

AVANCEON LIMITED

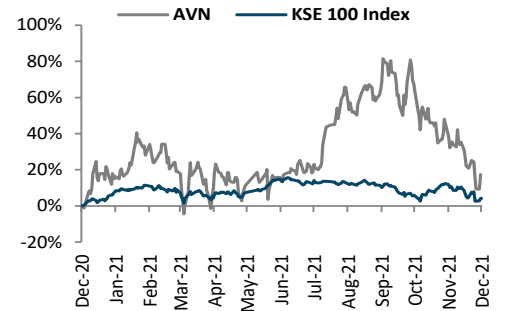
9MCY21: Webinar Takeaways

Wednesday, December 8, 2021

Avanceon Limited (AVN) conducted its webinar today, where the company shed light on its current year financials and future outlook. Key highlights of the call are discussed below:

- The management projects total net sales to clock in at PKR 8.5Bn in CY21, therefore implying that the last quarter sales are expected to close in excess of PKR 5.0Bn.
- Currently, the company has set sights on the 'Road to 100', where it is targeting revenues of USD 100Mn by the end of FY24. The revenue breakup is divided into three broad geographies where USD 20Mn are expected to come from Pakistan, USD 40Mn from Qatar & Saudi Arabia and USD 40Mn from UAE & North Africa regions respectively.
- The company earned revenue of PKR 3.6Bn in 9MCY21, largely flat on a YoY basis. Despite weakening PKR (as majority revenues are export based), the flattish revenue is a result of the fact that AVN follows IFRS-15 and has a very conservative revenue recognition approach where it opts for cost of completion method. Currently, the company has an order backlog of USD 45Mn as of Jan'22. However, over the same period, gross margins showed slight improvement, clocking-in at ~29% as compared to ~27% in the SPLY.
- Other than geographical expansions, the company is also planning to increase its product verticals to Oil & Gas, Infrastructure, Facilities and FMCG sectors in the form of Chemical Skids, Control panels etc. For that purpose, the company has entered into an Equity JV with one of the largest firms in KSA and Egypt. The company expects Egypt to be a key market in the future.
- Commenting on its ability to tap new markets, the company stated that it is planning to enter the textile markets through Octopus and three key players in the textile space are already on board.
- In the near future, the company also plans to enter the North American market for which it is refining its operations in order to be fully prepared.
- Currently, global supply shortage and shipment delays are causing delivery times to be extended which have affected the overall industry. However, the company expects these problems to be normalized in the first half of CY22.
- Furthermore, revamp of the Engineering Arm is in the offing through 100% International Executions (IX), Ultimate Cloud Engineering, Digital Twin Implementation and Remote FAT Execution.
- Current liquidity position of the company stands at PKR 1.7Bn while the management projects this to rise to PKR 2.5Bn by Mar'22.
- The company is not very keen on raising financing through debt and the stance will stay the same unless there is any special need for it.
- The company is also setting up a dedicated HR facility which will nurture employees through in-house training for OEM Certifications.

AVN vs. KSE-100 Index



	3M	6M	12M
Absolute	-29%	6%	20%
Relative to KSE	-23%	-3%	16%

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)