

## Foundation Alert

### AVN/OCTOPUS: Analyst Briefing Key Takeaways

#### Event

- Avanceon Limited (AVN PA) held its Analyst briefing session yesterday to discuss the financial/operational performance of 9MCY22 and future outlook of the company. Following are the key takeaways of the briefing.

#### Impact

- Avanceon Group of Companies has business backlog of US\$71mn as of Sep 30'22.
- Revenues are being recognized under IFRS-15. Company have opted for cost of completion method and obligation ownership transferred. Management states that company Revenue Recognition policy is even more conservative than accounting fundamentals in IFRS-15 implemented by SECP.
- Avanceon Group reported revenue of Rs4.6bn in 9MCY22, up 28% YoY, against revenue of Rs3.6bn in 9MCY21.
- Avanceon Group reported profitability of Rs1.7bn (EPS 5.3) in 9MCY22, up 203% YoY, against profitability of Rs572mn in the same period last year.
- Company aims to achieve US\$104mn in revenue in 2025 with contribution of US\$22mn from Pakistan, US\$23mn from Qatar, US\$21mn from KSA and US\$43mn from UAE & North Africa region. For 2022, company targets to achieve US\$53mn in sales.
- In Pakistan region, company is targeting to generate US\$15.3mn through organic sales while 0.45mn through new initiatives during 2022. For Pakistan, group aims to achieve CAGR of 15.8% for organic sales and 24.0% for new initiatives. Company targets to grow organically by 10-15% on YoY basis in retail service business, EPC projects and building technologies expansion. For new initiatives, company is targeting growth from EPC, E&I, BT Large Scale Projects, Digital sales and BD projects.
- In Qatar, group is targeting to achieve core business growth via infrastructure banking on Qatar 2030 vision. After FIFA world cup it is expected that Qatar government may release huge local Infra & Water projects to continue the upward investment trends like DEC, rail extension, sharq, IA New City revamp.
- Group is generating revenue of US\$16.87mn with contribution of US\$5.39mn/US\$5.09mn/US\$6.39mn, which it aims to grow to US\$6.76mn/6.58/8.45mn by 2025, from Large/Mid/Small scale projects. From new business process segment management targets to achieve US\$3.0mn by 2025.
- In KSA, group is generating sales of US\$10.1mn with contribution of US\$4.0/2.9/3.2mn, which it targets to increase to US\$5.77/3.43/3.46mn by 2025, from Large/Mid/Small scale projects. From new business process segment group targets to achieve US\$3.0mn by 2025.
- Group is aiming to generate revenue of US\$4mn by 2025 from untapped market of Kuwait. Kuwait will be developed as a standalone business initially through exports of QFS. Iraq and CIS local partners will be developed to start bidding for local projects.
- In UAE & Africa, group expects organic growth in core business from Automation business which it foresee to grow by 23-25% YoY across the board over the next 3-4 years. Management expects CAGR of 23% in organic business and 55.4% CAGR in new growth initiatives.
- For additional growth in UAE & Africa company targets process packages, WHCP and Solar. Group has set up process division which will be focusing on Chemical Injection skids, Wellhead hydraulic control panels, solar system for oil wells and other skid-based process packages. Process division shall be working across all geographical regions and is expected to generate significant revenue by 2024.

- Group JV setup in Nigeria is expected to generate significant business through focus on Oil and Gas automation business and digitization. Significant major projects are expected in the next few years in this segment.
- Egyptian JV shall focus on infrastructure projects and water/wastewater segment.
- At present, group has revenue of US\$6mn from UAE, US\$1.0mn from Business Process, US\$0.5mn from Egypt and US\$3mn from Africa. By 2025, management expects revenue from UAE to grow to US\$12.5mn, Business Process to grow to US\$10mn while company targets Egypt and Africa revenue to increase to US\$4mn and US\$13.65mn.
- Group has establish new Process Business Unit with a goal to generate US\$20mn in revenue by 2025.

## Outlook

- The stock is not under our formal coverage.

**Fig.1 - Avanceon Limited - Financial Highlights**

Rs mn	3QCY22	3QCY21	YoY	2QCY22	QoQ	9MCY22	9MCY21	YoY
Revenue	2,304	1,217	89%	980	235%	4,614	3,598	28%
Cost of sales	1,773	900	97%	710	250%	3,349	2,549	31%
<b>Gross Profit / (Loss)</b>	<b>531</b>	<b>317</b>	<b>68%</b>	<b>270</b>	<b>197%</b>	<b>1,265</b>	<b>1,049</b>	<b>21%</b>
Administrative and selling expenses	403	195	106%	401	100%	1,025	580	77%
Other expenses	5	6	-26%	2	259%	8	10	-22%
Other income	848	98	762%	804	105%	1,833	379	384%
<b>Profit / (Loss) from operations</b>	<b>972</b>	<b>214</b>	<b>355%</b>	<b>671</b>	<b>145%</b>	<b>2,066</b>	<b>837</b>	<b>147%</b>
Finance costs	66	31	110%	37	179%	149	86	74%
<b>Profit / (Loss) before tax</b>	<b>907</b>	<b>183</b>	<b>396%</b>	<b>635</b>	<b>143%</b>	<b>1,917</b>	<b>751</b>	<b>155%</b>
Taxation benefit / (expense)	6	27	-77%	76	8%	85	109	-22%
<b>Profit / (Loss) for the period</b>	<b>913</b>	<b>156</b>	<b>486%</b>	<b>559</b>	<b>163%</b>	<b>1,832</b>	<b>642</b>	<b>185%</b>
Non-Controlling Interest	52	57		27		100	70	
Equity Holders	861	99		532		1,732	572	
<b>EPS</b>	<b>2.65</b>	<b>0.30</b>		<b>1.64</b>		<b>5.33</b>	<b>1.76</b>	
<b>Gross Margin</b>	23%	26%		28%		27%	29%	
<b>Net Margin</b>	40%	13%		57%		40%	18%	
<b>ETR</b>	1%	15%		12%		4%	15%	

Source: Company Accounts, PSX, Foundation Research, Nov' 22

### Analyst

Foundation Research  
+92 21 3561 2290-94

research@fs.com.pk  
Ext 339

**Important disclosures:**

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Recommendations definitions**

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.