

OCTOPUS

CY22 Result Review: BUY Stance Maintained

Equity Research | Technology & Communication | Wednesday, 26 April, 2023

OCTOPUS has announced its CY22 result where it posted a profit after tax of Rs405mn (EPS: Rs2.96) as compared to a profit after tax of Rs346mn (EPS: Rs2.53) in the same period last year, up by 17.1% YoY amid higher exports in addition to a surge in other income which supported the bottom line.

The company has posted a revenue of Rs687mn against Rs625mn in SPLY, recording an increase of 9.9% YoY. The gross margin has plunged by 20.8% to 55% as compared to 75.7% during SPLY.

SG&A expenses have increased by 64.2% to Rs204mn as compared to Rs124mn during the SPLY. Moreover, other income has surged massively by 22x to Rs257mn as compared to Rs11mn during the same period last year.

The effective taxation has been increased to 5.8% as compared to 4.0% during SPLY. The company issued bonus shares in the proportion of 15 shares for every 100 shares held i.e. 15%.

OCTOPUS is currently trading at CY23E PE of 15.49x. Further, the scrip is also trading at CY23E PB of 5.37x. We have a **BUY** on the scrip with a DCF-based Dec - 23 TP of Rs62 which provides an upside of 15%.

Rupees' millions	4QCY22	4QCY21	YoY	CY22	CY21	YoY
Net Sales	112	101	10.8% ▲	687	625	9.9% ▲
Cost of Sales	149	31	387.0% ▲	309	152	104.1% ▲
Gross Profit	-38	70	154.0% ▼	378	473	20.3% ▼
SG&A Expenses	110	93	18.2% ▲	204	124	64.2% ▲
Other Expenses	0	0	-	0	0	-
Other Income	47	6	625.5% ▲	257	11	2202.8% ▲
Operating Profit	-101	-16	516.1% ▲	430	360	19.3% ▲
Finance Cost	-0.5	0.1	554.7% ▼	0.0	0.1	100.0% ▼
Profit Before Taxation	-101	-17	509.3% ▲	430	360	19.3% ▲
Taxation	-4	-12	65.2% ▼	25	15	73.1% ▲
Profit After Taxation	-97	-5	2204.9% ▼	405	346	17.1% ▲
Earnings Per Share	-0.71	-0.03	2204.9% ▼	2.96	2.53	17.1% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	15%	0%		15%	0%	

Closing Period: May 19, 2023 to May 26, 2023

	4QCY22	4QCY21	YoY	CY22	CY21	YoY
Gross Margin	-33.9%	69.5%	103.4% ▼	55.0%	75.7%	20.8% ▼
SG&A Expenses to Sales	98.4%	92.2%	6.2% ▲	29.7%	19.9%	9.8% ▲
Other Expenses to Sales	0.2%	0.0%	0.2% ▲	0.0%	0.0%	0.0% ▲
Other Income to Sales	41.8%	6.4%	35.4% ▲	37.4%	1.8%	35.6% ▲
Effective Taxation	4.1%	72.2%	68.1% ▼	5.8%	4.0%	1.8% ▲
Net Margin	-86.5%	-4.6%	81.9% ▼	59.0%	55.3%	3.6% ▲

Source: ACPL Research, Company Financials

Key Statistics

Symbol	OCTOPUS
TP - Jun 23	62.00
LDGP	53.70
Upside	15%
Free Float (mn)	41
Market Cap. (Rs.mn)	7,343

OCTOPUS vs KSE 100



Sales (Rs'mn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Salman

Phone: (+92) 42 38302028; Ext: 116
Email: salman@abbasiandcompany.com

Financial Projections

Rupees' millions	CY21A	CY22A	CY23E	CY24E	CY25E	CY26E
Net sales	625	687	791	925	1,101	1,430
Cost of sale	152	309	274	321	382	496
Gross profit	473	378	517	604	719	934
Administrative expenses	124	204	235	196	233	303
Other income	11	257	221	185	275	358
Operating Profit	360	430	503	594	761	989
Profit before taxation	360	430	503	594	761	989
Taxation	15	25	29	24	30	40
Profit after taxation	346	405	474	570	731	949
EPS	2.53	2.96	3.47	4.17	5.34	6.94

Source: ACPL Research, Company Financials

Horizontal Analysis

	CY21A	CY22A	CY23E	CY24E	CY25E	CY26E
Net sales	125.6%	9.9%	15.1%	17.0%	19.0%	29.9%
Cost of sale	1860.1%	103.6%	-11.4%	17.0%	19.0%	29.9%
Gross profit	75.7%	-20.2%	36.8%	17.0%	19.0%	29.9%
Distribution expenses						
Administrative expenses	705.5%	64.5%	15.1%	-16.5%	19.0%	29.9%
Research and development expenses	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other expenses						
Other income		2202.9%	-13.7%	-16.4%	48.8%	29.9%
Operating Profit	42.0%	19.3%	17.0%	17.9%	28.3%	29.9%
Finance cost						
Profit before taxation	42.0%	19.3%	17.0%	17.9%	28.3%	29.9%
Taxation	-57.4%	73.1%	17.0%	-19.2%	28.3%	29.9%
Profit after taxation	57.4%	17.1%	17.0%	20.2%	28.3%	29.9%
EPS	57.4%	17.1%	17.0%	20.2%	28.3%	29.9%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		CY20A	CY21A	CY22A	CY23E	CY24E	CY25E	CY26E
GP Margin	%	97.20	75.69	54.96	65.33	65.33	65.33	65.33
NP Margin	%	79.30	55.33	58.96	59.94	61.58	66.38	66.38
OP Margin	%	91.57	57.65	62.61	63.66	64.15	69.15	69.15
ROE	%	94.85	21.09	29.62	34.66	41.67	53.45	69.43
ROCE	%	94.85	21.09	20.19	19.11	18.68	19.33	20.07
ROA	%	68.70	20.11	18.81	18.07	17.65	18.25	18.86
Liquidity Ratios		CY20A	CY21A	CY22A	CY23E	CY24E	CY25E	CY26E
Current	x	3.36	20.89	14.69	18.31	18.18	17.93	16.52
Acid-test	x	3.20	19.67	12.64	16.45	16.43	16.27	14.95
Cash to current liab.	x	0.00	7.53	6.09	9.28	10.16	10.80	10.23
Activity Ratios		CY20A	CY21A	CY22A	CY23E	CY24E	CY25E	CY26E
Receivables Days		371	538	366	359	345	331	328
Payables Days		665	305	305	305	305	305	305
Operating Cycle		-294	233	61	54	40	26	23
Investment Ratios		CY20A	CY21A	CY22A	CY23E	CY24E	CY25E	CY26E
EPS		1.61	2.53	2.96	3.47	4.17	5.34	6.94
DPS		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Div. Yield	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Cover		0.00	0.00	0.00	0.00	0.00	0.00	0.00
BVPS		1.69	12.00	10.00	10.00	10.00	10.00	10.00
Payout	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retention	%	100.00	100.00	100.00	100.00	100.00	100.00	100.00
No. of Shares	'mn	136.75	136.75	136.75	136.75	136.75	136.75	136.75
P/E		33.42	21.23	18.13	15.49	12.89	10.05	7.73
Sales per share		2.03	4.57	5.02	5.78	6.77	8.05	10.46
P/BV		31.70	4.48	5.37	5.37	5.37	5.37	5.37
Price to Sales		26.50	11.75	10.69	9.29	7.94	6.67	5.13
Gearing Ratios		CY20A	CY21A	CY22A	CY23E	CY24E	CY25E	CY26E
Debt to Equity	%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover								

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited 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 email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com