Middle East Pharmaceutical Industries Co. (Avalon Pharma)

PHARMA, BIOTECH & LIFE SCIENCE | INITIATION OF COVERAGE

16 July 2026

Buy Avalon Pharma: Massive pipeline and self-manufactured portfolio create a scalable growth platform

Transforming from a broad consumer-health and generic-prescription player into a larger, more technically complex manufacturing and commercialization platform: We initiate coverage on Avalon Pharma, a leading Saudi pharmaceutical manufacturer, with a target price of SAR 77/share, implying 26% upside and supporting a Buy rating. In our view, Avalon is being valued like a steady mid-sized pharma name, while its earnings trajectory increasingly resembles a capacity-led growth story. Although Avalon is smaller than its listed peers in terms of revenue and product portfolio, it has significantly greater control over its brand lifecycle, manufacturing around 95% of its registered pharmaceutical products versus roughly 80% for larger peers. Its portfolio is also newer, with recent drug registrations accelerating rapidly and consisting primarily of self-manufactured branded generics in dermatology, respiratory, CNS, diabetes and anti-infectives. This contrasts with larger competitors, which have greater exposure to specialized and more technically complex distributed or imported hospital products, as well as market-wide pressures tied more closely to institutional rather than retail demand. It is also the largest producer of sanitizers in the Kingdom and has a sizable portfolio of cosmetics. Avalon offers a regular dividend profile, with a 50% payout ratio, rising projected yield, and clear payout guidance, which adds to the stock's appeal.

Current pipeline expansion and new specialized capacity coming online in 2027/2028 should drive substantial growth long-term, with exports and public sales providing additional upside: To date, we estimate that Avalon has registered around 54 unique pharmaceutical molecule formulations produced in-house, in addition to three molecules distributed on behalf of third parties, across various SKUs. The company reports a portfolio of more than 300 SKUs across pharmaceuticals, cosmetics, sanitizers and medical devices. Its current development pipeline includes 93 new molecules, implying a significant 163% expansion of its pharmaceutical portfolio, with a clear skew toward higher-value therapeutic areas such as oncology, injectables and ophthalmology. Together with the more advanced Avalon 4 facility, which will add 18 million units of specialized capacity, this pipeline should soon unlock new markets and revenue streams. More importantly, we estimate that Avalon registered some 22 new pharmaceutical SKUs last year alone (a peak matched only by its prior record of 21 registrations in 2016), spanning 14 brands and 13 unique molecules. Year-to-date, the company has followed this with seven new registrations mainly in dermatology, respiratory, and diabetes products. Given that new product uptake can take up to 36 months to reach full market potential, recent portfolio expansion has yet to fully translate into top- and bottom-line performance, which we believe is not yet reflected in the share price. For 2026e, we project total revenue of SAR 539 million, up 17% y/y, followed by a further 18% growth in 2027e. Over 2025-30e, we forecast a revenue CAGR of at least 18%, positioning Avalon to become a SAR 1 billion revenue company by 2030e.

Avalon 4 will be the key inflection point in 2028: The company has initiated works on a new production facility – Avalon 4 in 2026, adding to its three already existing manufacturing sites. Total investment cost is relatively insignificant and funded partially with new debt. As of now, Avalon operates on 82% production capacity. The facility is designed to match the new, more advanced pipeline of molecules. Importantly, it is also in the process of expanding its Avalon 2 capacity which is largely in place and awaiting approvals (potential immediate stock catalyst once announced). While Avalon 4 likely will not be suitable for biosimilars production, the new agreement with Bio-Thera for pembrolizumab biosimilar falls with Avalon's aspiration to specialize in more complex pharmaceuticals and biologics and could open the way for more similar distribution agreements, and eventually full localization once suitable facilities are developed and appropriate technical know-how is transferred in the long-term. Any announced progress on the facility should act as catalyst for the stock. We believe the investment will not jeopardize immediate dividend payouts, in our view.

Comparable valuation is undemanding given the impending growth and track-record: Avalon trades on a TTM P/E of 20.3x and 19.1x 2026e, broadly in line with its immediate peer average of 20.8x, despite delivering materially stronger trailing revenue growth of 18.7% and ROE of 26.0%. On our forecasts, the multiple compresses quickly to 16.8x in 2027e and 12.5x in 2028e, while EV/EBITDA falls from 14.9x in 2026e to 9.4x in 2028e as earnings scale. We believe the market is not fully pricing in Avalon's 2025-30e revenue CAGR of 18%, rising profitability, and superior manufacturing control relative to peers.

Execution risk is rising as Avalon moves into more complex products, larger capacity and partnership-led growth: While we view Avalon's strategy positively, the transition materially increases execution risk. Avalon 4 still requires construction, commissioning, validation, staffing and SFDA approvals, with delays potentially pushing back the specialty-product growth story, while early completion ahead of registrations or demand could create underutilized capacity. Expansion into oncology, injectables, ophthalmology, GLP-1s and biosimilars also raises reliance on licensors, technology-transfer partners, regulatory timelines, quality systems and specialized talent. Higher NUPCO/public-tender exposure may support volume but pressure pricing, margins and working capital, while API and logistics disruptions remain relevant given Avalon's broader portfolio and reliance on imported inputs.

Key financial metrics *In SARmn, unless otherwise stated*	2024a	2025a	2026e	2027e	2028e
Revenue	394.0	460.5	539.3	633.9	754.9
Revenue growth	16.4%	16.9%	17.1%	17.5%	19.1%
Operating Profit	91.0	108.4	127.2	146.5	194.5
Operating margin	23.1%	23.5%	23.6%	23.1%	25.8%
Net profit	79.8	97.0	111.3	127.2	171.0
Net profit margin	20.3%	21.1%	20.6%	20.1%	22.7%
EPS (SAR)	2.3	2.8	3.2	3.6	4.9
DPS (SAR) / div. yield	0.4/0.7%	1.3/2.2%	1.5/2.5%	1.6/2.6%	1.8/3.0%
PE	26.7	22.0	19.1	16.8	12.5

Source: Company data, Derayah Financial

Rating		**Buy**
Target price	SAR	77.00
Last price*	SAR	60.90
Upside potential		**26%**

** as at 15 July 2026*

Stock info

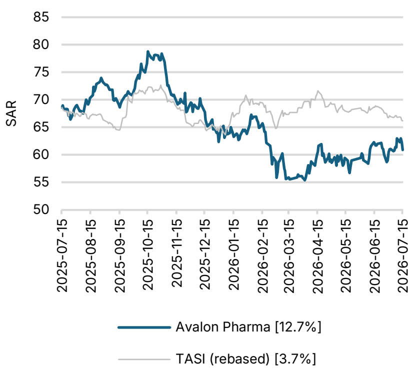
Saudi Exchange / Bloomberg symbol	4016 / AVALONPH
MCap (SARmn / USDmn)	2,131 / 568
Daily traded value 3M avg. (SARmn / USDmn)	8.6 / 2.3
Free float %	61.6%
Foreign ownership / limit	49.0% / 3.36%

Key shareholders

Tabaa National Holding company	38.42%
Talal Yousuf Mahmoud Zahid	14.70%

Source: Saudi Exchange

Share performance



Source: Saudi Exchange

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Investment thesis

We initiate coverage on Avalon Pharma with a Buy rating and a target price of SAR 77/share, implying 26% upside potential. Our investment thesis is underpinned by: i) lucrative market growth, supported by population expansion and the rising prevalence of obesity and chronic diseases, which account for 73% of fatalities, with total underlying pharmaceutical market sales expected to grow at a 9% CAGR; ii) Avalon's increasing commercial relevance in Saudi Arabia, with market share projected to rise from 3.2% to 3.5% over the next two years; iii) a clear path toward higher-value pharmaceutical categories through a significantly expanded pipeline of 93 new pharmaceutical molecules, compared with some 57 unique molecules and 122 pharmaceutical products currently registered with the SFDA (not counting registered cosmetics), alongside new capacity for more specialized and complex generic formulations; and iv) a policy push to increase pharmaceutical localization from the current low 42% of volumes, which should support local manufacturers and particularly benefit Avalon given its now negligible reliance on distributed and/or imported products. We also believe the market is underappreciating Avalon's recent strong product-registration momentum, with 2025 marking the highest year on record by our estimates, at around 22 new pharmaceutical products versus 12 in the prior year. This has yet to fully translate into top-line growth. We forecast revenue to grow at a 18% CAGR over 2025–2030e, crossing SAR 1 billion by 2030e.

Avalon trades at a TTM P/E of 20.8x, broadly in line with much larger peers that, in our view, offer inferior growth profiles and lower returns. We believe this valuation does not reflect the premium Avalon deserves for its stronger growth outlook, lower revenue base, proven execution track record, above-average ROE of 26%, and balance-sheet capacity to fund expansion without compromising dividends. Our DCF methodology yields an equity value of SAR 2.7 billion, broadly consistent with applying Avalon's historical forward P/E of 25x to our 2026e EPS forecast of SAR 3.2/share, implying 15% y/y growth. Avalon also offers a stable semi-annual dividend, with a 2.2% yield over the past 12 months, broadly in line with Jamjoom Pharma and roughly double the yield offered by SPIMACO and Saudi Chemical. We expect dividends to grow with earnings, with the yield expanding to about 3.0% by 2030.

Avalon benefits from significant operating leverage through its fully controlled manufacturing platform. The company has annual capacity of 205 million units and reached 82% utilization in 1Q 2026, up from 67% a year earlier. Growth is therefore not purely distributor-led: Avalon manufactures a large share of what it sells, allowing it to capture more of the pharmaceutical value chain while strengthening its local-content credentials. Pending approvals for Avalon 2's solid and pharmaceutical lines (expected soon) could add around 272 million and 16 million units of capacity, respectively, while Avalon 4, targeted for completion by 4Q 2027, should add 18 million units of more specialized capacity. This supports the planned migration toward more complex therapeutic categories, including oncology, cardiovascular and ophthalmology. While Avalon's historical strength has been concentrated in dermatology, respiratory and consumer-health products, its pipeline is increasingly weighted toward more complex high-value therapeutic areas, which we expect to become core growth drivers by 2030e. Moreover, partnership-led market access should provide an additional growth lever. Recent agreements with international producers give Avalon exposure to oncology, biosimilars, cardiometabolic, GLP-1 and other products through licensing, supply and distribution. This reduces the need to develop these products internally while expanding Avalon's local footprint and specialization, with potential upside from future technology transfer and full localization. The company is also expanding its export network, including Egypt, where it plans a manufacturing operation based on a lightweight capacity-rental model that does not require significant investment. Export revenues accounted for 12% of total revenue in FY 2025 and while we conservatively project a temporary export deterioration in FY 2026e on the back of challenging geopolitics and logistics, the channel adds long-term value nonetheless. Finally, we view Avalon's low foreign ownership of 3.3% as more reflective of its recent listing, modest size, free float and liquidity, limited foreign investor awareness, and still-developing IR profile than of any structural issue with the business or muted sentiment toward the sector.

About the company

Avalon Pharma, also known as Middle East Pharmaceutical Industries Co., is a Saudi pharmaceutical manufacturer founded in Riyadh in 1998 and listed on the Saudi Exchange under ticker 4016. It develops, manufactures, registers, markets, and distributes prescription generics, over-the-counter medicines, consumer health products, disinfectants, and personal-care and cosmetic products. The company operates an integrated model covering product development, regulatory registration, manufacturing, brand management, sales, and distribution. Its portfolio had grown to more than 300 pharmaceutical, cosmetics and disinfectant SKUs and more than 80 pharmaceutical brands by 2026. The main therapeutic areas are dermatology and skin care, respiratory medicine, neurology, gastrointestinal medicine, musculoskeletal treatments, and urinary-system treatments. The wider range includes cardiovascular, diabetes, anti-infective, pain-management, hygiene, and men's and women's health products.

Saudi Arabia is the core market where it has a self-reported market share of 3.2%, destined to grow to 3.5% with the coming two years. Avalon sells through retail pharmacies, pharmacy chains, hospitals, clinics, hypermarkets, government tenders, and the NUPCO and Wasfaty procurement channels. It also manufactures private-label products for large pharmacy retailers. The integration of the former Middle East Distribution Company into Avalon in 2018 brought distribution operations and branches into the group. Avalon's Saudi manufacturing base consists of three factories in Riyadh. Avalon 1 produces creams, topical and cosmetic products, liquid medicines, and solid medicines. Avalon 2 adds large-scale solid-dose, semi-solid, and liquid production and contains research and analytical-development capabilities. Avalon 3 specializes in disinfectants, sanitizers, mouthwashes, and other external-use and hygiene products. A central warehouse supports raw-material, packaging-material, and finished-goods storage. Local distribution is handled directly. The logistics network includes the owned central warehouse in Riyadh, rented warehouses in Riyadh, Jeddah, and Dammam, and a fleet of equipped distribution trucks, supplemented by rented heavy transport when required. Procurement and inventory planning are structured around maintaining at least six months of medicine stock and securing raw materials from multiple domestic and international suppliers.

Research and development sits within operations and covers formulation, analytical-method development, packaging development, stability testing, bioequivalence work, regulatory documentation, and support for commercial production. The function employs pharmacists, chemists, and scientists and has the capacity to develop approximately 10 to 15 new products per year. The product pipeline is moving beyond Avalon's established generic and consumer-health base and with technically more complex generic medications. Avalon's strategy is to expand domestic manufacturing, increase the depth and technical complexity of the product portfolio, improve the use of existing brands and production assets, and extend the business selectively outside Saudi Arabia. Within Saudi Arabia, the company is adding products under established brands, broadening dosage forms and package sizes, developing smaller brands with market potential, and discontinuing poorly performing brands where this simplifies inventory and supply-chain management. It is also expanding its participation in government tenders, private-label manufacturing, and partnerships with pharmacy chains and pharmaceutical companies. Product development now has three distinct tracks. The first is continued expansion in Avalon's established dermatology, respiratory, and consumer-health categories. The second is entry into specialty small-molecule and complex dosage-form products, including GLP-1 products, injectables, oncology medicines, and ophthalmic preparations. The third is entry into biologics through licensed biosimilars, beginning with the proposed pembrolizumab product. Licensing and technology transfer are central to this strategy, in our view. Avalon can obtain regional commercialization rights before developing local manufacturing capability, then localize production where the product, market size, regulatory requirements, and available facilities justify it. This reduces reliance on wholly internal product development while increasing dependence on external licensors, regulatory approvals, and successful technology transfer. The export strategy is based on strengthening the UAE and Kuwait, expanding registrations in existing Middle Eastern and African markets, entering selected new countries through local partners, and adding regional rights for specialty products. The NUPCO relationship is intended to support supply continuity and registration inside Saudi Arabia, while the new relationships with foreign partners are directed toward manufacturing localization and technical capability.

Driving future portfolio specialization through international partnerships over higher-value molecules, in tandem with specialized capacity expansion

The company is strongly building external development and manufacturing relationships to expand its portfolio. First such partnership was entered into in 2016 with a Greek company Elpin Pharmaceutical Inc., through which Avalon distributes the company's products in KSA, such as Rolenium – used in asthma treatment, which it registered locally in 2017. In 2025, the company secured exclusive Saudi rights and rights in selected Middle Eastern and North African markets for GLP-1 products used in obesity and weight management. The agreement includes scope for additional GLP products and potential local manufacturing. In February 2026, Avalon secured exclusive rights to register and commercialize BAT3306 - a proposed pembrolizumab biosimilar in Saudi Arabia and MENA. Pembrolizumab is an oncology biologic with 2025 sales of USD 31.7 billion globally growing by 7% year-over-year, some of which BAT3306 has a potential to capture. The 15-year agreement also provides a route for future technology transfer and manufacturing localization. This adds a biologics component to the company's specialty strategy, although commercialization depends on regulatory registration and is not expected to begin immediately. Moreover, biosimilars would require further specialized capacity expansion, in our view. Moreover, a two-year memorandum with BENTA covers technology transfer, localization, and advanced pharmaceutical-manufacturing technologies in Saudi Arabia.

Public sales are a value added, augmenting growth in the larger private segment that should play the major role in Avalon's growth story

Locally, Avalon has a strategic commercial partnership with NUPCO, its main government-sector client, and participates in its tenders. This relationship has been further formalized in October 2025 with a two-year MoU covering cooperation to ensure supply continuity, improve supply-chain efficiency, give Saudi Arabia a priority in registering new products and strengthen the technical exchange between both parties. While the MoU has no direct financial impact on the company, it provides a strategic framework that should enhance Avalon's access to future tenders, in our view. We estimate an 80% overlap between Avalon's currently manufactured pharmaceuticals and NUPCO's tender catalog. As Avalon currently competes with much larger companies with greater portfolio breadth, the gradual expansion to its product portfolio and commencement of operations in Avalon 4 will, in our view, significantly improve its tender edge in the long-term. Meanwhile, being part of NUPCO ecosystem should allow the company to utilize its spare capacity and move surplus inventories. On the flip side, public sales expose the company to some pricing risks and put strain on its working capital as they can involve longer collection periods.

Growing export operations augment the local integrated business model and provide future upside, especially if overseas manufacturing is in the cards

Avalon began exporting in 2004. Its established export network covers Kuwait, the United Arab Emirates, Jordan, Iraq, Yemen, Bahrain, Lebanon, Sudan, Libya and others, and soon Egypt. Products are sold through local distributors rather than through foreign manufacturing assets but this strategy will soon be shifting. Avalon also maintained a small branch in the UAE, while its small UK subsidiaries have been wound down. The UAE and Kuwait are the principal established export markets. Avalon relaunched activity in both countries during 2024 and is seeking to increase product registrations and distributor coverage there. Other existing markets are smaller and depend on local registration, regulatory approval, and distributor execution. The next group of targeted markets comprises Egypt, Morocco, Indonesia, and Malaysia. Avalon expects Egypt to be a main contributor of export growth by 2030. Entry is intended to use country-specific operating models and local partnerships, reflecting differences in regulation, competition, registration requirements, and distribution structure. Egypt is the main expansion priority among these markets. The Adalvo and Bio-Thera agreements extend Avalon's export approach beyond exporting its existing Saudi portfolio. They give the company regional registration and commercialization rights for products developed by external pharmaceutical companies. This model allows Avalon to build a broader MENA portfolio through licensing and local distribution, with manufacturing localization available as a later stage where demand, regulation, and production capability support it. Export activity remains secondary to the Saudi business. The model is based on registering products country by country, appointing or expanding local distributors, and using partners where Avalon does not have its own market infrastructure. Regional rights do not by themselves establish market access while each product remains subject to local regulatory approval and commercial launch arrangements.

Avalon continues to expand its market share in key strength areas such as dermatology and respiratory

The company has 13.0% market share in dermatology, its strongest therapeutic area and 14.2% share in respiratory medications, compared to 9% for both categories, respectively, cited about two years ago, indicating consistent market share expansion. Historically, dermatology and skin care were behind roughly a half of Avalon’s top line, followed by respiratory medications and nervous system medications. Aside from pharmaceutical, Avalon 3 is the largest sanitizers producer in the Kingdom. We estimate it contributes high single digits to the over top line, down from a third at SAR 113 million in 2020 at the peak of COVID-19 pandemic.

Table: Avalon’s reported market share in key therapeutic areas

Therapeutic area	Avalon market share
Dermatology	13.0%
Respiratory	14.2%
Central Nervous	3.6%
Gastrointestinal	2.4%
Musculoskeletal	2.3%
Genitourinary	1.1%
Cardiovascular	0.1%

Source: Avalon Pharma

About 75% of the portfolio highly skewed towards repeat-use therapies locking in recurring demand

Avalon’s portfolio combines a meaningful base of repeat-use therapies with a complementary acute-care range. We estimate that maintenance therapies account for 42% of the portfolio and include diabetes treatments such as Amaglime, Metfor, Diaglipt, Sitavia, and Sitavia-Met; cardiovascular medicines including Amodip and Candan for blood-pressure management; and chronic-care therapies such as Broncast for asthma and allergy control, Escipra for depression and anxiety, Lyrgaba for neuropathic pain, Golifa for multiple sclerosis, Quenfil for autoimmune conditions, Uroleph for overactive bladder, and Uxorate for gout. A further 33% of the portfolio serves recurring episodic needs, including dermatology, seasonal allergy, pain, migraine, and on-demand treatments; Avogain for hair-loss management is a particularly strong repeat-use example, alongside acne and skin-care products. Together, these segments represent 75% of the portfolio and provide a substantial recurring-demand base. The remaining range is balanced across finite treatment courses and occasion-led products for bacterial infections, local skin infections, pain and inflammation, migraine, and local anaesthesia, including Ciprogram, Klare, Tavflox, Avoban, Avotrene, Eleptan, and Prila.

Highly controlled product portfolio allows Avalon to capture a greater portion of its value chain compared to larger peers, limiting supply chain constraints and some regulatory risks pertaining to ready-made imports

Analysis of SFDA's drug registry suggests that, in terms of current product portfolio, Avalon's key strength is control, i.e. it manufactures the lion's share of the products it distributes, at levels significantly higher than its peers. Self-manufactured products destined for the private market are capable of generating gross margins in the vicinity of 70%, much higher than distribution only. We estimate that only 3 out of 57 registered molecule compositions in Avalon pharmaceutical portfolio are not directly manufactured by the company. This translates to only 5% of the total pharmaceutical portfolio (we note that this does not align with revenue contribution) that is not directly controlled, compared to +20% for its peers, in a pool of some 1.3k registered SKUs. In almost all cases, the products that both Avalon and its peers distribute in the local market but do not manufacture are imported from abroad, broadening their supply and pricing risks.

Development pipeline expands current portfolio by 163% in terms of unique molecules targeting higher-value therapeutic areas

New product registration generally takes 12 to 18 months. As of 1Q 2026 Avalon reported 93 molecules under development after 7 new molecules received SFDA approvals over the prior 12 months and 3 new molecules were added to the pipeline. 1% of that figure was ready for SFDA submission for approval and 22% were already under SFDA review, as per management. The pipeline covers over 12 distinct therapeutic areas. In 1Q 2026 alone, Avalon launched two new products – Capitan, an isotretinoin formulation used in acne treatment, and Sitavia-Met indicated for glycaemic control in adults with type 2 diabetes mellitus. Moreover, the company has a goal of bringing 3 to 5 new pharmaceutical compounds annually from global markets. While all of the new pipeline molecules are generic drugs, they are substantially more advanced and higher value, including 19 oncology formulations, 13 injectables, 10 dermatological, 7 nervous system-related, 7 in ophthalmology, and others. As evidenced by the pipeline, Avalon is ramping up its portfolio in terms of complexity and value. While specialty oncology formulations are likely to require the more complex Avalon 4 production facility still in the works, the pipeline should also sustain new product launches on existing facilities, especially in dermatology which is Avalon's specialty. While this pipeline will take years, in our view, to fully materialize its revenue potential and sustain growth from this point onwards, we estimate that in 2025 alone, Avalon already registered 22 new pharmaceutical SKUs with SFDA across 14 different brands, containing 13 unique molecules covering primarily dermatology and respiratory areas. It was a peak year for the company in terms of new registrations, matched only to its prior record in 2016 (21 new products, 16 brands, 11 molecules) and booking a considerable annual growth of 83% compared to 12 products registered in the prior year. We further estimate that year-to-date, Avalon completed 7 additional registrations. Registration is not equivalent to product launch and months can pass before a registered product is brought to the market. Overall, some specialized products such as CNS or diabetes drugs could take up 36 months from commercial launch before they reach their full market potential, before it finds its distribution channels, physician and pharmacist awareness, tender and private account access and stabilizes in terms of volumes and price. Nonetheless, we are of the view that this growth is still not sufficiently priced in. Moreover, Avalon's 2025 registrations confirm Avalon's drive to broaden beyond its historical strengths while still staying close to areas where it can manufacture and commercialize products itself. The additions point to a clear push into central nervous system therapies, alongside continued reinforcement of dermatology, respiratory/allergy, anti-infectives, diabetes/metabolic care, and selected cardiovascular exposure. Importantly, they are aligned with chronic retail demand as opposed to leaning heavily into hospital demand. This makes the year look strategically important: not just more of the same, but an attempt to add higher-value chronic and specialist-adjacent categories while preserving a strong manufacturing-controlled model, in line with announced strategy.

Raw materials rely on imports but, barring severe supply chain constraints, do not pose significant risk to margins directly

Avalon retains a stock covering no less than 6 months of medicines production. Historically, it secured pharmaceutical materials and active ingredients from Saudi Arabia, China, Belgium, Jordan, Switzerland and other countries. Majority of its raw materials are imported. Packaging materials can also be sourced from abroad but with greater probability of finding locally-produced substitutes when needed, in our view. Analysis of its inventories over the past two years suggests that raw materials represent about 40% of the unfinished production while packaging represents about 46%. Inventory supplies (primarily raw materials and packaging) contribute about 65% to COGS adjusted for direct purchases (products not manufactured but distributed), labor contributed some 20% and depreciation and amortization and overheads the rest. This implies that raw materials contribute only a quarter of production cost, assuming that unfinished inventories are consumed pro-rata in line with their composition. That said, barring for significant supply chain constraints in global markets, and in light of SAR peg and Avalon's diversified list of suppliers, imported costs do not pose a significant risk on margins to Avalon, in our view, unlike labor cost. It is noteworthy that Avalon's outstanding payables are almost equally split between foreign and local suppliers, which implies some mitigation to imports.

Market positioning and related strengths

Avalon Pharma should be assessed alongside Jamjoom Pharma (4015), SPIMACO (2070), Saudi Chemical Holding (2230, where pharmaceuticals are only part of the group), and Tabuk Pharmaceuticals, the pharmaceutical subsidiary of Astra Industrial Group (1212). Relative to these peers, Avalon has a more focused but highly integrated manufacturing model, in our view: our SFDA registry review identifies 117 of 122 Avalon-linked SKU registrations as locally manufactured by Avalon, with only five products classified as distributed only. This gives the company a structurally higher local manufacturing content than a distributor-led model, supporting manufacturing value-add, local-content credentials, and lower exposure to importation bottlenecks. The pharmaceutical portfolio is also weighted toward recurring demand and further skewed towards chronic maintenance therapies and recurring episodic categories, spanning diabetes, cardiovascular care, respiratory and allergy management, neurology, dermatology, and hair loss. This analysis excludes Avalon's cosmetics, sanitizers, disinfectants, and other hygiene products, which add an important consumer-health and repeat-purchase dimension to the broader business. The principal trade-off is that the current registered portfolio still remains concentrated in established branded generics and consumer-health products, with more limited exposure to high-value specialty therapies; however, Avalon's stated pipeline and Avalon 4 described earlier provide a credible path toward higher-value dosage forms and a broader innovation profile. We further estimate that Avalon's portfolio is primarily private and retail-led, with 53% of registered products concentrated in consumer health, dermatology, hair loss, pain, allergy, and other repeat-purchase categories. A further 40% has mixed public and private demand while the remaining 7% is more hospital-led, including specialty products for multiple sclerosis, psychiatric care, autoimmune disease, and institutional antibiotic use.

Production facilities, capacity and utilization

Table: Summary of Avalon's production capacity by facility

Facility	Role	Quantified Capacity / Scale	Main Areas	Status / Timing
Avalon 1	Legacy multi-format factory	19.0m cream tubes; 3.4m skin-care/cosmetic tubes; 13.2m liquid packages; 8.1m solid strips annually	Creams, cosmetics, liquid medicines, solid medicines, nasal sprays, topical products	Operational / established
Avalon 2	Main expansion / large-scale production facility	21.76m semi-solid tubes; 16.32m liquid packages; 27.2m solid strips, equivalent to c.270-272m tablets/capsules annually	Semi-solids, liquids, solid-dose products, R&D and analytical development	Operational / under expansion
Avalon 3	External-use / hygiene facility	c.14.69m disinfectant packages annually	Disinfectants, sanitizers, mouthwashes, external-use liquids, hygiene products	Operational / established
Avalon Warehouse	Logistics facility, not a production plant	5,137 sqm built-up storage area; no production capacity	Raw materials, packaging materials, finished goods storage; temperature / humidity controls	Operational logistics asset
Avalon 4	Planned specialty manufacturing facility	18m units total production capacity	Oncology, injectables, ophthalmology	Launch targeted by Q4 2027, with phased validation and ramp-up

Source: Avalon Pharma

Table: Summary of Avalon's production capacity by product

Format / Area	Capacity	Facilities
Creams / semi-solid products	40.76m tubes annually	Avalon 1 + Avalon 2
Skin-care / cosmetic products	3.4m tubes annually	Avalon 1
Liquid medicines	29.52m packages annually	Avalon 1 + Avalon 2
Solid medicines	35.3m strips annually	Avalon 1 + Avalon 2
Disinfectants	14.69m packages annually	Avalon 3
Specialty units	18m units total capacity	Avalon 4

Source: Avalon Pharma

Financial analysis and projections

Avalon reports three types of revenues, representing three distinct sales channels and customer types:

- **Private revenue:** domestic – non-government sales channel, including sales to large pharmacy chains, sub-agents, hospitals, hospital pharmacies, clinics, retail pharmacies, hypermarkets and other private sector entities in Saudi Arabia.
- **Public revenue:** government and government-related institutional channel. It includes public-sector healthcare customers, NUPCO-related sales and government tenders and Wasfaty revenue.
- **Export revenue:** distributor-led channel in 16 international markets, with immediately planned expansion into Egypt.

Avalon has delivered a consistent post-2021 growth record, supported by portfolio expansion, higher utilization and deeper private and public-channel access. Revenue increased from SAR 287.2mn in 2021 (COVID-19 boost) to SAR 460.5mn in 2025, implying a 12.5% CAGR, while net profit rose from SAR 66.3mn to SAR 97.0mn over the same period. Profitability remained resilient, with FY2025 gross margin of 62.3%, EBITDA margin of 27.9% and net margin of 21.1%. The 1Q26 result reinforced this trajectory, with revenue up 33.7% y/y to SAR 130.1mn, EBITDA up 33.8% y/y to SAR 35.9mn and net profit up 38.7% y/y to SAR 26.9mn. In Q1 2026, private revenue represented 70.6% of sales, public revenue represented 25.8% and exports represented 3.6%. Revenue growth was driven mainly by private and public customers, while export growth was temporarily rephased.

Our forecasts assume Avalon's recent registration momentum begins translating into commercial uptake over 2026-2028, supported by higher utilization, public-channel growth and new launches. We forecast revenue of SAR 539.3mn in FY2026, implying 17.1% y/y growth, broadly in line with management guidance of 16-17%. Private revenue remains the main driver, rising 22.2% y/y to SAR 379.0mn, supported by the 1Q26 run-rate, new customer wins, pharmacy penetration and product launches. Public revenue is forecast to grow 12.5% y/y to SAR 105.1mn, reflecting continued tender participation and NUPCO-related demand. We model exports declining 3.2% y/y to SAR 55.2mn in FY2026, reflecting temporary rephasing amid regional uncertainty.

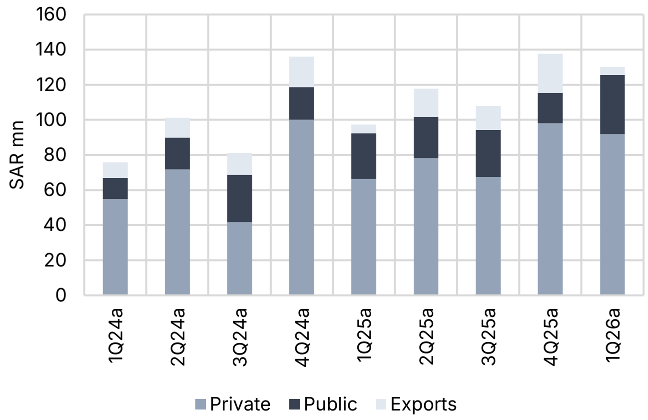
Growth then accelerates as new launches, pipeline conversion and capacity expansion in Avalon 2 begin contributing more visibly. We forecast revenue of SAR 633.9mn in FY2027 and SAR 754.9mn in FY2028, implying growth of 17.5% and 19.1%, respectively. By FY2030, revenue reaches SAR 1.06bn, translating into a 2025-30e revenue CAGR of 18.5%. Private revenue is expected to rise from SAR 310.0mn in FY2025 to SAR 785.8mn by FY2030, increasing its contribution from 67.3% to 73.9% of revenue. Public revenue grows to SAR 168.2mn by FY2030, while exports recover to SAR 109.5mn.

Margins remain robust through the expansion phase. We forecast gross margin of 62.4% in FY2026, easing slightly to 61.4% in FY2027 and 61.2% in FY2028 as the company absorbs growth investments and a shifting product/channel mix. EBITDA rises from SAR 128.4mn in FY2025 to SAR 148.0mn in FY2026, SAR 175.2mn in FY2027 and SAR 234.1mn in FY2028, with EBITDA margin expanding to 31.0% by FY2028. Net profit increases from SAR 97.0mn in FY2025 to SAR 111.3mn in FY2026, SAR 127.2mn in FY2027 and SAR 171.0mn in FY2028, with net margin recovering to 22.7% by FY2028.

Cash generation remains sufficient despite the investment cycle. Operating cash flow is forecast at SAR 102.1mn in FY2026, SAR 128.5mn in FY2027 and SAR 165.8mn in FY2028. Investing cash outflow peaks around FY2026-27 at SAR 86.1mn and SAR 113.2mn, reflecting Avalon 4 and related expansion spending, before moderating to SAR 34.6mn in FY2028. Free cash flow therefore improves materially from SAR 15.3-16.0mn in FY2026-27 to SAR 131.2mn in FY2028.

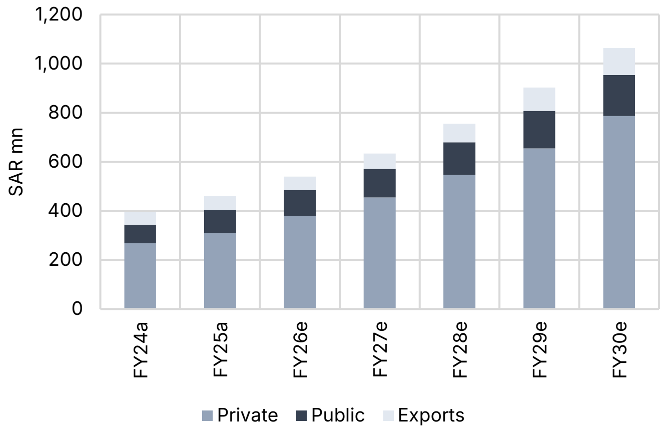
The balance sheet remains manageable. Net debt/EBITDA is forecast to rise from 0.23x in FY2025 to 0.51x in FY2026 and 0.71x in FY2027 during the investment phase, before falling to 0.29x in FY2028 as cash flow improves. Debt to equity peaks at 25.2% in FY2027 and declines to 18.4% in FY2028. We therefore do not see the expansion program as requiring excessive leverage, while the model still supports dividend growth, with dividend yield rising from 2.4% in FY2026 to 2.5% in FY2027 and 2.9% in FY2028.

Figure: Evolution of recent quarterly revenues by type



Source: Avalon Pharma financials

Figure: Evolution of annual revenues by type with projections



Source: Avalon Pharma financials

Valuation

We value Avalon with a DCF methodology, yielding total EV of SAR 2.75 billion, adjusted for the last implied net debt figure of SAR 64.1 million, equating to equity value of SAR 2.68 billion spread over 35 million shares thus translating into a Target Price / share of SAR 77. Based on the closing price of 15 July 2026, our Target Price offers a 26% upside potential, warranting a Buy rating.

We use WACC of 11% based on estimated cost of equity and debt at 12% and 7%, respectively, weighted 80:20. We use a terminal growth rate assumption of 4.0%. While higher than long-term GDP growth forecasts in the vicinity of 3.5%, where the slight premium is a function of i) the impending technological optionality of biologics distribution (BAT3306) and potential for long-term localization, and ii) long-term pharmaceutical market growth projections of at least 5-9% and a very large scope for Avalon to grow its market share from the current 3.2% to 3.5% projected for as early as 2027e. The highest upside to our valuation going forward could stem for our overall conservative maintenance CAPEX assumptions (both PPE and intangibles) at run rates which might be capturing recent upgrades in existing facilities.

Figure: Comparison of export revenues by Saudi pharmaceutical producers

		2026 (9M)e	2027e	2028e	2029e	2030e	2031e
Net cash from operations		90.8	128.5	165.8	195.7	280.1	297.7
CAPEX		(69.6)	(113.2)	(34.6)	(34.6)	(38.6)	(42.5)
FCF		**21.2**	**15.3**	**131.2**	**161.1**	**241.5**	**255.1**
Terminal value							3,790.7
FCF + Terminal Value		21.2	15.3	131.2	161.1	241.5	4,045.9
Time factor		0.25	1.3	2.3	3.3	4.3	5.3
WACC		11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
DCF		20.6	13.4	103.8	114.8	155.0	2,339.2
EV	**2,747**						
Less: Last net debt	64						
Equity value	**2,683**						
TP / share	**77.0**						
Upside	26%						

Source: Derayah Financial

Comparative valuation

Avalon's valuation remains undemanding relative to its growth and return profile. The stock trades at 20.3x TTM P/E, broadly in line with the immediate peer average of 20.8x, despite delivering stronger trailing revenue growth of 18.7% and ROE of 26.0%. Jamjoom remains the closest quality peer, with higher ROE of 29.0% and a similar P/E of 21.7x, but Avalon offers a faster near-term growth runway from a lower revenue base, supported by pipeline conversion, capacity expansion and higher manufacturing control. On our estimates, Avalon's P/E compresses from 19.1x in 2026e to 16.8x in 2027e and 12.5x in 2028e, while EV/EBITDA declines from 14.9x to 9.4x over the same period. We therefore see the current multiple as failing to reflect Avalon's expected earnings acceleration.

Figure: Comparable valuation

Company	TTM P/E	P/B	12M Div. Yield	Trailing Rev. Growth	ROE
Avalon Pharma	20.3	5.1	2.3%	18.7%	26.0%
Jamjoom Pharma	21.7	6.0	2.7%	9.6%	29.0%
SPIMACO	19.9	2.2	1.2%	-2.7%	11.4%
Saudi Chemical	21.4	2.9	1.2%	9.3%	14.7%
Peer average	**20.8**	**4.0**	**1.8%**	**8.7%**	**20.3%**

Source: Bloomberg

Risks

Execution risk: Avalon 4 and the Avalon 2 line approvals are central to the growth story, but new capacity requires construction, commissioning, validation, staffing and SFDA approvals. Delays could push back the specialty-product ramp-up, while early completion ahead of registrations or demand could create temporary underutilization.

Regulatory and launch risk: Avalon's 93-molecule pipeline supports growth, but registrations do not immediately translate into revenue. New products require SFDA approval, pricing, launch execution, physician/pharmacist uptake, tender access and private-channel penetration, which can delay monetization.

Public procurement risk: Public revenue contributed around 20% of FY2025 sales and 26% in 1Q26. NUPCO and tenders provide scale but can pressure pricing and margins, extend collection periods and create tighter delivery obligations.

Partnership risk: Agreements with Adalvo, Bio-Thera and BENTA, among others, expand Avalon's reach into GLP-1s, biosimilars, oncology and technology transfer, but execution depends on external partners, regulatory approvals, market access and successful localization.

Export risk: Export expansion, especially Egypt and broader MENA, requires country-level registrations, distributors, pricing approvals and logistics execution, while geopolitical and payment risks could slow growth.

Margin and supply-chain risk: Avalon controls most of its portfolio through local manufacturing, but still relies on imported APIs and raw materials. Supply disruption, freight costs, pricing pressure or a less favorable product/channel mix could weigh on margins and working capital.

Summarized financial statements projections and key financial ratios

Income statement
In SARmn, unless otherwise stated

	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Revenue	394.0	460.5	539.3	633.9	754.9
Cost of revenue	(150.6)	(173.6)	(202.8)	(244.9)	(293.2)
Gross profit	**243.4**	**286.8**	**336.5**	**389.0**	**461.7**
Gross profit margin	*62%*	*62%*	*62%*	*61%*	*61%*
Selling and distribution expenses	(96.2)	(113.8)	(132.8)	(158.5)	(173.6)
General and administrative expenses	(53.8)	(63.2)	(73.7)	(81.0)	(90.0)
Impairment loss on trade receivables	(3.5)	(1.5)	(3.0)	(3.2)	(3.8)
Other income / (expenses), net	1.2	0.0	0.2	0.2	0.2
Operating profit	**91.0**	**108.4**	**127.2**	**146.5**	**194.5**
Finance costs	(4.7)	(4.7)	(7.3)	(9.7)	(10.6)
Profit before zakat	**86.3**	**103.7**	**119.9**	**136.8**	**183.9**
Zakat expense	(6.5)	(6.7)	(8.6)	(9.6)	(12.9)
Profit for the period	**79.8**	**97.0**	**111.3**	**127.2**	**171.0**

Source: Company data, Derayah Financial

Balance sheet
In SARmn, unless otherwise stated

	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Property, plant and equipment	120.8	123.4	184.6	270.6	266.6
Right-of-use asset	0.0	0.6	0.5	0.5	0.5
Intangible assets	50.6	62.4	66.5	65.1	64.1
Total non-current assets	**171.4**	**186.3**	**251.7**	**336.2**	**331.2**
Inventories	93.6	103.5	109.3	119.1	150.7
Trade receivables and prepayments	239.2	275.4	329.6	370.3	420.1
Cash, cash equivalents and cash in transit	22.6	34.4	27.9	12.8	52.2
Total current assets	**355.4**	**413.3**	**466.8**	**502.2**	**623.0**
Total assets	**526.8**	**599.5**	**718.4**	**838.3**	**954.1**
Total equity	**368.2**	**416.2**	**475.5**	**547.1**	**654.5**
Loans and borrowings – non-current	0.0	21.4	47.8	82.7	75.1
Lease liability – non-current portion	0.0	0.2	0.2	0.2	0.2
Employee benefits	24.5	29.7	33.2	38.2	43.5
Total non-current liabilities	**24.5**	**51.3**	**81.2**	**121.1**	**118.8**
Short-term loans	60.1	37.4	50.1	50.1	40.1
Loans and borrowings – current portion	3.2	4.6	5.1	5.1	5.1
Trade and other payables	70.8	90.1	106.6	115.0	135.7
Total current liabilities	**134.0**	**132.0**	**161.8**	**170.2**	**180.8**
Total liabilities	**158.6**	**183.3**	**242.9**	**291.3**	**299.7**
Total equity and liabilities	**526.8**	**599.5**	**718.4**	**838.3**	**954.1**

Source: Company data, Derayah Financial

Abridged cash flow statement
In SARmn, unless otherwise stated

	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Cash flow from operations	33.1	88.5	102.1	128.5	165.8
Cash flow from investing	(20.0)	(34.4)	(86.1)	(113.2)	(34.6)
Cash flow from financing	(5.5)	(50.2)	(20.1)	(30.4)	(91.8)
Net change in cash	**7.5**	**3.9**	**(4.1)**	**(15.1)**	**39.4**

Source: Company data, Derayah Financial

Key financial ratios and indicators

	FY 2024	FY 2025	FY 2026E	FY 2027E	FY 2028E
Profitability ratios					
RoA	15.2%	16.2%	15.5%	15.2%	17.9%
RoE	21.7%	23.3%	23.4%	23.3%	26.1%
EBITDA margin	27.1%	27.9%	27.4%	27.6%	31.0%
Net margin	20.3%	21.1%	20.6%	20.1%	22.7%
Liquidity and debt ratios					
Current Assets/ Current Liabilities	2.7	3.1	2.9	3.0	3.4
Debt to Total Equity	17.2%	15.2%	21.7%	25.2%	18.4%
Debt ratios					
Net Debt/EBITDA	0.38	0.23	0.51	0.71	0.29
Debt/Assets	0.12	0.11	0.14	0.16	0.13
Net Debt/Equity	11.0%	7.0%	15.8%	22.9%	10.4%
Valuation ratios					
P/E	26.7	22.0	19.1	16.8	12.5
P/B	5.8	5.1	4.5	3.9	3.3
P/S	5.4	4.6	4.0	3.4	2.8
EV/EBITDA	20.3	16.8	14.9	12.9	9.4
FCF Yield	0.6%	2.5%	0.7%	0.7%	6.2%
Dividend Yield	0.7%	2.2%	2.5%	2.6%	3.0%

Source: Company data, Derayah Financial

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