordingly, while these partnerships strengthen Jamjoom's long-term strategic positioning, we expect their financial contribution to remain modest over the medium term.

Gross margin normalization while earnings grow at 8.2% CAGR: We expect Jamjoom Pharma to broadly sustain its industry-leading gross margins of c.63% through FY27, supported by its high-margin branded generics portfolio and favorable product mix. From FY28 onwards, we anticipate some gradual margins dilution as the company commences local manufacturing of vaccines and biosimilars under its Lifera partnership. Given these products typically generate gross margins of 30-40%, well below Jamjoom's core portfolio (>60%), we forecast consolidated gross margins to moderate to 61.2% by FY30E. Nevertheless, supported by a healthy FY25-30E revenue CAGR of 9.2%, we expect net profit to increase to SAR 688mn by FY30E, implying a CAGR of 8.2%, highlighting the company's ability to sustain earnings growth despite deacceleration of company's profitability growth.

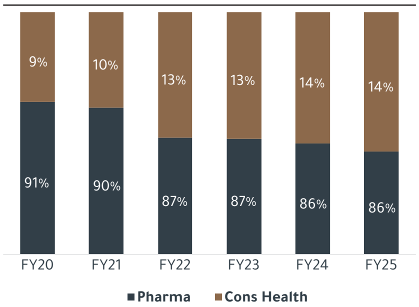
Balance sheet and working capital: Following the commissioning of its new sterile manufacturing facility in Jeddah, we expect Jamjoom Pharma's investment cycle to moderate, with expected cumulative CAPEX of SAR 268mn over FY26-30E, significantly lower than the SAR 548mn deployed during FY20-25. This should support healthy free cash flow generation while preserving the company's debt-free balance sheet. Jamjoom also maintains the shortest cash conversion cycle (CCC) within our pharma coverage at 145 days.

Revenue trajectory (SARmn)



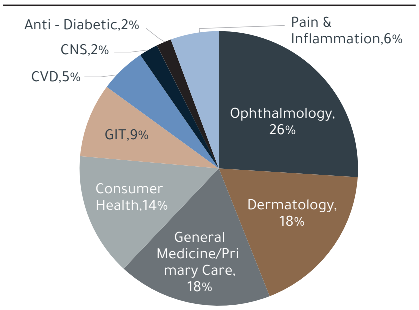
Source: Company, AlJazira Capital Research

Segmental Revenues



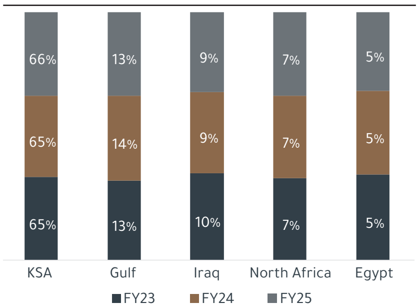
Source: Company, AlJazira Capital Research

Therapeutic areas wise revenues - FY25



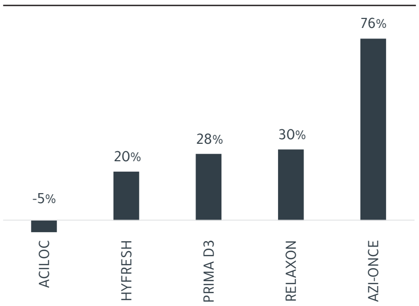
Source: Company, AlJazira Capital Research

Geographic revenues



Source: Company, AlJazira Capital Research

Key Products-5YR CAGR

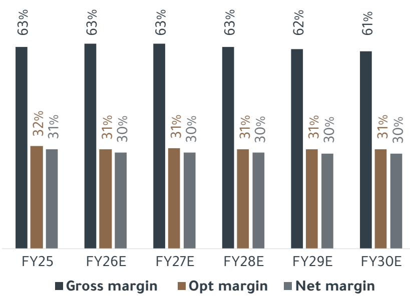


Source: Company, AlJazira Capital Research

We nevertheless expect the CCC to gradually increase to c.150 days by FY30E as the company expands its exposure to the government tendering business, which currently accounts for approximately 20% of Saudi pharmaceutical market sales. Despite this modest working capital expansion, we expect JamJoom to comfortably fund its growth initiatives internally and maintain its guided dividend payout ratio of 60% over medium to long term.

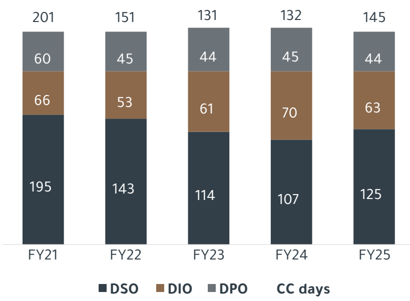
AJBC View and Valuation: Jamjoom Pharma is currently trading at a FY27E forward P/E of c.18.6x. While we remain constructive on the company's long-term fundamentals, supported by its strong therapeutic portfolio, extensive new products pipeline, stable profitability and disciplined balance sheet, we believe the current valuation adequately reflects these strengths as earnings growth normalizes following the exceptional expansion witnessed over the past few years. Accordingly, we maintain a "**Neutral**" recommendation with a 12-Month target price of **SAR 144.9/share**. Our target price is equally derived from a DCF valuation (WACC: 9.6%; terminal growth rate: 3.0%) and a relative valuation based on a 20x FY27E forward P/E multiple, with each methodology contributing 50% to our valuation.

Margin trajectory



Source: Company, AlJazira Capital Research

Cash Conversion Days



Source: Company, AlJazira Capital Research

Valuation Methodology	TP (SAR)	Weight	Weighted TP
DCF	138.6	50%	69.3
P/E of 20.0x on FY27 EPS	151.2	50%	75.6
Blended TP			**144.9**
Upside/(Downside) potential			**+2.9%**

Source: AlJazira Capital Research

Key Financial Data

Amount in SARmn	2024	2025	2026E	2027E	2028E	2029E	2030E
Income statement							
Revenues	1,318	1,501	1,631	1,781	1,940	2,125	2,332
Y/Y	**19.9%**	**13.8%**	**8.7%**	**9.2%**	**9.0%**	**9.5%**	**9.7%**
Cost	(498)	(562)	(597)	(654)	(726)	(810)	(905)
Gross profit	**821**	**939**	**1,033**	**1,127**	**1,214**	**1,315**	**1,427**
GP margin	**62.2%**	**62.6%**	**63.4%**	**63.3%**	**62.6%**	**61.9%**	**61.2%**
R&D expense	(34)	(39)	(42)	(45)	(47)	(48)	(50)
S&D expense	(317)	(357)	(406)	(439)	(475)	(511)	(549)
G&A expense	(71)	(79)	(86)	(94)	(100)	(106)	(112)
Impairment loss	(18)	(3)	(2)	(4)	(4)	(4)	(5)
Other income	0	13	5	8	8	9	10
Operating profit	**381**	**475**	**502**	**552**	**597**	**654**	**720**
Y/Y	**21.5%**	**24.6%**	**5.7%**	**10.1%**	**8.2%**	**9.5%**	**10.1%**
OP margin	**28.9%**	**31.6%**	**30.8%**	**31.0%**	**30.8%**	**30.8%**	**30.9%**
Financial expense	(24)	(1)	(4)	(5)	(4)	(4)	(5)
Income before zakat	**383**	**493**	**517**	**567**	**616**	**672**	**736**
Zakat	(26)	(29)	(28)	(37)	(40)	(44)	(48)
Net income	**357**	**464**	**487**	**530**	**576**	**628**	**688**
Y/Y	**21.9%**	**30.1%**	**5.0%**	**8.9%**	**8.5%**	**9.1%**	**9.6%**
EPS	**5.1**	**6.6**	**6.9**	**7.6**	**8.2**	**8.9**	**9.8**
DPS	**3.1**	**4.0**	**4.2**	**4.6**	**5.0**	**5.4**	**5.9**
Balance sheet							
Assets							
Cash & equivalent	262	307	545	707	886	1,056	1,230
Receivables	444	688	569	616	666	729	800
Other current assets	323	325	337	363	385	416	456
Property plant & equipment	672	691	681	679	681	688	702
Other non-current assets	71	69	116	118	118	119	122
Total assets	**1,772**	**2,080**	**2,248**	**2,482**	**2,735**	**3,009**	**3,306**
Liabilities & owners' equity							
Payables	173	276	195	218	237	260	285
Other current liabilities	29	31	38	41	45	48	53
Total other non-current liabilities	79	104	104	104	104	104	104
Total owners' equity	1,491	1,717	1,911	2,118	2,349	2,596	2,867
Total equity & liabilities	**1,772**	**2,046**	**2,248**	**2,482**	**2,735**	**3,009**	**3,310**
Cashflow statement							
Operating activities	263	406	521	528	571	604	650
Investing activities	(62)	(69)	(45)	(49)	(53)	(58)	(64)
Financing activities	(217)	(243)	(294)	(323)	(345)	(382)	(419)
Change in cash	(16)	94	182	156	173	164	167
Ending cash balance	**261**	**357**	**545**	**707**	**886**	**1,056**	**1,230**
Depreciation & Amortization	37	44	43	45	44	43	42
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	5.1	5.5	6.2	6.5	6.9	7.1	7.4
Quick ratio (x)	3.8	3.9	3.9	3.8	3.7	3.7	3.7
Profitability ratios							
Gross profit margin	62.2%	62.6%	63.4%	63.3%	62.6%	61.9%	61.2%
Operating margin	28.9%	31.6%	30.8%	31.0%	30.8%	30.8%	30.9%
EBITDA margin	33.2%	36.4%	34.0%	34.2%	33.6%	33.3%	33.1%
Net profit margin	27.0%	30.9%	29.9%	29.8%	29.7%	29.6%	29.5%
Return on assets	20.1%	22.7%	21.7%	21.4%	21.1%	20.9%	20.8%
Return on equity	23.9%	27.0%	25.5%	25.1%	24.5%	24.2%	24.0%
Leverage ratio							
Debt / equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Market/valuation ratios							
EV/EBITDA (x)	24.8	18.0	17.2	15.4	14.0	12.7	11.4
Dividend yield	2.0%	2.8%	3.0%	3.3%	3.6%	3.8%	4.2%
P/E ratio (x)	29.9	21.5	20.3	18.6	17.2	15.7	14.4
P/BV ratio (x)	7.2	5.8	5.2	4.7	4.2	3.8	3.4

Source: Company, AlJazira Capital Research

Beyond core growth: a differentiated pipeline strengthens the long-term case - Overweight

Avalon Pharma delivered a solid 1H-26 performance, with revenue and net income growing 24.0% and 26.0% Y/Y, respectively, supported by continued momentum across its core portfolio, particularly Dermatology, while key products maintained strong market positions. We expect Avalon to achieve its FY26 revenue growth guidance of 16-17%, although growth is likely to moderate to 10.2% in FY27E and 10.0% in FY28E in line with the normalization of the Saudi pharmaceutical market. Thereafter, we expect growth to reaccelerate from FY29E as the company's strategic commercialization agreements for pembrolizumab, semaglutide and dupilumab provide access to sizeable and rapidly growing therapeutic markets. We forecast a 12.6% revenue CAGR and 12.1% net income CAGR over FY25-30E, although the increasing contribution of these products is expected to dilute gross margins from 62.3% in FY25 to 59.6% by FY30E, given their initially lower trading margins. While semaglutide presents meaningful upside, the dominance of tirzepatide in the Saudi GLP-1 market and the potential for intense competition following semaglutide patent expiry remain key risks. We believe the company's strong core portfolio, strategic pipeline and comfortable financial position provide sufficient visibility for sustained long-term growth. We maintain our "Overweight" rating with a 12-month target price ofSAR 72.0/sh.

Q2-26 earnings growth remained solid amid normalization in topline growth: Avalon's Q2-26 earnings growth remained solid amid normalization in topline growth: Avalon Pharma delivered a resilient Q2-26 performance, with revenue increasing 16.0% Y/Y to SAR 136.5mn. Growth was primarily driven by the Retail channel, which expanded 27.5% Y/Y, while Export sales also grew 11.9% Y/Y. This was partly offset by a c.20% Y/Y decline in Public channel sales as tender sales phased out during the quarter. Accordingly, Retail, Public and Export channels accounted for 73.1%, 13.7% and 13.2% of revenues, respectively, in Q2-26. On a 1H-26 basis, revenue reached SAR 266.6mn, registering 24.0% Y/Y growth. Across therapeutic areas, Dermatology remained the key growth driver, with sales increasing 28% Y/Y during 1H-26, while Respiratory growth moderated to 3% Y/Y. Other therapeutic areas continued to deliver strong double-digit growth, supporting broad-based expansion across the company's portfolio. Gross margin remained stable Y/Y at 62.6% during Q2-26, while operating margin improved by c.100bps Y/Y to 25.0%, reflecting continued operating leverage. Resultantly, net profit increased 16.1% Y/Y to SAR 28.8mn (EPS: SAR 0.82), broadly in line with topline growth, taking 1H-26 net profit to SAR 55.7mn (EPS: SAR 1.59). Avalon also maintained strong market positions across key products during 1H-26, with Avogain, Salinose and Prila holding market shares of 72%, 76% and 69%, respectively, highlighting the company's established presence across its core therapeutic categories.

Strong core portfolio supports FY26 guidance, while normalization weighs on near-term growth: We expect Avalon Pharma to achieve its FY26 revenue growth guidance of 16-17%, supported by the strong 24.0% Y/Y topline growth delivered in 1H-26. Growth is likely to remain broad-based, led by continued momentum in the company's core Dermatology franchise and steady growth across other therapeutic areas. Despite the ongoing normalization of the Saudi pharmaceutical market, we believe Avalon's core portfolio remains well positioned to sustain healthy growth, supported by a relatively low revenue base across several therapeutic areas, a steady cadence of new product launches and continued expansion of its customer base. We expect revenue growth to moderate to 10.2% in FY27E and 10.0% in FY28E, broadly reflecting the normalization in market growth. Thereafter, we expect topline growth to reaccelerate from FY29E, supported by Avalon's strategic licensing agreements to commercialize high-value off-patent biologics and specialty products, which should provide an additional avenue for growth. Overall, we forecast a 12.6% revenue CAGR over FY25-30E, below the company's guided 18% CAGR under its ACE strategy announced in Q3-25, with the key factors behind the variance discussed in the following sections.

Recommendation	Overweight
Target Price (SAR)	72.0
Upside/(Downside)	17.1%

Source: Tadawul *prices as of 20th August, 2026

Key Financials

(in SAR mn, unless specified)	FY24	FY25	FY26E	FY27E
Revenues	394	460	535	590
Growth %	16.4%	16.9%	16.1%	10.2%
Gross Profit	243	287	333	365
Opt Profit	91	108	128	141
Net Income	80	97	110	123
Growth %	21.3%	21.5%	13.2%	11.5%
EPS	2.28	2.77	3.14	3.50
DPS	1.14	1.38	1.60	1.80

Source: Company, AlJazira Capital research

Key Ratios

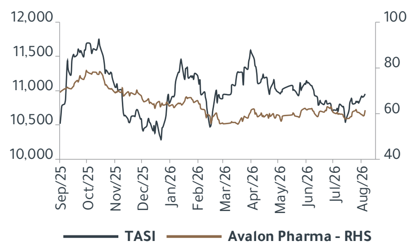
	FY24	FY25	FY26E	FY27E
Gross Margin	61.8%	62.3%	62.2%	62.0%
Opt Margin	23.1%	23.5%	24.0%	23.9%
Net Margin	20.3%	21.1%	20.5%	20.8%
ROA	15.2%	16.2%	15.4%	15.0%
ROE	21.7%	23.3%	23.4%	23.1%
P/E (x)	30.5	22.9	19.6	17.6
P/B (x)	6.6	5.3	4.6	4.1
EV/EBITDA (x)	23.2	17.5	15.3	14.1
Dividend Yield	2.9%	3.8%	2.6%	2.9%

Source: Company, AlJazira Capital research

Key Market Data	
Market Cap (bn)	2.1
YTD%	(3.2%)
52-week (High)/(Low)	79.0/53.8
Share Outstanding (mn)	35.0

Source: Company, AlJazira Capital research

Price Performance



Source: Tadawul, AlJazira Capital research

New product mix to weigh on gross margins despite topline reacceleration in the medium term: Despite the expected reacceleration in topline growth from FY29E onwards, we expect gross margins to gradually dilute to 59.6% by FY30E and further to 57.1% by FY35E, primarily reflecting the lower margins associated with new products launched under strategic agreements for off-patent drugs. As a result, we expect net income to reach SAR 172mn by FY30E, implying a 12.1% CAGR over FY25-30E.

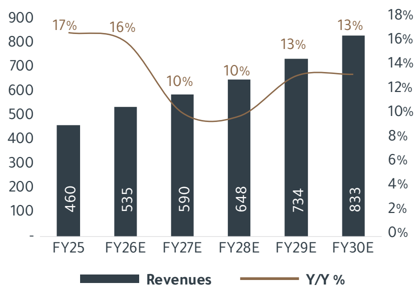
Strategic licensing agreements position Avalon to capitalize on upcoming patent cliffs: Avalon Pharma has strengthened its long-term growth pipeline through three strategic commercialization agreements with Bio-Thera Solutions and Adalvo Limited for proposed biosimilars of Keytruda (pembrolizumab), Wegovy (semaglutide) and Dupixent (dupilumab), respectively. Keytruda, the world's largest-selling pharmaceutical product with 2025 global sales of USD 31.7bn, is expected to lose patent protection in key markets from 2028 onwards. The Saudi pembrolizumab market is currently estimated at SAR 602mn and has grown at a strong 25% 5-year CAGR, highlighting the sizeable opportunity for Avalon. Similarly, the agreement for semaglutide provides exposure to the rapidly expanding GLP-1 market, with the Saudi market estimated at SAR 2.2bn and having grown at c.55% CAGR over the past five years. The third agreement, signed with Bio-Thera in August-26, covers the exclusive registration and commercialization of a proposed dupilumab biosimilar across Saudi Arabia and MENA. The Saudi dupilumab market is estimated at SAR 879mn and has expanded at a strong 32% 5-year CAGR, highlighting the attractive growth opportunity. The product is expected to launch from 2031, subject to patent considerations, with Avalon targeting cumulative revenue of at least SAR 400mn during the first seven years following launch.

Commercialization agreements to initially generate trading margins, with localization expected later: Importantly, all three agreements are primarily commercialization arrangements, with local manufacturing and/or technology transfer expected to take place at a later stage. We expect Avalon to initially commercialize and distribute these products following patent expiry, with local production potentially commencing around 2-3 years after commercial launch. Until then, we expect the company to earn predominantly trading gross margins of around 25-30% on these products, significantly below the >60% gross margins generated by its core portfolio. While subsequent localization should provide an opportunity to improve margins, the increasing contribution of these products is likely to dilute Avalon's consolidated gross margins over the medium term.

Semaglutide offers significant market potential, but switching from tirzepatide remains a key risk: Despite the attractive growth opportunity in the GLP-1 market, we see some risks around the commercial prospects of semaglutide (Wegovy). The Saudi GLP-1 market, currently estimated at SAR 2.2bn, is dominated by tirzepatide (Mounjaro), which accounts for c.71% of the market and retains patent protection until 2032. Given the superior weight-loss efficacy of tirzepatide, with clinical studies showing average weight loss of c.20.2% versus c.13.7% for semaglutide, shifting patients from tirzepatide to semaglutide could prove challenging. However, a significant price reduction in semaglutide following biosimilar entry, ahead of tirzepatide's patent expiry, could create a compelling affordability proposition and support broader treatment penetration. Nevertheless, slower-than-expected patient switching from tirzepatide remains a key risk to the opportunity.

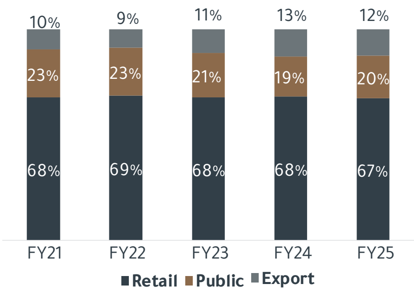
March-26 patent expiry in India and China highlights potential for intense competition in KSA market: Semaglutide's patent expiry in India and China in March 2026 has already attracted significant competition, with multiple manufacturers entering the market and product prices declining by an estimated 50-70%. We expect a similar trend to emerge in Saudi Arabia following patent expiry, as multiple manufacturers are likely to compete for the sizeable semaglutide opportunity. However, given the greater complexity of developing and manufacturing biosimilar/biologic products relative to conventional generics, we expect competitive intensity in Saudi Arabia to remain somewhat lower than that observed in emerging markets such as India and China. Overall, while the three agreements provide Avalon with meaningful exposure to high-growth specialty markets, we believe the magnitude and timing of the opportunity will depend on patent expiry timelines, the pace of patient switching, competition intensity and the eventual transition toward local manufacturing.

Revenue trajectory (SARmn)



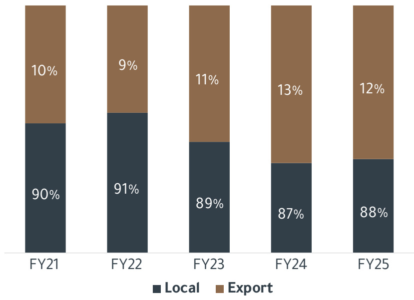
Source: Company, AlJazira Capital research

Revenues breakup channel wise



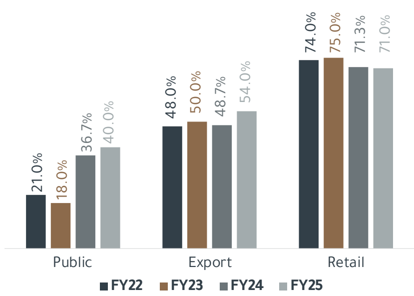
Source: Company, AlJazira Capital research

Geographical Revenue breakdown



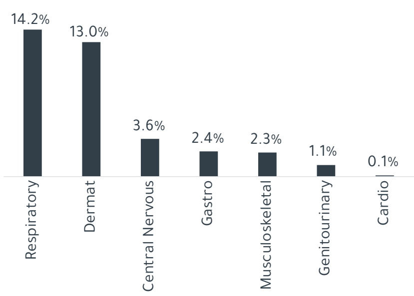
Source: Company, AlJazira Capital research

Segmental gross margins



Source: Company, AlJazira Capital research

Therapeutic area market share

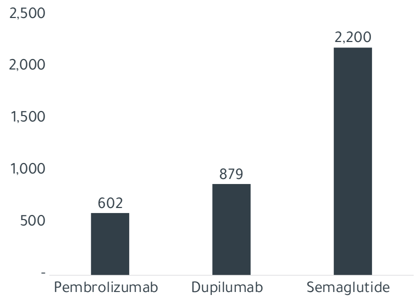


Source: Company, AlJazira Capital research

Comfortable financial position provides flexibility to support future product launches: Avalon's cash conversion cycle remains broadly stable at an average of c.233 days over the past three years, although it increased modestly to 238 days in FY25. We expect working capital requirements to remain manageable as the company continues to scale its operations and expand its product portfolio. In terms of capital expenditure, we expect elevated spending over the next two years, with cumulative capex of c.SAR 197mn, primarily related to the ongoing commissioning of Avalon Line 4, which is expected to be completed in 2027. Following the completion of Line 4, we expect capex to normalize from FY28 onwards and largely reflect maintenance requirements. Meanwhile, Avalon maintains a comfortable financial position, with debt-to-assets at c.15%, providing sufficient financial flexibility to support future product launches under its strategic commercialization agreements and associated working capital requirements. With this, we expect the company to maintain an average dividend payout ratio of 50% over the next five years.

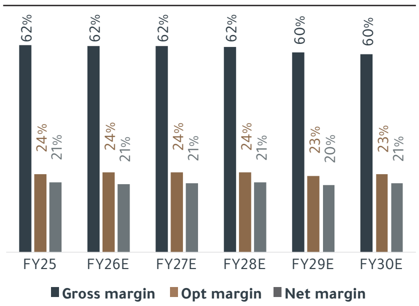
AJBC View and Valuation: We believe Avalon's strong core portfolio, continued new product launches and strategic commercialization agreements provide sufficient visibility for sustained long-term growth, despite an expected moderation in topline growth over FY27-28E and dilution in gross margins as lower-margin products gradually increase their contribution. We forecast a 12.6% revenue CAGR and 12.1% net income CAGR over FY25-30E, with growth expected to reaccelerate from FY29E as the company's strategic products begin to contribute more meaningfully. While the new products are expected to carry lower initial trading margins, we believe the sizeable addressable markets for pembrolizumab, semaglutide and dupilumab, together with the potential for subsequent localization, provide a meaningful avenue for longer-term growth. We value Avalon using a DCF methodology, with cash flows discounted from FY35E, a 9.6% WACC and 3.3% terminal growth rate, and a relative valuation based on 22.0x FY27E P/E, with each approach carrying a 50% weighting. This yields a 12-month target price of SAR 72.0/sh, implying attractive upside from the current forward valuation of c.17.6x P/E. We therefore maintain our "**Overweight**" rating on the stock.

Off patent drugs market size in KSA- SARmn



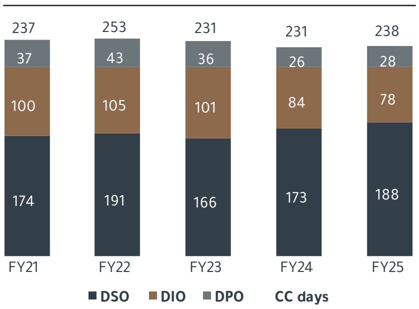
Source: Company, AlJazira Capital research

Margin trajectory



Source: Company, AlJazira Capital research

Cash Conversion Days



Source: Company, AlJazira Capital research

Valuation Methodology	TP (SAR)	Weight	Weighted TP
DCF	64.5	50%	33.3
P/E of 22.0x on FY27 EPS	77.0	50%	38.5
Blended TP			**72.0**
Upside/(Downside) potential			**+17.1%**

Source: AlJazira Capital Research

Key Financial Data

Amount in SARmn	2024	2025	2026E	2027E	2028E	2029E	2030E
Income statement							
Revenues	394	460	535	590	648	734	833
Y/Y	**16.4%**	**16.9%**	**16.1%**	**10.2%**	**10.0%**	**13.3%**	**13.4%**
Cost	(151)	(174)	(202)	(224)	(248)	(293)	(336)
Gross profit	**243**	**287**	**333**	**365**	**401**	**441**	**497**
GP margin	**61.8%**	**62.3%**	**62.2%**	**62.0%**	**61.8%**	**60.1%**	**59.6%**
S&D expense	(96)	(114)	(129)	(142)	(155)	(174)	(196)
G&A expense	(54)	(63)	(71)	(79)	(87)	(94)	(102)
Expected credit loss provision	(4)	(1)	(4)	(3)	(3)	(4)	(4)
Other income	1	0	1	0	0	0	0
Operating profit	**91**	**108**	**128**	**141**	**155**	**169**	**195**
Y/Y	**16.3%**	**19.1%**	**18.5%**	**9.8%**	**9.9%**	**9.2%**	**15.3%**
OP margin	**23.1%**	**23.5%**	**24.0%**	**23.9%**	**23.9%**	**23.0%**	**23.4%**
Financial charges	(5)	(5)	(10)	(9)	(9)	(10)	(10)
Income before zakat	**86**	**104**	**119**	**132**	**146**	**160**	**185**
Zakat	(7)	(7)	(9)	(9)	(10)	(11)	(13)
Net income	**80**	**97**	**113**	**122.5**	**136**	**149**	**172**
Y/Y	**21.3%**	**21.5%**	**13.2%**	**11.5%**	**10.8%**	**9.4%**	**15.9%**
EPS	**2.3**	**2.8**	**3.1**	**3.5**	**3.9**	**4.2**	**4.9**
DPS	**1.1**	**1.3**	**1.6**	**1.8**	**2.0**	**2.2**	**2.4**
Balance sheet							
Assets							
Cash & equivalent	23	34	28	37	55	112	125
Receivables	217	257	268	287	307	342	388
Other current assets	115	122	144	156	171	194	220
Property plant & equipment	121	123	207	262	263	265	265
Other non-current assets	51	63	73	79	86	91	97
Total assets	**527**	**600**	**721**	**822**	**883**	**1,004**	**1,095**
Liabilities & owners' equity							
ST loans	65	42	50	100	100	150	150
LT loans	0	21	81	64	48	32	16
Payables	27	44	40	45	51	60	71
Other current liabilities	41	46	48	50	55	62	71
Total other non-current liabilities	25	30	30	30	30	30	30
Total owners' equity	**368**	**416**	**473**	**532**	**598**	**670**	**758**
Total equity & liabilities	**527**	**600**	**721**	**822**	**883**	**1,004**	**1,095**
Cashflow statement							
Operating activities	35	92	98	123	139	136	149
Investing activities	(20)	(34)	(112)	(85)	(34)	(36)	(36)
Financing activities	(8)	(50)	11	(29)	(86)	(43)	(100)
Change in cash	8	8	(3)	9	18	57	13
Ending cash balance	**23**	**31**	**28**	**37**	**55**	**112**	**125**
Depreciation & Amortization	16	20	22	24	27	29	30
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	2.7	3.1	3.2	2.5	2.6	2.4	2.5
Quick ratio (x)	2.5	2.9	3.0	2.3	2.3	2.0	2.1
Profitability ratios							
Gross profit margin	61.8%	62.3%	62.2%	62.0%	61.8%	60.1%	59.6%
Operating margin	23.1%	23.5%	24.0%	23.9%	23.9%	23.0%	23.4%
EBITDA margin	27.1%	27.9%	28.1%	28.0%	28.1%	27.0%	27.0%
Net profit margin	20.3%	21.1%	20.5%	20.8%	20.9%	20.2%	20.7%
Return on assets	15.2%	16.2%	16.2%	15.7%	16.2%	15.5%	16.4%
Return on equity	21.7%	23.3%	23.4%	23.1%	22.8%	22.3%	22.8%
Leverage ratio							
Debt / equity (x)	0.18	0.15	0.28	0.31	0.25	0.27	0.22
Market/valuation ratios							
EV/EBITDA (x)	23.2	17.5	15.3	14.1	12.5	11.4	9.9
Dividend yield	2.9%	3.8%	2.6%	2.9%	3.3%	3.6%	3.9%
P/E ratio (x)	30.5	22.9	19.6	17.5	15.9	14.5	12.5
P/BV ratio (x)	6.6	5.3	4.6	4.1	3.6	3.2	2.9

Source: Company, AlJazira Capital Research

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Pharma-led growth to offset non-Pharma weakness; moderate topline growth and margin normalization support "Neutral" stance

Astra Industrials delivered a decent Q2-26 performance, with revenue and net income growing 8.5% and 9.7% Y/Y, respectively, supported by a 25% Y/Y increase in Pharma revenues and significant gross margin expansion across Energy & Steel and Specialty Chemicals. We expect consolidated revenue to remain broadly flat in FY26 before recovering 5.5% in FY27E, primarily driven by Pharma, while growth across the non-Pharma businesses remains constrained. Thereafter, we expect Pharma to remain the key growth engine, supported by its strategic agreements across GLP-1, oncology and specialty medicines and the launch of patent-expired products, while Energy & Steel should gradually recover from FY27E as traction builds around major projects including King Salman Park, Expo 2030 and FIFA World Cup 2034. However, uncertainty around project awards and persistent challenges in Turkey are likely to limit the recovery in Energy & Steel and Specialty Chemicals, respectively. We forecast a 5.3% revenue CAGR over FY25-30E, taking consolidated revenue to SAR 3.9bn by FY30E, while net income is expected to grow at a 4.3% CAGR to SAR 824mn. Consolidated gross margins are likely to normalize from 48.5% in FY26E to 45.5% by FY30E as elevated margins in Energy & Steel and Specialty Chemicals normalize and new Pharma agreements initially carry lower margins. We maintain our Neutral rating with a 12-month target price of SAR 142.0/sh.

Strong Gross Margin Expansion and Below-the-Line Gains Offset Higher Operating Expenses, supporting 9.7% Y/Y Net Profit Growth during Q2-26: Astra Industrials delivered a decent Q2-26 performance, with topline growing 8.5% Y/Y, although declining 1.9% Q/Q, primarily driven by a 25% Y/Y increase in Pharma revenues. Pharma growth was supported by accelerated deliveries to public channels despite the broader slowdown in the KSA retail market, while Specialty Chemicals remained broadly flat Y/Y and Energy & Steel revenues declined 23.8% Y/Y as the company continued to prioritize margins-accretive projects. Specialty Chemicals remained under pressure due to reduced operations in Turkey, despite a 25-35% Y/Y increase in Petrochemical prices and a 40-45% increase in fertilizer prices. At the gross profit level, group margins expanded by 380bps Y/Y to 49.5%, with Pharma margins declining to 59.8% from 62.4% due to the higher contribution from public channels, while Chemicals & Specialty margins improved to 37.1% from 32.8% on the back of higher Petrochemical and fertilizer prices. Steel margins also expanded significantly to 35.6% from 24.5%, supported by higher Steel and allied product prices and a higher mix of margins-accretive projects, marking the segment's highest-ever gross margin. However, the strong gross margin performance did not fully translate into operating profit, which declined to SAR 194mn from SAR 204mn in Q2-25 due to a significant increase in Selling & Distribution and G&A expenses. Nevertheless, net profit grew 9.7% Y/Y to SAR 192mn, primarily supported by lower finance costs of SAR 10mn versus SAR 14mn, higher other income of SAR 24mn versus SAR 13mn, and lower minority interest, highlighting that below-the-line gains more than offset the pressure at the operating level.

Overall Profitability: Pharma-Led Growth Offsets Lackluster Topline Performance Across Other Segments, While Margin Normalization Limits Earnings Growth: At the consolidated level, we expect Astra's topline to remain broadly flat in 2026 before accelerating 5.5% in 2027, primarily driven by the Pharma segment, while the lackluster performance of Specialty Chemicals and Energy & Steel continues to constrain overall growth. Over FY25-30E, we forecast consolidated revenues to grow at a 5.3% CAGR, reaching SAR 3.9bn by FY30E, largely supported by sustained Pharma growth and a gradual recovery in Energy & Steel, while remaining cautious on the recovery of Specialty Chemical segment. Consolidated gross margins are expected to reach 48.5% in 2026, before normalizing to 46.7% in 2027 and 45.5% by FY30E, reflecting normalization in the exceptionally high margins of Energy & Steel and Specialty Chemicals, as well as some dilution from the commercial nature of new Pharma agreements. Consequently, we expect net income to grow at a 4.3% CAGR over FY25-30E, reaching SAR 824mn by FY30E, as topline growth is partly offset by the normalization of segment margins.

Recommendation	Neutral
Target Price (SAR)	142.0
Upside/(Downside)	+3.3%

Source: Tadawul *prices as of 20th August, 2026

Key Financials

(in SAR mn, unless specified)	FY24	FY25	FY26E	FY27E
Revenues	3,062	3,071	3,097	3,268
Growth %	8.6%	0.3%	0.8%	5.5%
Gross Profit	1,342	1,414	1,503	1,525
Opt Profit	658	695	689	684
Net Income	589	666	656	638
Growth %	24.0%	13.1%	-1.5%	-2.9%
EPS	7.36	8.33	8.20	7.97
DPS	3.00	3.50	4.00	4.50

Source: Company, AlJazira Capital research

Key Ratios

	FY24	FY25	FY26E	FY27E
Gross Margin	43.8%	46.0%	48.5%	46.7%
Opt Margin	21.5%	22.6%	22.2%	20.9%
Net Margin	19.2%	21.7%	21.2%	19.5%
ROA	13.6%	14.9%	13.0%	12.0%
ROE	23.3%	22.5%	19.9%	17.8%
P/E (x)	24.4	17.0	16.8	17.3
P/B (x)	5.7	3.8	3.3	3.1
EV/EBITDA (x)	19.9	14.8	14.3	14.0
Dividend Yield	1.7%	2.5%	2.9%	3.3%

Source: Company, AlJazira Capital research

Key Market Data	
Market Cap (bn)	11.0
YTD%	(2.9%)
52-week (High)/(Low)	156.8/120.3
Share Outstanding (mn)	80.0

Source: Company, AlJazira Capital research

Price Performance

Source: Tadawul, AlJazira Capital research

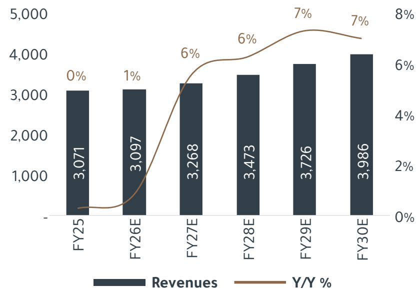
Pharma Remains the Key Growth Engine, with New Product Launches Supporting Reacceleration: We remain more constructive on Astra's Pharma business, which we expect to remain the key growth engine over the medium term, albeit at a more normalized pace initially. The segment delivered a strong 11.8% revenue CAGR during FY20-25, supported by Astra's established presence across specialty therapeutic areas and its ability to capture the strong underlying growth in the Saudi pharmaceutical market. Looking ahead, however, we expect Pharma revenue growth to moderate through FY28 as the KSA pharmaceutical market enters a more normalized growth phase and Astra operates from a progressively larger revenue base. We forecast Pharma revenue growth of 10.4% Y/Y in 2026 and 8.8% in 2027, with 1H26 growth of 12% unlikely to be sustained in 2H26 as government tenders phase out. Nevertheless, we expect growth to reaccelerate from 2029 onwards, reaching 9.5% in FY29E and 9.0% in FY30E, primarily driven by the launch of patent-expired products, similar to the growth opportunity seen at Avalon Pharma, alongside continued market-share gains and portfolio expansion.

The medium-term growth outlook is further supported by a broadening pipeline of strategic agreements signed by Tabuk Pharma during 2025, particularly across high-growth therapeutic areas. These include Biocon's GLP-1 portfolio for diabetes and chronic weight management, oncology and specialty medicines through partnerships with Polaris Pharmaceuticals and Hanmi Pharmaceutical, including ADI-PEG20 for hard-to-treat cancers and Rolontis for chemotherapy-induced neutropenia, as well as additional value-added therapies from Hanmi, Althera's type-2 diabetes treatment and Formosa's ophthalmic product. The agreements strengthen Tabuk's presence in metabolic/diabetes, GLP-1, oncology, biologics and specialty medicines, while expanding its addressable market beyond its traditional branded-generic portfolio. Notably, Tabuk is also expected to commercialize a biosimilar version of Keytruda (pembrolizumab) from 2028 following patent expiry, which could provide a meaningful additional growth opportunity within oncology. These partnerships are initially commercial in nature, allowing Tabuk to launch products through licensing, supply and commercialization arrangements, with several expected to transition toward local manufacturing over the subsequent 2-3 years, in line with the company's localization strategy.

While these agreements should support topline growth and improve the quality and breadth of the Pharma portfolio, we expect the initial commercial model to exert some pressure on profitability. Given the higher reliance on licensed and supplied products during the early years following launch, we forecast Pharma gross margin to gradually moderate to 57.1% by FY30E, before the benefits of subsequent localization and manufacturing scale-up become more meaningful. Overall, we forecast Pharma revenue growth of 9.1% CAGR over FY25-30E, making it the primary offset to weakness in Specialty Chemicals and Energy & Steel and reinforcing our view that Pharma will remain Astra's principal medium-term growth engine.

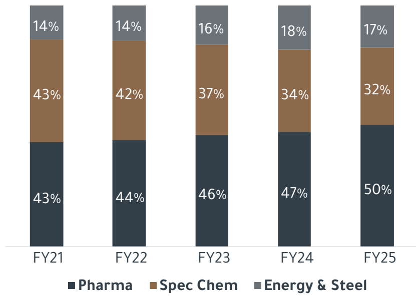
Energy & Steel: Margin-Led Strategy Improves Earnings Quality but Restricts Topline Growth in the Near Term: In Energy & Steel, Astra's deliberate shift toward margin-accretive projects has materially improved the profitability profile of the business, but at the cost of near-term revenue growth. The segment contributed 17% of group revenues in 2025, and we expect segment revenues to decline 17% in 2026 as the company continues to prioritize project economics over volume. Starting from 2027, however, we expect the segment to gradually recover, supported by increasing traction from key infrastructure and construction projects, including King Salman Park, Expo 2030 and the FIFA World Cup 2034. However, there remains considerable uncertainty around Astra's ability to win a meaningful share of these projects, which remains the key reason behind our conservative assumptions and limits our conviction on a stronger recovery. We therefore expect the segment's FY25-30E revenue CAGR to remain broadly flat, as the recovery from 2027 onwards largely offsets the near-term contraction. On profitability, we expect the exceptionally high 35.6% gross margin recorded in Q2-26 to normalize as Astra begins to grow its topline from the current elevated margin base, alongside lower steel prices and a normalization in project mix. Accordingly, we forecast segment gross margins to gradually normalize toward 25% by FY30E. While this represents a moderation from current levels, we believe the improvement in project selection and focus on higher-margin contracts should support a structurally better earnings profile than in the past. Overall, we remain constructive on the segment's medium-term recovery prospects, although the uncertainty around project awards and gradual margin normalization are likely to keep topline and earnings growth relatively measured through FY30E.

Revenue trajectory (SARmn)



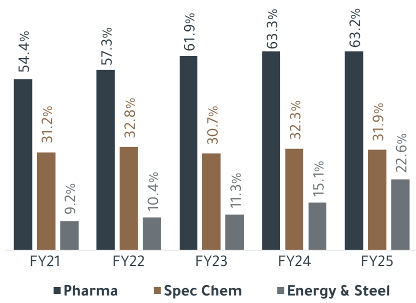
Source: Company, AlJazira Capital research

Segmental revenues



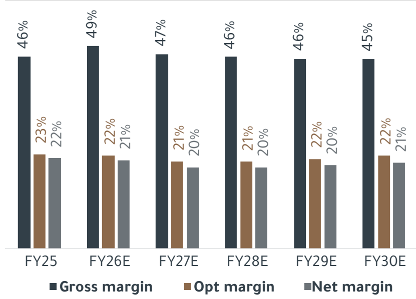
Source: Company, AlJazira Capital research

Segmental gross margins



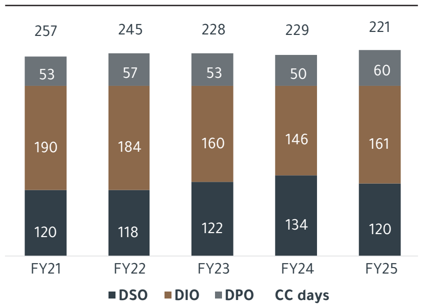
Source: Company, AlJazira Capital research

Margin trajectory



Source: Company, AlJazira Capital research

Cash Conversion Days

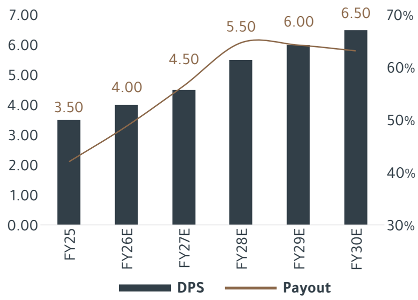


Source: Company, AlJazira Capital research

Specialty Chemicals: Turkey Headwinds and Reduced Operations Limit Recovery, While Astra Polymers Provides Partial Support: Specialty Chemicals is likely to remain a drag on Astra's topline, with limited visibility of a meaningful recovery in Turkey. Beyond worsening macroeconomic conditions, fertilizer industry dynamics have also prompted AstraChem to deliberately scale back operations, as the market increasingly requires credit sales to sustain momentum, which the company has avoided amid uncertainty over receivables collection. We forecast segment revenue to decline 4% in 2026 to SAR 952mn, with only a 1.0% CAGR over FY25-30E, as we remain conservative on AstraChem's recovery prospects amid persistent macroeconomic challenges in Turkey. Meanwhile, Astra Polymers remains relatively resilient despite operating in the same country, supported by its Euro-denominated pricing and manufacturing facility in the Çorlu Free Zone. With revenues broadly evenly split between AstraChem and Astra Polymers, the latter should provide some support to the segment and partially offset weakness in AstraChem. On margins, we expect the current 34% gross margin to normalize toward 30% as commodity prices ease and eventually reach 29.6% by FY30E, with reduced operations at AstraChem further weighing on fixed-cost absorption.

AJBC View and Valuation: We remain "**Neutral**" on Astra Industrials with a target price of **SAR 142.0/share**, reflecting a balanced risk-reward profile amid moderate medium-term topline growth, improving earnings quality and normalization of elevated margins across certain businesses. Our target price is based on a 50:50 blended approach between DCF and relative valuation. For the P/E-based valuation, we apply a 17.5x multiple to FY27E earnings, derived using a segment-based approach to better capture the differing growth and profitability profiles of Astra's businesses. Pharma accounts for 69% of the applied valuation weight, with a 20.0x multiple, reflecting its superior growth profile and strategic positioning, while Chemicals and Engineering are assigned 16% each, with multiples of 13.0x and 11.0x, respectively. The segment weights are based on their respective contributions to Astra's profitability. While Astra's continued focus on margins-accretive projects and the structural growth prospects of Pharma provide support to earnings quality, the slower medium-term topline trajectory, normalization of Chemicals and Steel margins and limited visibility on growth in non-Pharma businesses constrain the scope for meaningful multiple expansion. We therefore believe the current valuation adequately captures the improving profitability profile while balancing the more moderate growth outlook, supporting our Neutral stance.

DPS & Payout



Source: Company, AlJazira Capital research

No of plants & locations

Segment	No of plants & Locations
Astra Chem	No of plants & Locations
Astra Polymers	Dammam (2), Turkey (1)
Tabuk	Dammam (1), Red Sea (1), Dubai (1), Turkey (1), India (1)

Source: Company, AlJazira Capital Research

Key products growth trajectory

Key products	5yr product revenue CAGR	5yr therapeutic area CAGR
IVARIN	10%	21%
HEROX	16%	12%
ARTIZ	51%	21%
TABUVAN	20%	8%
RAPIDUS	9%	9%
TRIAXONE	-9%	-2%
VALES	69%	16%
EZIPAN	31%	30%

Source: IQVIA, AlJazira Capital research

Valuation Methodology	TP (SAR)	Weight	Weighted TP
DCF	143.7	50%	71.8
P/E	139.6	50%	69.8
Blended TP			**142.0**
Upside/(Downside) potential			**+3.3%**

Source: AlJazira Capital Research

Key Financial Data

Amount in SARmn	2024	2025	2026E	2027E	2028E	2029E	2030E
Income statement							
Revenues	3,062	3,071	3,097	3,268	3,473	3,726	3,986
Y/Y	**8.6%**	**0.3%**	**0.8%**	**5.5%**	**6.3%**	**7.3%**	**7.0%**
Cost	(1,720)	(1,657)	(1,594)	(1,743)	(1,878)	(2,029)	(2,174)
Gross profit	**1,342**	**1,414**	**1,503**	**1,525**	**1,595**	**1,697**	**1,812**
GP margin	**43.8%**	**46.0%**	**48.5%**	**46.7%**	**45.9%**	**45.6%**	**45.5%**
S&D expense	(412)	(427)	(452)	(468)	(482)	(496)	(511)
G&A expense	(224)	(229)	(301)	(313)	(323)	(329)	(336)
Impairment loss	(19)	(22)	(15)	(20)	(21)	(22)	(24)
Other expense	(29)	(41)	(45)	(40)	(43)	(48)	(52)
Operating profit	**658**	**695**	**689**	**684**	**726**	**802**	**889**
Y/Y	**23.5%**	**5.5%**	**-0.9%**	**-0.6%**	**6.1%**	**10.4%**	**10.9%**
OP margin	**21.5%**	**22.6%**	**22.2%**	**20.9%**	**20.9%**	**21.5%**	**22.3%**
Financial charges	(107)	(51)	(36)	(46)	(40)	(35)	(31)
Other income	75	51	69	66	66	60	53
Income before zakat	**626**	**721**	**721**	**704**	**752**	**826**	**911**
Zakat	(73)	(54)	(63)	(63)	(68)	(74)	(82)
Net income	**589**	**666**	**656**	**638**	**680**	**748**	**824**
Y/Y	**24.0%**	**13.1%**	**-1.5%**	**-2.9%**	**6.7%**	**9.9%**	**10.2%**
EPS	**7.4**	**8.3**	**8.2**	**8.0**	**8.5**	**9.3**	**10.3**
DPS	**3.0**	**3.5**	**4.0**	**4.5**	**5.5**	**6.0**	**6.5**
Balance sheet							
Assets							
Cash & equivalent	178	54	438	694	931	1,192	1,504
Receivables	1,121	1,010	1,146	1,164	1,190	1,236	1,289
Other current assets	1,482	923	919	979	1,032	1,098	1,161
Property plant & equipment	782	905	1,017	1,020	1,019	1,024	1,009
Other non-current assets	765	1,579	1,521	1,461	1,406	1,353	1,305
Total assets	**4,328**	**4,472**	**5,041**	**5,319**	**5,577**	**5,902**	**6,268**
Liabilities & owners' equity							
ST loans	435	159	330	297	267	240	216
LT loans	39	74	153	138	124	112	100
Payables	236	273	262	286	309	333	357
Other current liabilities	888	788	753	818	875	940	1,001
Total other non-current liabilities	199	216	214	212	210	208	207
Total owners' equity	**2,531**	**2,962**	**3,300**	**3,581**	**3,825**	**4,096**	**4,405**
Total equity & liabilities	**4,328**	**4,472**	**5,041**	**5,319**	**5,577**	**5,902**	**6,268**
Cashflow statement							
Operating activities	730	807	628	797	836	885	961
Investing activities	(746)	(342)	(118)	(79)	(70)	(62)	(51)
Financing activities	(863)	(521)	(73)	(410)	(486)	(521)	(557)
Change in cash	(879)	(124)	384	256	237	261	312
Ending cash balance	**178**	**54**	**438**	**694**	**931**	**1,192**	**1,504**
Depreciation & Amortization	81	83	83	82	82	82	83
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.8	1.6	1.9	2.0	2.2	2.3	2.5
Quick ratio (x)	1.7	1.6	1.5	1.5	1.5	1.5	1.6
Profitability ratios							
Gross profit margin	43.8%	46.0%	48.5%	46.7%	45.9%	45.6%	45.5%
Operating margin	21.5%	22.6%	22.2%	20.9%	20.9%	21.5%	22.3%
EBITDA margin	27.1%	28.1%	28.6%	29.1%	29.7%	30.3%	31.1%
Net profit margin	19.2%	21.7%	21.2%	19.5%	19.6%	20.1%	20.7%
Return on assets	13.6%	14.9%	13.0%	12.0%	12.2%	12.7%	13.1%
Return on equity	23.3%	22.5%	19.9%	17.8%	17.8%	18.2%	18.7%
Leverage ratio							
Debt / equity (x)	0.19	0.08	0.15	0.12	0.10	0.09	0.07
Market/valuation ratios							
EV/EBITDA (x)	19.9	14.8	14.3	14.0	12.9	11.5	10.1
Dividend yield	1.7%	2.5%	2.9%	3.3%	4.0%	4.4%	4.7%
P/E ratio (x)	24.4	17.0	16.8	17.3	16.2	14.7	13.4
P/BV ratio (x)	5.7	3.8	3.3	3.1	2.9	2.7	2.5

Source: Company, AlJazira Capital Research

A Strategic Reset Underway, but Execution and Margin Recovery Remain Key – Neutral

SPIMACO delivered a strong Q2-26, with revenue and net income increasing 23.0% and 110% Y/Y, respectively, driven by a sharp increase in Public and International sales, while ongoing cost optimization supported a meaningful improvement in operating profitability. We expect the strong 1H26 momentum to moderate in 2H26, with FY26 revenue growth of only 0.9% as the surge in public sales was largely driven by direct government hospital demand rather than major tender wins, while the sharp increase in International sales was partly supported by Teroda exports to Kuwait. Thereafter, we expect topline growth to improve from 2027, supported by stronger Government tenders, Endosa's continued ramp-up and renewed international expansion, although the continued weakness in Retail remains a key constraint. We forecast 6.4% revenue CAGR and 8.1% net income CAGR over FY25-30E, with the ongoing profitability turnaround, cost optimization and lower Trading & Distribution losses supporting earnings growth ahead of topline. SPIMACO's strategic shift towards specialty products, oncology, biosimilars and vaccines, supported by partnerships with AstraZeneca, Boston Oncology, CanSinoBio, CNBG and Altos Biologics, provides attractive longer-term growth and localization opportunities, although meaningful contribution from these agreements is likely to take time. Meanwhile, elevated working capital, high leverage and limited visibility on a sustained Retail recovery remain key constraints. We maintain our Neutral rating on SPIMACO, as the improving profitability profile and long-term portfolio transformation are largely balanced by subdued near-term topline growth, elevated balance-sheet requirements and execution risks.

Public and international channels drive growth, while cost optimization supports earnings recovery during Q2-26: SPIMACO delivered a strong Q2-26, with revenues rising 23.0% Y/Y to SAR 493mn, primarily driven by a significant surge in Public channel sales, supported by direct government sales amid urgent demand for SPIMACO's specialized products. International sales also remained a key growth driver, supported by the company's renewed expansion strategy across overseas markets and higher Teroda (oncology) sales to Kuwait.

The shift in revenue mix was clearly visible in H1-26. Public channel sales increased 54.8% Y/Y to SAR 257mn, raising its contribution to 28% of total sales vs. 19% in H1-25. Meanwhile, Retail sales continued to underperform, declining 18.9% Y/Y to SAR 507mn, with its contribution falling to 55% from 71% last year. International sales increased a strong 86.8% Y/Y to SAR 99mn, lifting their contribution to 11% from 6%. The stronger performance across Public and International channels more than offset continued weakness in Retail, resulting in a materially more diversified sales mix. The higher contribution from Public channel sales, however, weighed on profitability, with Q2-26 gross margin declining to 48.7% from 55.7% in Q1-26. Nevertheless, gross margin improved modestly by 30bps Y/Y, reflecting the benefits of manufacturing efficiencies and repricing initiatives. More importantly, continued cost optimization supported operating leverage, with OPEX-to-sales declining to 30.7% from 33.1% in Q2-25, driving a 268bps Y/Y expansion in operating margin to 18.0%. Consequently, Q2-26 net profit surged 110% Y/Y to SAR 68.4mn (EPS: SAR 0.57), supported by stronger operating profitability, lower finance costs, higher other income and lower minority interest. Overall, the quarter highlights a meaningful improvement in SPIMACO's earnings profile, with stronger Public and International sales reducing reliance on the underperforming Retail channel, while ongoing cost optimization provides additional support to profitability.

Profitability turnaround provides support but subdued 2H26 limits near-term upside; FY25-30E topline CAGR of 6.4% and net income CAGR of 8.1%: SPIMACO has remained the topline laggard within the listed Pharma sector, with revenues growing at a 4.0% CAGR over the last five years vs. 15% CAGR for listed peers collectively.

Recommendation	Neutral
Target Price (SAR)	35.6
Upside/(Downside)	13.4%

Source: Tadawul *prices as of 20th August, 2026

Key Financials

(in SAR mn, unless specified)	FY24	FY25	FY26E	FY27E
Revenues	1,682	1,707	1,722	1,881
Growth %	1.7%	1.5%	0.9%	9.2%
Gross Profit	837	833	874	936
Opt Profit	137	266	272	308
Net Income	25	184	195	235
Growth %	NM	651.4%	6.0%	20.3%
EPS	0.21	1.54	1.64	1.97
DPS	0.00	0.35	0.25	0.50

Source: Company, AlJazira Capital research

Key Ratios

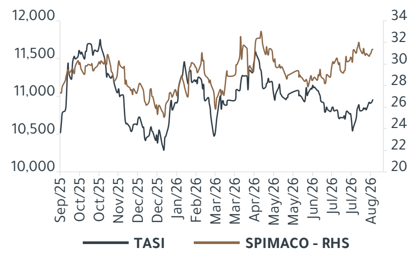
	FY24	FY25	FY26E	FY27E
Gross Margin	49.8%	48.8%	50.8%	49.8%
Opt Margin	8.2%	15.6%	15.8%	16.4%
Net Margin	1.5%	10.8%	11.4%	12.5%
ROA	0.6%	4.2%	4.3%	4.9%
ROE	1.6%	10.5%	10.1%	11.1%
P/E (x)	155.4	16.9	19.2	15.9
P/B (x)	2.5	1.8	1.9	1.8
EV/EBITDA (x)	23.4	11.9	12.8	11.3
Dividend Yield	0.0%	1.3%	0.8%	1.6%

Source: Company, AlJazira Capital research

Key Market Data	
Market Cap (bn)	3.7
YTD%	19.8%
52-week (High)/(Low)	33.1/25.0
Share Outstanding (mn)	119

Source: Company, AlJazira Capital research

Price Performance



Source: Tadawul, AlJazira Capital research

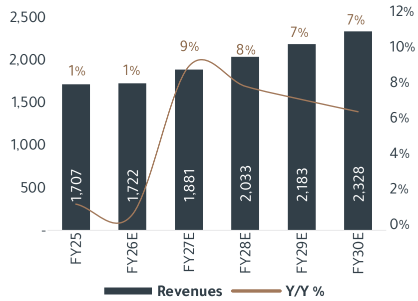
However, the change in management in mid-2025 has triggered a visible turnaround in profitability, with net profit rising 6.5x Y/Y in 2025 and 29% Y/Y in H1-26, supported by an improved sales mix, cost optimization, lower losses from the Trading & Distribution business (SAR 63mn in 2025 vs. SAR 95mn in 2024) and lower finance costs. While the profitability improvement is encouraging, we remain cautious on the near-term topline trajectory, with the strong Q2-26 performance unlikely to be sustained in 2H26. We expect revenues to grow just 0.9% Y/Y to SAR 1,722mn in 2026, as Public channel growth in H1-26 was driven by direct sales to government hospitals rather than major tender wins, while the sharp increase in International sales was partly driven by Teroda exports to Kuwait, both of which are unlikely to be sustained at the same pace. Meanwhile, despite sequential improvement, Retail sales are expected to decline 10% Y/Y to SAR 980mn during 2026. Accordingly, we forecast FY26 net profit at SAR 195mn (EPS: SAR 1.64), up 6.0% Y/Y, limiting the earnings growth momentum in the near term despite the ongoing profitability turnaround.

Government tenders provide a growth catalyst from 2027, but Retail weakness limits topline upside: We expect SPIMACO's topline momentum to improve from 2027, primarily supported by stronger performance in Government tenders. The company's flagship product Endosa, launched in 2023, is expected to remain at the forefront of growth in Government channel sales. We forecast Government revenues to grow 15% in 2027, increasing their contribution to 29% of revenues vs. 25% in 2025. However, given the Government channel's relatively smaller contribution, the pace of overall topline recovery remains constrained by the Retail channel, which accounted for c.64% of FY25 sales and is expected to recover only gradually. We expect Private channel sales to grow at a mid-single-digit rate, while International sales should benefit from the renewed focus on exports and new distribution agreements across the GCC. Consequently, we forecast 9.2% revenue growth in 2027 to SAR 1,881mn. The increasing contribution from the Public channel is likely to keep gross margins under pressure at 49.8% vs. 50.8% in 2026, with net profit reaching SAR 235mn (EPS: SAR 1.97). Beyond 2027, we remain constructive on the recovery trajectory, although continued challenges in Retail remain a key constraint. Overall, we forecast 6.4% revenue CAGR and 8.1% net income CAGR over FY25-30E, ahead of the historical six-year topline CAGR of 4.0%, reflecting a gradual rather than sharp recovery in SPIMACO's topline.

Review of SPIMACO's Strategic agreements: SPIMACO has entered into five key strategic agreements, including partnerships with AstraZeneca and Boston Oncology for local manufacturing of selected oncology products under tolling arrangements, with SPIMACO earning cost-plus gross margins. As part of its AstraZeneca partnership, SPIMACO commissioned a SAR 272mn High Potent facility in 2025 through a JV, which will manufacture 2-3 flagship oncology products from AstraZeneca's portfolio. Demand for toll manufacturing from both partners will remain dependent on their respective Government tender wins, given the high reliance of Oncology sales on the Government channel. Separately, agreements with CanSinoBio for MCV4 meningococcal vaccines, CNBG for influenza vaccines and Altos Biologics for ALT-L9 biosimilar manufacturing provide further local manufacturing opportunities. However, we believe meaningful commercial contribution will take time given the scale requirements and more stringent regulatory approvals involved in vaccine manufacturing, while vaccine gross margins of c.30-35% remain below SPIMACO's core business. Accordingly, we have not incorporated any material contribution from these agreements into our estimates over the next 2-3 years, although they provide attractive longer-term localization and portfolio diversification opportunities.

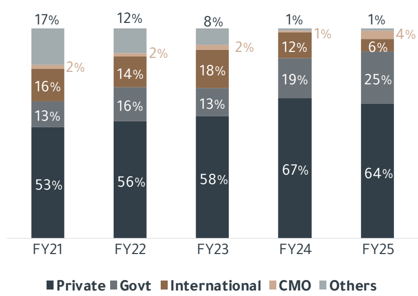
Shift toward specialized products offers a path to revive SPIMACO's product portfolio: Part of SPIMACO's prolonged topline underperformance reflects its inability to keep pace with rising competition in the Retail market, with several of its key products showing limited growth despite healthy underlying therapeutic market expansion. We identify four products contributing c.35% of revenues based on IQVIA data, including SNAFI (ED) and Rofenac (painkiller), which account for c.14-15% and 12-13% of revenues, respectively, yet both have recorded a 0-1% five-year CAGR. This compares with 12% CAGR in the broader ED medicines market and 9% CAGR in the broader painkiller market, highlighting SPIMACO's loss of share to competing products. More recently, SPIMACO has shifted its focus toward specialized products, led by the launch of Endosa (enoxaparin sodium) in 2023—the first locally produced biosimilar in the MEA region. Endosa sales surpassed SAR 165mn in 2025, within just two years of launch, despite competing with Sanofi's established Clexane brand. We view Endosa as a key growth engine for SPIMACO, particularly given its strong positioning in Government tenders and the 10-15% local-content premium the product is estimated to command based on our channel checks.

Revenue trajectory (SARmn)



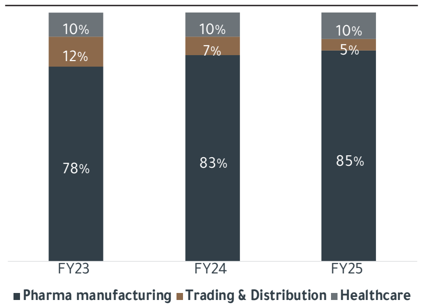
Source: Company, AlJazira Capital research

Channel mix



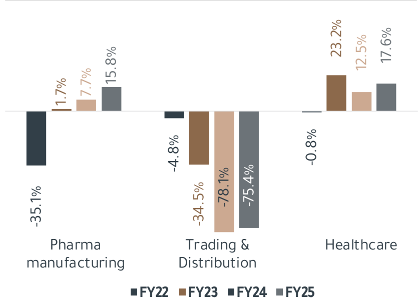
Source: Company, AlJazira Capital research

Segment wise revenues mix



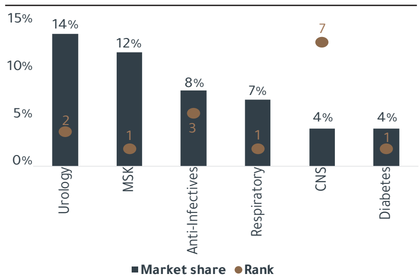
Source: Company, AlJazira Capital research

Segment wise net margins



Source: Company, AlJazira Capital research

Therapeutic area wise Market shares as on Q1-26



Source: Company, AlJazira Capital research

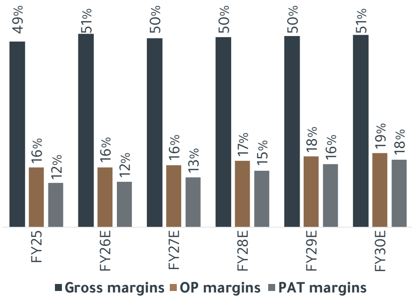
Elevated working capital and higher leverage remain key balance sheet constraints: SPIMACO has the most elongated cash conversion cycle in the industry, reaching 300 days in FY25, primarily driven by elevated receivable days of 252 and inventory days of 255. Following the management change in 2025 and supplier renegotiations, some improvement was visible in Q2-26, with the cash conversion cycle declining to 286 days. However, with the company expected to maintain a stronger focus on Public channel sales, we expect working capital requirements to remain elevated, with more meaningful improvement in the cash conversion cycle starting from 2027 onwards. SPIMACO's balance sheet also remains highly leveraged amid its liquidity constraints, with debt-to-assets at 33% in FY25, and we do not expect meaningful deleveraging through 2026, with the ratio still at 33% as of June-26. Moreover, recent geopolitical developments could prompt the company to maintain higher inventory levels, adding further pressure on working capital. On capital returns, SPIMACO resumed dividend payments in 2025 after a three-year hiatus, with a 23% payout ratio. With profitability expected to improve over the forecast period, we assume an average 24% payout ratio over FY26-30E.

AJBC View and Valuation: We believe SPIMACO is gradually moving toward a more sustainable earnings profile, supported by the turnaround in profitability, improving product mix, Endosa's strong growth trajectory and the expected recovery in Government channel sales from 2027. However, the investment case remains balanced by the subdued topline outlook in 2026, continued weakness in the dominant Retail channel, elevated working capital requirements and leverage, while the recently announced strategic agreements are unlikely to provide a meaningful earnings contribution over the near to medium term. Against this backdrop, we initiate coverage on SPIMACO with a "**Neutral**" stance, reflecting the balance between its improving profitability and longer-term growth opportunities against the near-term challenges to topline recovery. The stock currently trades at c.15.9x forward P/E on FY27 earnings, and while we believe the improving earnings profile warrants some degree of rerating from current levels, we see limited scope for a more significant valuation premium until a sustained topline recovery becomes visible. Accordingly, we apply a 17.0x P/E multiple to FY27E EPS of SAR 1.97. We arrive at a 12-month target price of **SAR 35.6/share**, based on a 50:50 blend of DCF and relative valuation. Our DCF discounts cash flows through FY30E to August 2027, using a 9.1% WACC and 2.5% terminal growth rate.

Valuation Methodology	TP (SAR)	Weight	Weighted TP
DCF	37.6	50%	18.8
P/E	33.5	50%	16.7
Blended TP			**35.6**
Upside/(Downside) potential			+13.4%

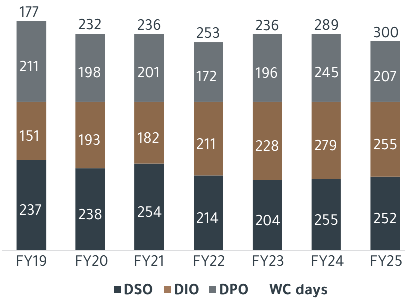
Source: AlJazira Capital Research

Margin trajectory



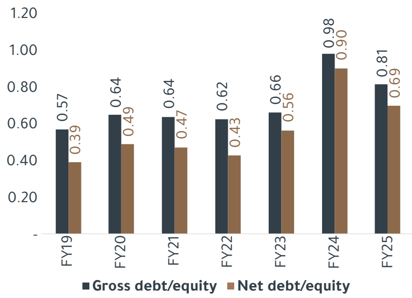
Source: Company, AlJazira Capital research

Working Capital Days



Source: Company, AlJazira Capital research

Leverage



Source: Company, AlJazira Capital research

Key Products last 5 YR performance

Key products	5yr product revenue CAGR	5yr therapeutic area CAGR
SNAFI	0%	12%
ROFENAC	1%	9%
KLAVOX	8%	21%
PROTON	517%	9%
LORINASE-D	42%	21%
ENDOSA	N.A	5%
ENTAPRO	15%	13%
LEJAM	10%	25%
GLIM	2%	6%
AGOUT	1%	7%

Source: IQVIA, AlJazira Capital research

Company Brief: Market leadership underpinned by scale and integrated manufacturing

SPIMACO (Saudi Pharmaceutical Industries and Medical Appliances Corporation) is KSA's oldest and one of its largest domestic pharmaceutical manufacturers, established in 1986 with the objective of developing local pharmaceutical manufacturing capabilities and reducing the Kingdom's dependence on imported medicines. Over nearly four decades, it has evolved from a conventional generics producer into a vertically integrated pharmaceutical platform with capabilities spanning product development, API, manufacturing, commercialization, and contract manufacturing. It is increasingly shifting toward higher-value pharmaceutical segments, with a growing focus on oncology, biosimilars, vaccines, and specialty medicines. In 2025, SPIMACO developed 32 new SKUs and launched 13 new products in KSA, while more than 80 products were registered across Saudi Arabia and export markets.

Listed on Tadawul since 1993, SPIMACO currently operates across more than 18 export markets spanning the GCC, Levant, North Africa, and selected African countries. It maintained its position as the largest player in KSA's private pharmaceutical market in 2025, commanding an 8.0% market share and ranking among the leading domestic pharmaceutical manufacturers in the Kingdom. It's business remains anchored by the KSA private pharmaceutical market, which accounted for 64% of FY25 revenue, while government, international, and CMO activities contributed 25%, 7%, and 4%, respectively, providing increasing diversification across channels.

SPIMACO's manufacturing footprint spans four countries and comprises facilities in Saudi Arabia, Morocco, Egypt, and Algeria, with aggregate annual production capacity of 2.5bn units. The group's flagship pharmaceutical complex in Qassim represents one of the largest pharmaceutical manufacturing sites in KSA, featuring annual production capacity of 2.0bn units, integrated R&D facilities, automated warehousing infrastructure, and specialized manufacturing capabilities across oral solids, liquids, creams, injectables, suppositories, and aseptic products. In 2025, the company further enhanced its manufacturing capabilities with the commissioning of a High Potent facility with 275mn annual capacity, expanding its ability to manufacture highly potent and specialized therapies while strengthening its positioning in higher-value pharmaceutical segments. The group further strengthened its manufacturing platform through Dammam Pharmaceutical Company (200mn-unit annual capacity), CAD's API manufacturing operations in Riyadh, facilities in Morocco and Egypt, and its minority stake in Algeria-based TAFCO.

SPIMACO is also leveraging strategic partnerships with global pharmaceutical and biotechnology companies to accelerate its transition toward higher-value products and deepen local manufacturing capabilities. Its partnerships include technology transfer and local manufacturing of four innovative oral oncology products with Boston Oncology, development of the High Potent Facility with AstraZeneca, local production and commercialization of MCV4 vaccines through CanSinoBIO, influenza vaccine manufacturing through CNBG, and commercialization of Altos Biologics' ALT-L9 aflibercept biosimilar across 16 MENA markets. These partnerships expand SPIMACO's capabilities beyond traditional generics and strengthen its positioning as a local manufacturing and commercialization partner for global pharmaceutical companies.

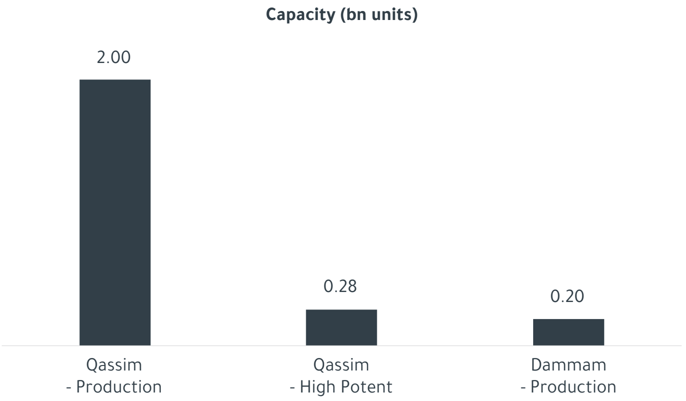
SPIMACO's portfolio spans a broad range of therapeutic categories, with particularly strong positions in musculoskeletal treatments, hormones, anti-infectives, genito-urology, and central nervous system (CNS) therapies. The company holds the #1 market position in musculoskeletal treatments (11.6% market share), hormones (8.7% market share), and genito-urology (14.3% market share), while ranking third in anti-infectives (8.3% market share) and CNS therapies (4.6% market share). The CNS portfolio has emerged as a key growth driver, outperforming the broader market through targeted product launches and increased promotional investments.

Fig 26.Journey of consistent growth and expansion

1986-00	2016-20	2021 & Present
• Established in 1986	• Full cycle Hepatitis-C manufacturing in 2016	• First biosimilar registerd with SFDA in 2021
• Alliance with SmithKline Beecham in 1988	• Launched automated warehouse in 2018	• Oncology facility inaugrated in 2022
• First product & Pfizer agreement in 1990		• Launched Endosa biosimilar in 2023w
• Listed in 1993 & began exports		• Partnership with Altos in 2024
• Opened R&D center at Qassim in 1998		• Began commercial production & global expansion in 2025

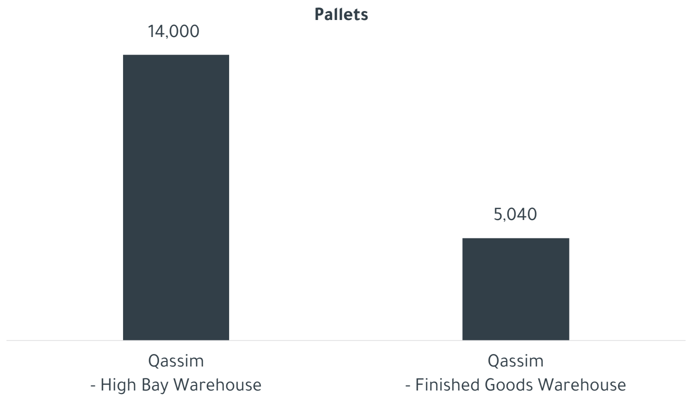
Source: Company, AlJazira Capital Research

Fig 27.SPIMACO has largest manufacturing unit in Qassim and strengthened capabilities via Dammam



Source: Company, AlJazira Capital Research

Fig 28.SPIMACO also has special warehouses for its other products



Source: Company, AlJazira Capital Research

Strategic transformation towards high-value pharmaceuticals

SPIMACO is currently undergoing a multi-year transformation aimed at improving earnings quality and reducing reliance on traditional commoditized generics. The company has increasingly shifted its product strategy toward higher-value and more complex pharmaceutical segments. In 2025 alone, SPIMACO developed 32 new SKUs and launched 24 products in the Saudi market, supported by a strategic transition from technology-transfer-based development toward full in-house product development. The company has also expanded into fixed-dose combinations, specialty medicines, oncology therapies, vaccines, biologics, and biosimilars, enhancing both product differentiation and long-term margin potential.

A major strategic milestone was the commercialization of SPIMACO's High Potent Manufacturing Facility in 2025. Developed in partnership with AstraZeneca, the facility has annual production capacity of 275mn units and significantly expands the company's capabilities in oncology and high-potency pharmaceuticals. The facility positions SPIMACO to participate in some of the fastest-growing and highest-value therapeutic segments within the Saudi pharmaceutical market while supporting the Kingdom's pharmaceutical localization objectives.

SPIMACO has emerged as one of the key beneficiaries of KSA's pharmaceutical localization strategy. The company successfully launched Endosa, the first biosimilar manufactured end-to-end within the GCC by a national company, marking a significant milestone in local biopharmaceutical manufacturing capabilities. Building on this foundation, management has expanded its focus toward biosimilars, vaccines, and specialty medicines, including the submission of its first vaccine dossier to the Saudi Food and Drug Authority (SFDA) in 2025.

Strategic partnerships form a central pillar of SPIMACO's growth strategy. During 2025, the company signed six new strategic agreements comprising three vaccine partnerships, two small-molecule agreements, and one biosimilar partnership. Notably, SPIMACO entered into a long-term technology transfer and manufacturing agreement with Boston Oncology Arabia covering four oncology molecules, which is expected to improve utilization of its High Potent facility while strengthening its presence in complex and specialty therapies. Such partnerships enable the company to localize advanced pharmaceutical products, access differentiated product pipelines, and strengthen its contract manufacturing business.

Looking ahead, SPIMACO's growth strategy is centered on four key pillars: expanding its specialty and biosimilar portfolio, increasing oncology and high-potency manufacturing capacity utilization, accelerating vaccine localization initiatives, and deepening export penetration across MENA markets. As Saudi Arabia intensifies its focus on healthcare localization under Vision 2030, SPIMACO's manufacturing scale, diversified production capabilities, established regulatory track record, and growing portfolio of strategic partnerships position the company as one of the Kingdom's most important domestic pharmaceutical manufacturers and a key participant in the next phase of pharmaceutical industry development.

Fig 29.The company's multi-channel commercial model helps it deliver results across its key segments

Private Channel: Remained the primary revenue contributor, benefiting from optimized customer relationships and enhanced product availability across private pharmacies and hospitals.

Government Channel: Strengthened engagement with government entities and continued supply of strategic products including Endosa, supporting national healthcare objectives.

International Markets: Focus on MENA region expansion with strategic partnerships and distribution agreements, improving delivery timelines and market competitiveness.

CMO Operations: Continued growth in contract manufacturing, leveraging SPIMACO's manufacturing expertise and capacity utilization strategies.

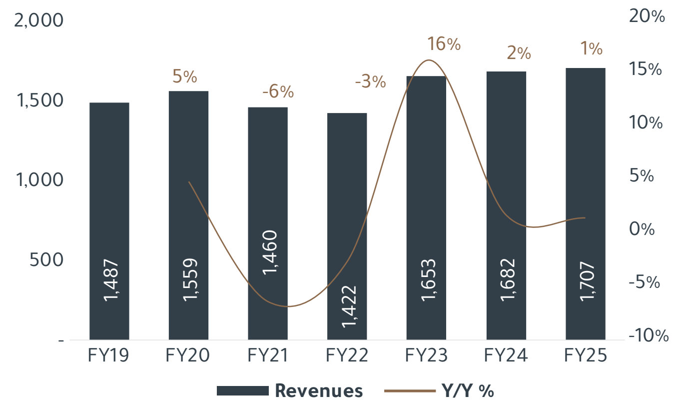
Source: Company, AlJazira Capital Research.

Historical Performance: Portfolio reset begins to improve earnings quality

SPIMACO's revenue trajectory over FY19-25 has been relatively modest, with revenue increasing from SAR 1.49bn to SAR 1.71bn, implying a CAGR of c.2.3%. However, the headline growth masks a significant shift in business mix. While reported revenue expanded by only 2% over the six-year period, the company's core pharmaceutical manufacturing business has become increasingly dominant. Since FY23, pharmaceutical manufacturing revenues have grown from SAR 1.29bn to SAR 1.44bn, increasing their contribution to group revenue from 78.4% to 84.6%. In contrast, the low-margin trading & distribution business contracted sharply from SAR 197mn to SAR 84mn, reducing its contribution from 11.9% to 4.9%, reflecting management's deliberate strategy to exit non-core and lower-return activities. Healthcare revenues remained relatively stable, contributing 9-10% of group sales.

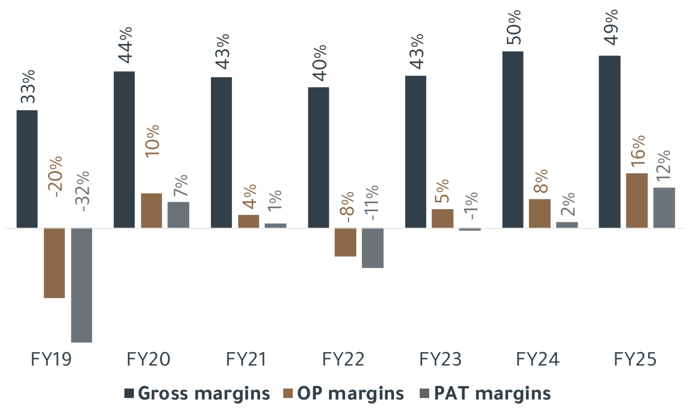
The most notable improvement has been in profitability. Gross profit margin increased from SAR 498mn in FY19 to SAR 833mn in FY25, significantly outpacing revenue growth, while gross margins expanded by 15.3% from 33.5% to 48.8%. The margin expansion was primarily driven by a richer product mix, reduced exposure to low-margin trading activities, and increasing contribution from locally manufactured products. While profitability remained volatile during FY21-22 amid operational restructuring and portfolio rationalization, earnings recovered meaningfully thereafter as management focused on cost discipline, manufacturing efficiency, and higher-value therapeutic segments. The improvement in earnings quality is particularly noteworthy given that FY25 still represents the early stages of monetizing recent investments in oncology, biosimilars, and specialty manufacturing.

Fig 30.SPIMACO has largest manufacturing unit in Qassim and strengthened capabilities via Dammam



Source: Company, AlJazira Capital Research

Fig 31.Margin improvement driven by richer product mix, reduced exposure to lower-margin trading activities

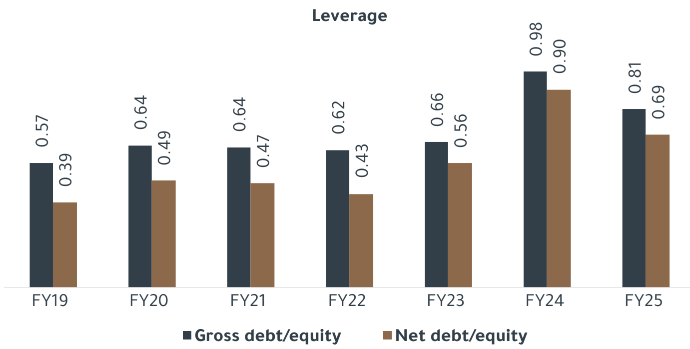


Source: Company, AlJazira Capital Research

SPIMACO's capital allocation over the past several years has been heavily focused on building advanced manufacturing capabilities and supporting KSA's localization agenda. This investment cycle culminated in the commissioning of the High Potent Facility and continued investments across API, specialty manufacturing, and product development capabilities. As a result, the balance sheet remained leveraged, with gross borrowings increasing from SAR 1.20bn in FY19 to SAR 1.43bn in FY25. Despite this, leverage remained manageable as the company maintained a sizeable asset base and began generating improved operating profitability. Net debt stood at approximately SAR 1.22bn at the end of FY25, compared with SAR 0.82bn in FY19, reflecting the funding requirements of the company's multi-year investment program.

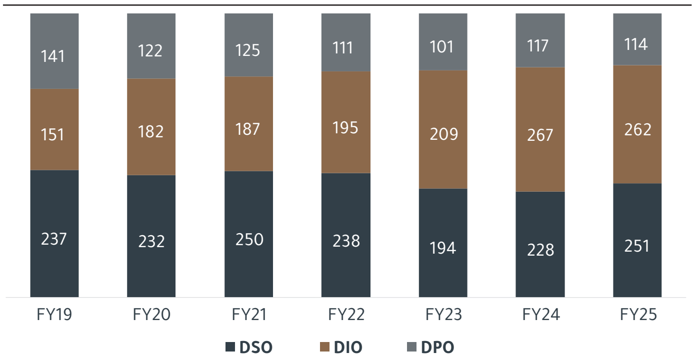
Working capital has historically been one of the defining features of SPIMACO's financial profile. Inventories increased from SAR 410mn in FY19 to SAR 611mn in FY25, while trade receivables expanded from SAR 966mn to SAR 1.18bn over the same period. Consequently, gross working capital (inventory plus receivables) reached SAR 1.79bn by FY25, equivalent to more than 100% of annual revenues, highlighting the working-capital-intensive nature of pharmaceutical manufacturing and the company's exposure to government and institutional customers. While elevated working capital has constrained cash generation historically, inventory levels moderated in FY25 following a peak in FY24, suggesting the initial benefits of management's digitalization, supply-chain optimization, and inventory management initiatives.

Fig 32. SPIMACO's balance sheet remains leveraged due to heavy focus on building advanced manufacturing capabilities



Source: Company, AlJazira Capital Research

Fig 33. Elevated working capital has constrained cash generation historically, inventory levels have moderated now following its peak

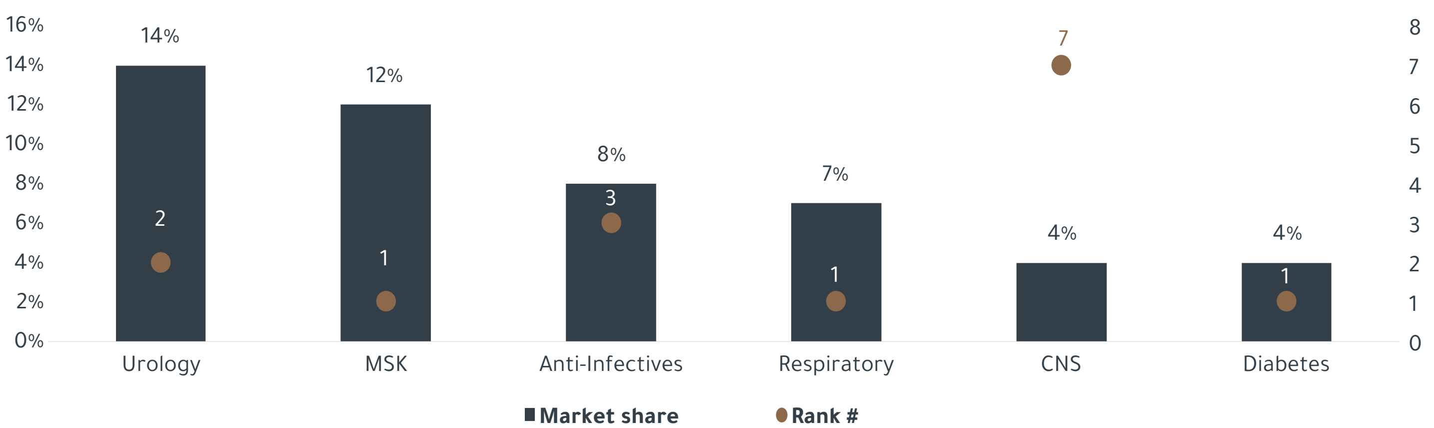


Source: Company, AlJazira Capital Research

Strong therapeutic franchise provides resilience against competitive pressures

SPIMACO's competitive positioning remains robust, with the company holding a top-three market ranking in five of its six key therapeutic segments. Notably, it commands leadership positions in MSK, Respiratory, and Diabetes, while retaining significant scale in Urology (14% market share) and Anti-Infectives (8% market share). This diversified presence across therapeutic areas reduces dependence on any single product category and provides a stable platform for revenue generation. The sustained rankings suggest strong franchise strength and an ability to defend market share despite increasing competition.

Fig 34. SPIMACO has leadership or top-3 position across key therapeutic areas, aided by strong market shares in Urology, MSK and Anti-Infectives



Source: Company, AlJazira Capital Research.

Global alliances reinforce SPIMACO's diversification and technology transfer objectives

Fig 35. SPIMACO has leadership or top-3 position across key therapeutic areas, aided by strong market shares in Urology, MSK and Anti-Infectives

Partner	Therapeutic Area	Key Products/Focus	Strategic Rationale
AstraZeneca	Oncology	Oncology portfolio	Strengthening presence in specialty medicines
Boston Oncology	Oncology	Cancer therapies	Expand oncology footprint
GSK	Vaccines	Vaccine portfolio	Enhance vaccine capabilities
Bayer	Specialty Pharma	Selected innovative therapies	Access global brands and technologies
CanSinoBIO	Vaccines	Vaccine development	Support localization agenda
CNBG	Vaccines	Vaccine production	Build domestic manufacturing capability
Altos Biologics	Biosimilars	Biologics & biosimilars	Entry into high-growth biologics segment

Source: Company, AlJazira Capital Research.

Key Financial Data

Amount in SARmn	2024	2025	2026E	2027E	2028E	2029E	2030E
Income statement							
Revenues	1,682	1,707	1,722	1,881	2,033	2,183	2,328
Y/Y	**1.7%**	**1.5%**	**0.9%**	**9.2%**	**8.1%**	**7.4%**	**6.7%**
Cost	(845)	(874)	-848	-945	-1,016	-1,085	-1,152
Gross profit	**837**	**833**	**874**	**936**	**1,017**	**1,097**	**1,176**
GP margin	**49.8%**	**48.8%**	**50.8%**	**49.8%**	**50.0%**	**50.3%**	**50.5%**
S&D expense	(333)	(289)	(291)	(307)	(326)	(345)	(362)
G&A expense	(271)	(235)	(237)	(244)	(253)	(262)	(271)
R&D expense	(76)	(60)	(46)	(52)	(57)	(61)	(65)
Impairment loss	(37)	(21)	(40)	(38)	(41)	(41)	(43)
Other income / expense	18	40	13	13	14	16	17
Operating profit	**137**	**266**	**272**	**308**	**355**	**404**	**452**
Y/Y	**53.8%**	**93.7%**	**2.3%**	**13.2%**	**15.1%**	**13.8%**	**12.0%**
OP margin	**8.2%**	**15.6%**	**15.8%**	**16.4%**	**17.4%**	**18.5%**	**19.4%**
Financial expense	(96)	(98)	(82)	(85)	(70)	(63)	(54)
Financial income	8	13	9	11	12	13	14
Share of equity	23	24	29	32	35	37	39
Income before zakat	**72**	**206**	**228**	**266**	**331**	**391**	**451**
Zakat	(40)	(9)	(23)	(21)	(26)	(31)	(36)
Net income	**25**	**184**	**195**	**235**	**294**	**347**	**401**
Y/Y	**-284.9%**	**651.4%**	**6.0%**	**20.3%**	**24.8%**	**18.2%**	**15.5%**
EPS	**0.21**	**1.54**	**1.64**	**1.97**	**2.46**	**2.91**	**3.36**
DPS	**0.0**	**0.35**	**0.25**	**0.50**	**0.60**	**0.75**	**1.00**
Balance sheet							
Assets							
Cash & equivalent	122	204	407	537	569	629	697
Receivables	1,175	1,176	1,226	1,288	1,353	1,423	1,486
Other current assets	1,059	996	940	993	1,027	1,058	1,085
Property plant & equipment	1,574	1,544	1,509	1,487	1,479	1,471	1,464
CWIP	172	234	229	227	226	225	224
Other non-current assets	217	214	237	257	285	313	351
Total assets	**4,319**	**4,368**	**4,547**	**4,789**	**4,937**	**5,120**	**5,307**
Liabilities & owners' equity							
ST loans	1,039	965	960	960	880	800	700
LT loans	462	462	486	486	426	366	306
Payables	568	496	488	543	585	625	663
Other current liabilities	403	399	399	399	399	399	399
Total other non-current liabilities	315	284	278	278	292	306	318
Total owners' equity	1,531	1,762	1,937	2,122	2,356	2,626	2,921
Total equity & liabilities	**4,319**	**4,368**	**4,547**	**4,789**	**4,937**	**5,120**	**5,307**
Cashflow statement							
Operating activities	(331)	272	259	250	321	371	432
Investing activities	(93)	(85)	(44)	(61)	(78)	(81)	(85)
Financing activities	381	(104)	(12)	(60)	(212)	(230)	(279)
Change in cash	(43)	83	203	130	32	60	68
Ending cash balance	**122**	**204**	**407**	**537**	**569**	**629**	**697**
Depreciation & Amortization	85	97	84	86	87	90	92
Key fundamental ratios							
Liquidity ratios							
Current ratio (x)	1.2	1.3	1.4	1.5	1.6	1.7	1.9
Quick ratio (x)	1.1	1.2	1.2	1.2	1.3	1.4	1.5
Profitability ratios							
Gross profit margin	49.8%	48.8%	50.8%	49.8%	50.0%	50.3%	50.5%
Operating margin	8.2%	15.6%	15.8%	16.4%	17.4%	18.5%	19.4%
EBITDA margin	13.2%	21.3%	21.5%	21.6%	22.2%	22.9%	23.6%
Net profit margin	1.5%	10.8%	11.4%	12.5%	14.4%	15.9%	17.2%
Return on assets	0.6%	4.2%	4.3%	4.9%	5.9%	6.8%	7.6%
Return on equity	1.6%	10.5%	10.1%	11.1%	12.5%	13.2%	13.7%
Leverage ratio							
Debt / equity (x)	0.98	0.81	0.75	0.68	0.55	0.44	0.34
Market/valuation ratios							
EV/EBITDA (x)	23.4	11.9	12.8	11.3	9.8	8.4	7.3
Dividend yield	0.0%	1.3%	0.8%	1.6%	1.9%	2.4%	3.2%
P/E ratio (x)	155.4	16.9	19.2	15.9	12.6	10.6	9.2
P/BV ratio (x)	2.5	1.8	1.9	1.8	1.6	1.4	1.3

Source: Company, AlJazira Capital Research

RESEARCH DIVISION

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RESEARCH DIVISION

AlJazira Capital, the investment arm of Bank AlJazira, is a Shariaa Compliant Saudi Closed Joint Stock company and operating under the regulatory supervision of the Capital Market Authority. AlJazira Capital is licensed to conduct securities business in all securities business as authorized by CMA, including dealing, managing, arranging, advisory, and custody. AlJazira Capital is the continuation of a long success story in the Saudi Tadawul market, having occupied the market leadership position for several years. With an objective to maintain its market leadership position, AlJazira Capital is expanding its brokerage capabilities to offer further value-added services, brokerage across MENA and International markets, as well as offering a full suite of securities business.

RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

Disclaimer