

Avanceon Limited**Technology & Communication****Corporate Briefing Takeaways**

Avanceon Limited held an analyst briefing today to discuss its business and future outlook. The briefing was led by the CEO Mr. Bakhtiar Wain.

Takeaways

- AVN posted earnings at PKR 746mn during 9MCY20 with EPS clocking in at PKR 3.52, up 58% YoY. PAT during the quarter settled at PKR 318mn (PKR 1.50/share), compared to a loss of PKR 43mn (LPS: PKR 0.20) SPLY. Impressive jump in earnings is driven by a stark jump in revenues alongside improvement in margins.
- The CEO clarified that Octopus digital is being created as a separate legal entity but is fully owned by Avanceon. The idea is to grow the services business of the group and unlock further potential through various alliances with international companies. The IPO intends to raise capital for its future growth and development. The public listing is expected before the end of 2Q and the prospectus is expected to be released in a few weeks' time once accounts have been finally audited.
- International expansion plans include AVN's Joint Venture in Nigeria.
- Recurring revenue is widespread in the service business, while revenue from the project business varies year to year: 40-50% of the business come from 5-7 large customers which is a normal aspect of the business. Every year those customers may change but usually 5-7 customers contribute about 50% to the project business. The project business is not reliant on the same particular clients while the service business is widespread.
- 35% of PAT comes from recurring revenue business which was zero few years back when the IPO was done. The recurring revenue business is a high margin business generating continuous cash flow.
- Impact of COVID on order generation was expected but the company has now caught up with the lost orders.
- Receivables went up due to 2 large orders and COVID but they are now expected to recede going forward. Trade debts currently stand at PKR 3.6bn compared to PKR 2.4bn as at Dec'19.
- The CEO stated that leverage in the business is negligible and organic cash flows are enough to support the business.
- The CEO expects revenue growth during CY21 to be not lower than 30-35% while Octopus revenue is expected to grow ~3x over the next 4 years. The core business revenue is expected to grow ~20-25% on average annually over the next 4 years.
- Major challenges as per the CEO include creating strong delivery mechanisms. Improving and growing the team on the level that is required to achieve the growth targets will also be a challenge.

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Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
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* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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