

## Earning Review

### SYS: 2QCY21 EPS clocked in at Rs6.80, up 72% YoY

#### Event

- Systems Limited (SYS PA) profitability clocked in at Rs939mn (EPS Rs6.80 up 72/52% YoY/QoQ) in 2QCY21 against Rs547mn (EPS Rs3.96) in 2QCY20. This will take 1HCY21 profitability to Rs1,557mn (EPS Rs11.28 up 44% YoY) as compared to profit of Rs1,080mn in 1HCY20 (EPS Rs7.82).
- The result is above our expectations due to higher other income and lower provision for doubtful debts.

#### Impact

- We attribute increase in SYS profitability to (1) increased business from Europe and North America region, (2) higher domestic sales due to automation drive by public/private sectors, (3) increased contribution of maintenance contracts revenue from MEA and North America segment and (4) exchange gain booked on translation of foreign currency denominated assets.
- In 2QCY21, SYS net sales increased by 50% YoY due to approximately 80% export driven revenue. Majority of sales growth is driven by (1) exponential growth in revenue from Europe and North America region and (2) recovery of sales in MEA region as economic activity is picking up in the regions post COVID outbreak.
- SYS gross margins increased by 0.2ppt YoY in 2QCY21 to 33.7% due to increased contribution of Europe and North America region. However, on sequential basis gross margins declined by 1.3ppt in 2QCY21 due to avg 2.8% QoQ rupee appreciation in 2QCY21.
- To highlight, SYS other operating expense declined by 83% YoY in 2QCY21 due to reversal of provision for doubtful debt, in our view.
- Among other major heads, company's admin expense increased by 39/12% YoY/QoQ in 2QCY21. While, its distribution expense significantly increased by 436/76% YoY/QoQ in 2QCY21. We wait for further clarity of management on this front.
- Furthermore, due to QoQ rupee depreciation of 3.1% between reporting dates, SYS booked other income of Rs191mn as compared to negative income of Rs116mn in 1QCY21.
- To highlight, EP Systems loss also increased by 326% YoY in 2QCY21.

#### Outlook

- We have an "Underperform" stance on the scrip as stock is currently trading at significant premium to the market despite increase in business risk. Systems business risk has increased as (1) company has changed its strategy to expand into new geographies through its associates (common directorship) instead of its 100% owned subsidiaries and (2) unfolding of new geopolitical situations affecting Pakistan after withdrawal of US and allied forces from Afghanistan.

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Fig 1: SYS - 2QCY21 Financial Highlights

Rs mn	2QCY21	2QCY20	YoY	QoQ	1HCY21	1HCY20	YoY
Revenue-net	3,500	2,328	50%	15%	6,548	4,559	44%
Cost of revenue	2,322	1,549	50%	17%	4,304	3,131	37%
<b>Gross Profit</b>	<b>1,179</b>	<b>779</b>	<b>51%</b>	<b>11%</b>	<b>2,244</b>	<b>1,428</b>	<b>57%</b>
S&A expenses	405	220	84%	27%	724	519	39%
Other op. exp	4	24	-83%	-125%	(12)	29	-142%
Operating Profit	769	534	44%	1%	1,532	880	74%
Other income	191	33	477%	-265%	75	236	-68%
<b>EBIT</b>	<b>960</b>	<b>568</b>	<b>69%</b>	<b>48%</b>	<b>1,607</b>	<b>1,116</b>	<b>44%</b>
Finance costs	28	13	111%	32%	49	24	100%
Profit before taxation	933	554	68%	49%	1,559	1,091	43%
Taxation	20	14	45%	-19%	44	24	86%
<b>Profit after taxation</b>	<b>913</b>	<b>541</b>	<b>69%</b>	<b>52%</b>	<b>1,515</b>	<b>1,068</b>	<b>42%</b>
NCI	(26)	(6)	326%	65%	(42)	(12)	252%
Profit attributable to parent	939	547	72%	52%	1,557	1,080	44%
<b>EPS Diluted(@ 138.04mn sh)</b>	<b>6.80</b>	<b>3.96</b>	<b>72%</b>	<b>52%</b>	<b>11.28</b>	<b>7.82</b>	
<b>Gross Margin</b>	<b>33.7%</b>	<b>33.5%</b>			<b>34.3%</b>	<b>31.3%</b>	
<b>EBIT Margin</b>	<b>27.4%</b>	<b>24.4%</b>			<b>24.5%</b>	<b>24.5%</b>	
<b>Net Margin</b>	<b>26.1%</b>	<b>23.2%</b>			<b>23.1%</b>	<b>23.4%</b>	

Source: Company Accounts, Foundation Research, August 2021

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