

## Foundation Alert

### AVN/OCTOPUS: Analyst Briefing Key Takeaways

#### Event

- Avanceon Limited (AVN PA) and Octopus Digital Limited (OCTOPUS PA) held a combined Analyst briefing session yesterday to discuss the financial/operational performance of CY22 and future outlook of the company. Following are the key takeaways of the briefing.

#### Impact

- Avanceon Group of Companies has business backlog of US\$61mn as of Jan 1'23.
- Revenues are recognized under IFRS-15. Company has 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 Rs9.5bn in CY22, up 34% YoY, against revenue of Rs7.1bn in CY21.
- 70% of Avanceon (standalone) revenue is from international. Management also pointed out that Avanceon (standalone) has no recurring revenue whereas Octopus Digital has only subscription based recurring revenue.
- Avanceon Group reported PAT of Rs2.0bn in CY22, up 29% YoY, against profitability of Rs1.6bn in CY21.
- Company aims to achieve US\$104mn in revenue in 2025 with contribution of US\$22mn from Pakistan, US\$22mn from Qatar, US\$20mn from KSA and US\$42mn from UAE & North Africa region. For 2023, company targets to achieve US\$64mn in sales.
- During 2023, group is projected to generate total Revenue of US\$70mn with US\$14.9/16.5/13.1/20.5/5.0mn coming from Pakistan/UAE/KSA/Qatar/Process Business from Pak and ME. Contribution Margins are expected to be 28/25/28/30/25% from Pakistan/UAE/KSA/Qatar/Process Business from Pak and ME. Whereas, PAT margins are forecast to be 14/12/12/11/18% from these regions.
- Expansion plans include targeting growth from international of retail, focus on process business, cyber security, DRP concept, ODL platforms, lead automation vendor, EPCC bids and central Asia/SEA.
- Middle East specific expansion plans include smart city solutions, process skids and plans with Zamil group (KSA), ADNOC based projects (UAE) and Qatar facility.
- Group has established new Process Business Unit with a goal to generate US\$7/14/20mn in revenue during 2023/2024/2025.

#### Outlook

- The stock is not under our formal coverage.

#### Analyst

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Fig 1: Avanceon Limited (Standalone) - Financial Highlights

Rs in mn	4QCY22	4QCY21	YoY	3QCY22	QoQ	CY22	CY21	YoY
Revenue	564	626	-10%	415	36%	1,865	1,835	2%
Cost of Sales	436	435	0%	277	57%	1,306	1,234	6%
<b>Gross Profit</b>	<b>128</b>	<b>191</b>	<b>-33%</b>	<b>138</b>	<b>-7%</b>	<b>559</b>	<b>601</b>	<b>-7%</b>
Admin & Selling expenses	315	196	60%	53	492%	714	372	92%
Other expenses	1	2	-13%	3	-58%	8	5	63%
Other income	383	211	81%	892	-57%	2,168	980	121%
<b>Operating Profit</b>	<b>194</b>	<b>207</b>	<b>-6%</b>	<b>973</b>	<b>-80%</b>	<b>2,005</b>	<b>1,204</b>	<b>67%</b>
Finance cost	62	18	250%	39	58%	156	57	174%
<b>PBT</b>	<b>132</b>	<b>189</b>	<b>-30%</b>	<b>934</b>	<b>-86%</b>	<b>1,849</b>	<b>1,147</b>	<b>61%</b>
Tax	57	43	31%	14	295%	112	126	-11%
<b>PAT</b>	<b>189</b>	<b>146</b>	<b>29%</b>	<b>948</b>	<b>-80%</b>	<b>1,737</b>	<b>1,021</b>	<b>70%</b>
<b>EPS</b>	<b>0.58</b>	<b>0.45</b>		<b>2.90</b>		<b>5.31</b>	<b>3.12</b>	
<b>Gross Margin</b>	23%	31%		33%		30%	33%	
<b>Net Margin</b>	33%	23%		229%		93%	56%	
<b>Effective Tax Rate</b>	43%	23%		2%		6%	11%	

Source: Company Accounts, Foundation Research, May 2023

Fig 1: Octopus Digital Limited - Financial Highlights

Rs in mn	4QCY22	4QCY21	YoY	3QCY22	QoQ	CY22	CY21	YoY
Revenue	112	101	11%	226	-51%	687	625	10%
Cost of sales	149	31	387%	41	269%	309	152	104%
<b>Gross Profit</b>	<b>(38)</b>	<b>70</b>	<b>N/A</b>	<b>185</b>	<b>N/A</b>	<b>378</b>	<b>473</b>	<b>-20%</b>
Admin & Selling expenses	110	93	18%	16	583%	204	124	64%
Other expenses	(0)	-	N/A	0	N/A	0	-	N/A
Other income	47	6	626%	101	-54%	257	11	N/A
<b>Operating Profit</b>	<b>(101)</b>	<b>(17)</b>	<b>512%</b>	<b>270</b>	<b>N/A</b>	<b>430</b>	<b>360</b>	<b>19%</b>
Finance cost	(0)	(0)	N/A	0	-204%	-	-	N/A
<b>PBT</b>	<b>(101)</b>	<b>(17)</b>	<b>509%</b>	<b>269</b>	<b>N/A</b>	<b>430</b>	<b>360</b>	<b>19%</b>
Tax	(4)	(12)	-65%	8	N/A	25	15	73%
<b>PAT</b>	<b>(97)</b>	<b>(5)</b>	<b>N/A</b>	<b>261</b>	<b>N/A</b>	<b>405</b>	<b>346</b>	<b>17%</b>
<b>EPS</b>	<b>(0.71)</b>	<b>(0.03)</b>		<b>1.91</b>		<b>2.96</b>	<b>2.53</b>	
<b>Gross Margin</b>	-34%	70%		82%		55%	76%	
<b>Net Margin</b>	-86%	-5%		116%		59%	55%	
<b>Effective Tax Rate</b>	4%	72%		3%		6%	4%	

Source: Company Accounts, Foundation Research, May 2023

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