

Neutral

Price Target (SAR): 133.0

Current (18th May 2025): 126.4
Upside/Downside: 5.2% above current

Valuation Multiples	24A	25E	26E
P/E (x)	31.7	27.1	23.6
P/B (x)	6.9	6.1	5.4
ROE (%)	22.4	23.7	23.8

Major Shareholders	% Ownership
Tabbaa National Holding Co.	42.18
Talal Yousuf Zahid	14.70

Price Performance	1M	3M	YTD
Absolute	-2.5%	-9.1%	3.8%
Relative to TASI	-1.5%	-1.8%	8.7%

Earnings

(SAR mn)	2024	2025E	2026E	2027E
Revenue	394	450	516	587
y-o-y	16.4%	14.1%	14.8%	13.8%
Gross Profit	243	276	310	352
GP Margin	61.8%	61.4%	60.0%	59.9%
y-o-y	19.3%	13.5%	12.1%	13.6%
EBITDA	107	122	139	159
EBITDA Margin	27.1%	27.1%	26.9%	27.1%
Net Income	80	93	107	124
Net Income Margin	20.3%	20.7%	20.8%	21.1%
y-o-y	21.3%	16.8%	15.0%	15.4%
EPS	3.99	4.66	5.36	6.19
ROE	22.4%	23.7%	23.8%	24.3%

Source: Company data, Al Rajhi Capital

Middle East Pharmaceutical Industries Co. (Avalon Pharma)

Strong start to FY25, but growth priced in – Maintain neutral

- After a solid topline performance in FY24, early signs in FY25 remain encouraging, with 1Q25 topline growing by 28% y-o-y, while margins expanding further
- Solid growth in the public and private channels coupled with margin improvement drives the beat in 1Q25
- Going forward, we estimate topline to grow by 14% CAGR during 2025-2027E, and profits to grow by almost 16%
- Despite growing mix of public and exports, we believe gross margins to modestly decline due to contracts of high value products in public channel and lower reliance on sub-agents in the private channel
- Nevertheless, we believe current valuations are pricing in the growth story to a large extent
- As we roll forward our valuations, we raise our target price to SAR 133/share from SAR 131/share, but remain neutral on the name

Investment story: Avalon Pharma, a market leader in the fast-growing dermatology market, delivered a solid performance in FY24, despite a slight miss on margins versus our expectations. Early signs in FY25 remain encouraging, with 1Q25 topline growing by 28% y-o-y, while margins expanding further. Avalon continues to leverage its strong brand portfolio as well as exposure to tender market. Its key brands include Avogain (hair loss), Avocom (nasal solution), Salinose (nasal solution), Prila (anesthetics), and Avotrene (pain relief). On the back of favorable regulatory environment for the local generic players, the capacity expansion undertaken during 2022-2023, the move to spend on new product launches and diversify away from cosmetics is expected to provide the necessary leverage to capture the market share from the global players. Looking ahead, the company has plans to enter and grab market share in new therapeutic areas such as neurology, cardiometabolic diseases (CMD), ophthalmology, and oncology, etc. Moreover, the company also plans to enter into new geographies such as Egypt, Morocco, Indonesia, etc.

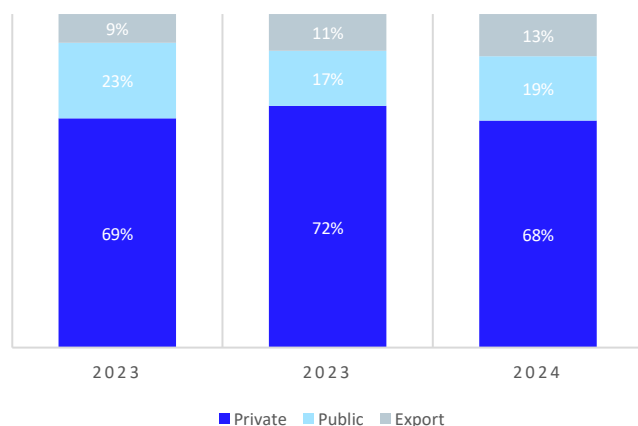
2025-2027E earnings outlook: We estimate topline to grow by about 14% CAGR during 2025-2027E, primarily led by public channel and exports. In the private channel, we are expecting low double-digit growth led by new product launches. Despite the growth in the public channel and exports, which are relatively lower margins compared to private, we are estimating overall gross margins to be broadly stable in 2025 at 61.8%. Given that the new contracts with Nupco comprises higher mix of high value products such as Avotrene (pain relief), we believe the margins in the public channel to improve sharply in 2025. Further, in the private channel, the company is focusing on aligning directly with hospitals and pharmacies and reducing its reliance on sub-agents, which is also expected to limit the impact of mix effect (public vs. private) on the overall gross margins. Beyond 2025, we expect gross margins to stabilize around 60%, primarily due to mix effect (higher public and exports). Nevertheless, operational leverage should support the operating margins (estimate improvement of 40bps in 2025E and another 30bps in 2027E). On the back of these assumptions, we are expecting net income to grow by 16% CAGR during 2025-2027E.

Figure 1 Company's products according to Therapeutic categories

Category	Product description	No. of Trademarks	Key products
Dermatologicals and skin care products	Multi-use medicines, products and preparations that help treat skin diseases such as bacterial and fungal infections, dermatitis, alopecia, hair loss, dryness and cracks in the skin, burns and scars, skin care, skin health and hygiene, etc.	23	Avogain Alpha Plus Avocom-M EZ Care Avomeb Extra Avoban Avomeb
Respiratory system medications	Multi-use medications that help treat nasal allergies, asthma, and respiratory diseases.	7	Salinose Avocom NS Rhinaze NS Cortrief NS Broncast Rolenium
Nervous system medications	Versatile products for nerve anesthesia and local anesthesia.	2	Prila Avocaïne Avohex
Gastrointestinal medications	Multi-use medicines that help treat diseases of the digestive and internal systems, stomach problems, and nutrition.	8	Avodyl Avalon povidone Iodine MW Rotavex
Musculoskeletal drugs	Multi-use medications that help relieve musculoskeletal pain.	4	AvalonActiv Avotrene Xibax Exxara
Other medications in various therapeutic classes	It includes sexual, diabetes, cardiovascular, antiinfective, anti-parasitic, pain relievers, antiseptics, and women's and men's health medications.	27	Amaglime Lyrgaba Avocin Avalis Candan Amodip Tavflox Virecta Evoka EZ Clean

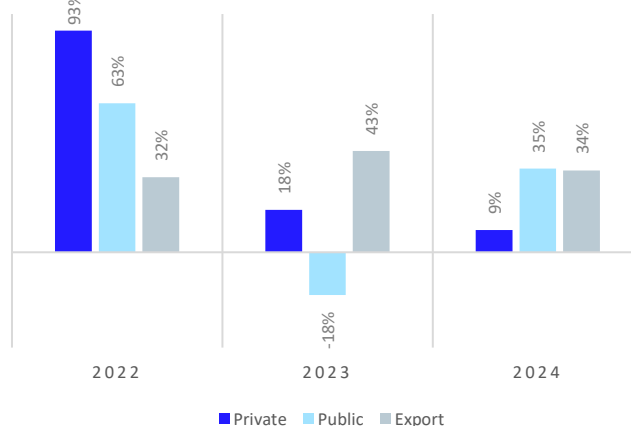
Source: Company Data, Al Rajhi Capital

Figure 2 Distribution channel mix



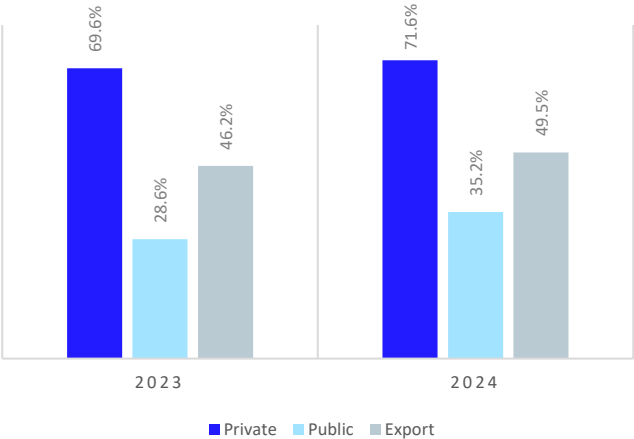
Source: Company Data, Al Rajhi Capital

Figure 3 Distribution channel growth



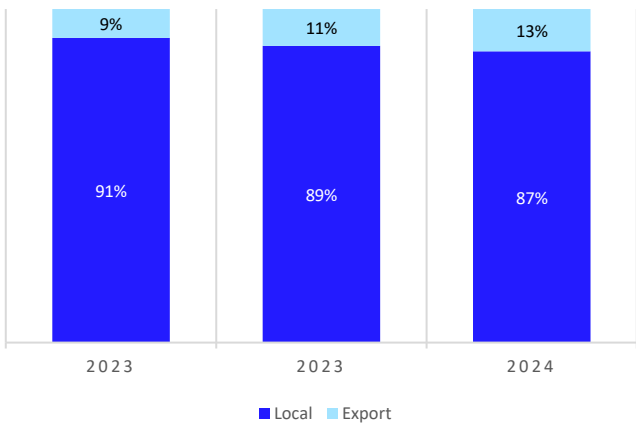
Source: Company Data, Al Rajhi Capital

Figure 4 Distribution channel gross margins



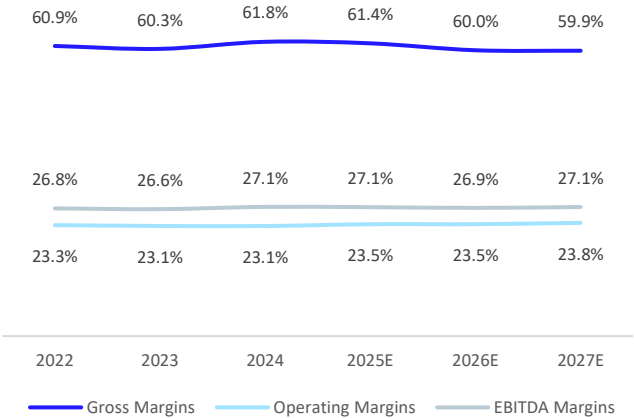
Source: Company Data, Al Rajhi Capital

Figure 5 Local dominates the major share



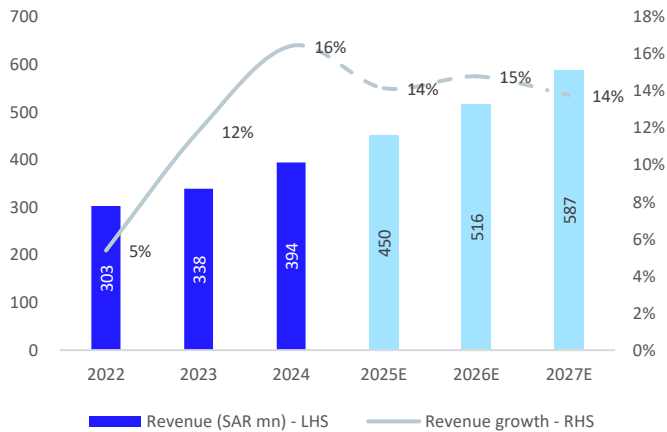
Source: Company Data, Al Rajhi Capital

Figure 6 Overall margin profile

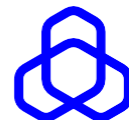


Source: Company Data, Al Rajhi Capital

Figure 7 Revenue growth



Source: Company Data, Al Rajhi Capital



View and Valuations: Currently, Avalon's stock price is trading at a P/E of 32x/27x/24x on 2024/2025E/2026E EPS, respectively, which is broadly 10% discount to Jamjoom's multiples. Based on our assumptions, Jamjoom's net profit is expected to grow by about 14% during 2025-2027E compared to 16% CAGR estimate for Avalon. However, Jamjoom's operational track record has been solid, moreover, its recent Q1 earnings, which were ahead of our expectations, also imply upside risk to our current medium-term growth estimates. Further, on the portfolio and industry presence, Jamjoom has a diversified portfolio, larger market share in the private market and has also established itself in key international markets such as Egypt, UAE, etc. Thus, in our view, despite Avalon's growth expectations higher than Jamjoom's, we assign a 2x discount to Jamjoom's target multiple (based on 2025E/26E earnings) to value Avalon. We assign a P/E of 26.5x on average EPS of 2025/2026E to arrive at a fair value of SAR 133/share. As the implied upside from the last closing is ~5%, we remain neutral on the name.

Figure 8 **Valuations**

Valuation	Multiples/Values
Jamjoom P/E	28.5x
Discount to Jamjoom	2x
Target P/E	26.5x
2025/26E EPS	5.01
Fair Value	133.0
Current Price	126.4
Upside	5.2%

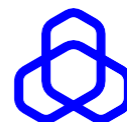
Source: Company data, Al Rajhi Capital.

1Q25 Earnings: Avalon's revenue in 1Q25 grew 28% y-o-y but fell 28% q-o-q to SAR 97mn, largely in line with our estimates. The y-o-y increase was fueled by solid sales mainly in the public and private channels. Additionally, a surge in new customer accounts and the introduction of new products after 1Q24 contributed to this performance. The sequential decline (-28% q-o-q) was primarily due to seasonal product trends and strategic sales phasing. Gross profit increased by 33% y-o-y in 1Q25, reaching SAR 60mn, slightly higher than our estimated SAR 58mn. Implied margins came in at 61.9% vs 59.7% in 1Q24, higher than our estimated 61.0%. Similarly, Operating profits came in at SAR 22mn, also slightly higher than our estimated 19mn. Implied margins came in at 22.9% vs 16.3% in 1Q24, higher than our estimated 19.8%. Net profit more than doubled coming to SAR 19mn in 1Q25, even higher than our estimated SAR 16mn. This strong growth was driven by a 33% rise in gross profit, fueled by higher sales and improved margins.

Figure 9 **Summary of Earnings**

(SAR mn)	Q1 2025	Q1 2024	Q4 2024	ARC Est.	y-o-y	q-o-q	vs ARC
Revenue	97	76	136	95	28%	-28%	3%
Gross Profit	60	45	89	58	33%	-32%	4%
G. margin	61.9%	59.7%	65.6%	61.0%			
Op. profit	22	12	47	19	81%	-53%	19%
Op. margin	22.9%	16.3%	34.7%	19.8%			
Net profit	19	9	45	16	107%	-57%	20%
Net margin	19.9%	12.4%	33.0%	17.1%			

Source: Company Data, Al Rajhi Capital



Financials

Figure 10 Income Statement

SAR mn	2024	2025E	2026E	2027E
Revenue	394	450	516	587
<i>y-o-y growth</i>	16.4%	14.1%	14.8%	13.8%
Cost of Sales	(151)	(173)	(207)	(235)
Gross Profit	243	276	310	352
<i>y-o-y growth</i>	19.3%	13.5%	12.1%	13.6%
<i>margins</i>	61.8%	61.4%	60.0%	59.9%
Selling and marketing expense	(96)	(106)	(118)	(134)
General & administrative expense	(54)	(60)	(65)	(72)
Impairment loss on trade receivables	(2)	(5)	(6)	(6)
Operating Profit	91	106	121	140
<i>y-o-y growth</i>	16.3%	16.0%	14.8%	15.2%
<i>margins</i>	23.1%	23.5%	23.5%	23.8%
Finance cost and other income	(4)	(5)	(5)	(6)
Pre-Tax Income	86	101	116	134
Zakat	(7)	(8)	(9)	(10)
Net Income/Net Profit (Losses)	80	93	107	124
<i>y-o-y growth</i>	21.3%	16.8%	15.0%	15.4%
<i>margins</i>	20.3%	20.7%	20.8%	21.1%
EPS	3.99	4.66	5.36	6.19

Source: Al Rajhi Capital estimates

Figure 11 Balance sheet

SAR mn	2024	2025E	2026E	2027E
Cash and equivalents	23	34	36	48
Trade receivables	217	214	245	280
Inventories	94	112	134	149
Prepaid expenses and other	22	13	15	17
TOTAL CURRENT ASSETS	355	372	430	494
PP&E, net	121	124	128	134
Other Intangible Assets	51	56	62	70
TOTAL NON-CURRENT ASSETS	171	180	191	203
TOTAL ASSETS	527	552	620	697
Trade payables and other current liabilities	27	18	22	25
Accrued liabilities	34	19	22	25
Current portion of LT debt	65	72	79	87
Income taxes payable	7	4	5	6
CURRENT LIABILITIES	134	113	128	144
Employees' end of service benefits	25	24	24	23
NON-CURRENT LIABILITIES	25	24	24	23
SHAREHOLDERS EQUITY	368	415	468	530
TOTAL LIABILITIES & EQUITY	527	552	620	697

Source: Al Rajhi Capital estimates

Figure 12 Cash Flow Statement

SAR mn	2024	2025E	2026E	2027E
Cash flow from Operations	35	76	77	98
<i>Capex</i>	(11)	(13)	(15)	(18)
<i>Others</i>	(9)	(11)	(13)	(15)
Cash flow from Investing	(20)	(25)	(28)	(32)
<i>Net change in Loans</i>	10	7	7	8
<i>Dividends</i>	(15)	(47)	(54)	(62)
<i>Others</i>	(3)	0	0	0
Cash flow from Financing	(8)	(40)	(46)	(54)
Change in cash	8	11	2	12

Source: Al Rajhi Capital estimates

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