

# OCTOPUS

## 1HCY22 Result Review: Stance Downgraded to HOLD

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OCTOPUS has announced its 1HCY22 result where it posted a profit after tax of Rs240mn (EPS: Rs1.76) as compared to a profit after tax of Rs67mn (EPS: Rs0.49) in the same period last year, up by 261% YoY.

The company has posted a revenue of Rs349mn against Rs145mn in SPLY, recording a growth of 140.4% YoY. We note that this growth is attributed to the depreciation of PKR and higher exports.

The gross margin has slightly dropped to 65.8% as compared to 66.5% during SPLY.

SG&A expenses have grown by 406% YoY to Rs78mn as compared to Rs15mn during SPLY.

Lastly, the effective taxation has been decreased to 8.1% as compared to 18.7% during SPLY.

OCTOPUS is currently trading at CY22E PE of 17.7x. Further, the scrip is also trading at CY22E PB of 7.05x. We downgrade our stance to HOLD with a DCF-based Jun – 23 TP of Rs80 which provides an upside of 13%.

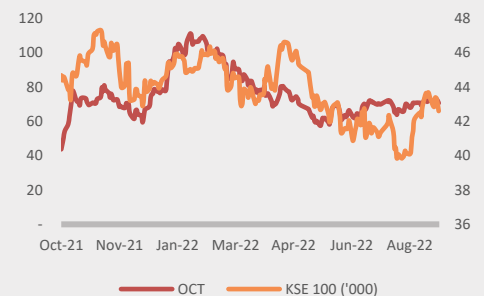
Rupees' millions	2QCY22	2QCY21	YoY	1HCY22	1HCY21	YoY
Net Sales	190	94	102.9% ▲	349	145	140.4% ▲
Cost of Sales	71	18	288.7% ▲	119	49	145.0% ▲
<b>Gross Profit</b>	<b>120</b>	<b>75</b>	<b>58.3% ▲</b>	<b>230</b>	<b>97</b>	<b>138.2% ▲</b>
SG&A Expenses	59	10	480.7% ▲	78	15	406.4% ▲
Other Expenses	0	0	-	0	0	-
Other Income	89	1	12291.5% ▲	109	1	15172.3% ▲
<b>Operating Profit</b>	<b>149</b>	<b>66</b>	<b>126.1% ▲</b>	<b>261</b>	<b>82</b>	<b>219.3% ▲</b>
Finance Cost	0.0	0.0	-	0.0	0.0	30.8% ▼
Profit Before Taxation	149	66	126.1% ▲	261	82	219.3% ▲
Taxation	14	9	52.7% ▲	21	15	38.1% ▲
<b>Profit After Taxation</b>	<b>135</b>	<b>57</b>	<b>137.9% ▲</b>	<b>240</b>	<b>67</b>	<b>261.0% ▲</b>
Earnings Per Share	0.99	0.42	137.9% ▲	1.76	0.49	261.0% ▲
Dividend	0.00	0.00	-	0.00	0.00	-
Bonus	0%	0%	-	0%	0%	-
Gross Margin	62.9%	80.6%	17.7% ▼	65.8%	66.5%	0.6% ▼
SG&A Expenses to Sales	30.9%	10.8%	20.1% ▲	22.3%	10.6%	11.7% ▲
Other Expenses to Sales	0.0%	0.0%	-	0.0%	0.0%	-
Other Income to Sales	46.7%	0.8%	45.9% ▲	31.3%	0.5%	30.8% ▲
Effective Taxation	9.4%	13.9%	4.5% ▼	8.1%	18.7%	10.6% ▼
Net Margin	71.3%	60.8%	10.5% ▲	68.8%	45.8%	23.0% ▲

Source: ACPL Research, Company Financials

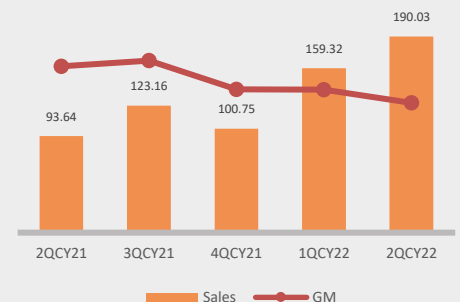
### Key Statistics

Symbol	OCTOPUS
TP - Jun 23	80.00
LDCP	70.54
Upside	13%
Free Float (mn)	27
Market Cap. (Rs.mn)	9,477

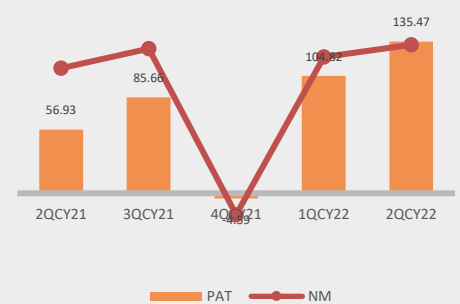
### OCTOPUS vs KSE 100



### Sales (Rs'mn) vs Gross Margin



### PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	CY20	CY21A	CY22E	CY23E	CY24E	CY25E
Net sales	277	625	700	980	1,372	1,921
Cost of sale	8	152	238	333	467	653
<b>Gross profit</b>	<b>269</b>	<b>473</b>	<b>530</b>	<b>742</b>	<b>1,039</b>	<b>1,454</b>
Administrative expenses	15	124	156	304	270	378
Other income	-	11	219	307	361	217
<b>Operating Profit</b>	<b>254</b>	<b>360</b>	<b>593</b>	<b>745</b>	<b>1,130</b>	<b>1,294</b>
Profit before taxation	254	360	593	745	1,130	1,294
Taxation	34	15	48	30	45	52
<b>Profit after taxation</b>	<b>220</b>	<b>346</b>	<b>545</b>	<b>715</b>	<b>1,085</b>	<b>1,242</b>
EPS	1.61	2.53	3.99	5.23	7.93	9.08

Source: ACPL Research, Company Financials

## Horizontal Analysis

	CY20	CY21A	CY22E	CY23E	CY24E	CY25E
Net sales		125.6%	12.0%	40.0%	40.0%	40.0%
Cost of sale		1860.1%	56.6%	40.0%	40.0%	40.0%
<b>Gross profit</b>		<b>75.7%</b>	<b>12.0%</b>	<b>40.0%</b>	<b>40.0%</b>	<b>40.0%</b>
Distribution expenses						
Administrative expenses		705.5%	26.0%	94.6%	-11.2%	40.0%
Research and development expenses		0.0%	0.0%	0.0%	0.0%	0.0%
Other expenses						
Other income			1866.9%	40.0%	17.6%	-39.8%
<b>Operating Profit</b>		<b>42.0%</b>	<b>64.5%</b>	<b>25.6%</b>	<b>51.7%</b>	<b>14.5%</b>
Finance cost						
Profit before taxation		42.0%	64.5%	25.6%	51.7%	14.5%
Taxation		-57.4%	231.2%	-38.0%	51.7%	14.5%
<b>Profit after taxation</b>		<b>57.4%</b>	<b>57.5%</b>	<b>31.2%</b>	<b>51.7%</b>	<b>14.5%</b>
EPS		57.4%	57.5%	31.2%	51.7%	14.5%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		CY19A	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
GP Margin	%		97.20	75.69	75.69	75.69	75.69	75.69
NP Margin	%		79.30	55.33	77.83	72.95	79.03	64.63
OP Margin	%		91.57	57.65	84.69	75.99	82.32	67.32
ROE	%		94.85	21.09	39.85	52.30	79.32	90.81
ROCE	%		94.85	21.09	25.39	24.99	27.48	23.94
ROA	%		68.70	20.11	24.07	23.69	26.08	22.67
<b>Liquidity Ratios</b>								
			CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
Current	x		3.36	20.89	19.20	19.18	19.55	18.89
Acid-test	x		3.20	19.67	17.24	17.13	17.43	16.71
Cash to current liab.	x		0.00	7.53	8.51	8.73	9.30	8.78
<b>Activity Ratios</b>								
			CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
Receivables Days			371	538	401	443	443	443
Payables Days			665	305	305	305	305	305
Operating Cycle			-294	233	96	138	138	138
<b>Investment Ratios</b>								
			CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
EPS			1.61	2.53	3.99	5.23	7.93	9.08
DPS			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
Dividend Cover			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
Payout	%		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
No. of Shares	'mn		136.75	136.75	136.75	136.75	136.75	136.75
P/E			43.90	27.88	17.70	13.49	8.89	7.77
Sales per share			2.03	4.57	5.12	7.17	10.04	14.05
P/BV			41.64	5.88	7.05	7.05	7.05	7.05
Price to Sales			34.81	15.43	13.78	9.84	7.03	5.02
<b>Gearing Ratios</b>								
			CY20A	CY21A	CY22E	CY23E	CY24E	CY25E
Debt to Equity	%		0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover								

Source: ACPL Research, Company Financials

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

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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

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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

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