

Foundation Alert

SYS: Analyst Briefing Takeaways

Event

- Systems Limited (SYS PA) held its analyst briefing today to discuss its financial performance for 2QCY21 along with future outlook of the company. Following are the key takeaways of the briefing.

Impact

- 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. Management attributes increase in SYS profitability to (1) increased business from North America and MEA 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 region and (4) higher other income due to exchange gain on translation of foreign currency denominated assets.
- Management also discussed 50/15% YoY/QoQ growth in SYS revenue and disclosed that its North America/MEA/Pakistan sales increased by 55/79/127% YoY in 2QCY21. While, SYS revenue from Europe region declined by 14/13% YoY/QoQ in 2QCY21.
- Management also shared breakup up of SYS revenue and disclosed that majority of the revenue is derived from Telecommunication/Retail and CPG/Technology/BPO/BFS-services/public sector industries with sales contribution of 20/19/14/11/11/8% in 2QCY21.
- To highlight, SYS number of employees increased to 4,071 (up 16% QoQ) at the end of 2QCY21 as company has hired more than 500 IT professionals in last three months.
- Furthermore, SYS management also disclosed that SYS revenue per IT professional clocked in at USD27K/employee in 1HCY21.
- Furthermore, SYS gross margins increased by 0.2ppt YoY in 2QCY21 to 33.7%. However, company gross margins sequentially declined in North America and Europe region. Management has quoted decline in margins to increase fixed cost due to aggressive hiring drive by the company in anticipation of increased business in near future. To highlight, SYS gross margins in North America/Europe segment declined by 7.4/7.3ppt QoQ to 35.6/33.4% in 2QCY21.
- Furthermore, due to QoQ rupee depreciation of 3.1% between reporting dates, SYS booked exchange gain of Rs123mn in 2QCY21.
- Management has also disclosed that due to strong balance sheet position, SYS is continuously evaluating different options to achieve organic/in-organic growth through its subsidiary Systems Ventures. In this regard, company has recently bought equity stake in Retailistan an emerging e-commerce startup in Pakistan. Furthermore, management also expects to benefit from synergies due to use of its insight gained in retail market through EP Systems (OneLoad).
- SYS management also discussed performance of OneLoad and disclosed that its gross merchandise value (GMV) has increased to Rs3.96bn (up 33.7% QoQ) in 2QCY21 with registered retailers of 43.3K at the end of Jun'21.

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 outside Pakistan and (2) unfolding of new geopolitical situations affecting Pakistan after withdrawal of US and allied forces from Afghanistan.

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%
Gross Profit	1,179	779	51%	11%	2,244	1,428	57%
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%
EBIT	960	568	69%	48%	1,607	1,116	44%
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%
Profit after taxation	913	541	69%	52%	1,515	1,068	42%
NCI	(26)	(6)	326%	65%	(42)	(12)	252%
Profit attributable to parent	939	547	72%	52%	1,557	1,080	44%
EPS Diluted(@ 138.04mn sh)	6.80	3.96	72%	52%	11.28	7.82	
Gross Margin	33.7%	33.5%	0.2%	1.3%	34.3%	31.3%	
EBIT Margin	27.4%	24.4%			24.5%	24.5%	
Net Margin	26.1%	23.2%			23.1%	23.4%	

Source: Company Accounts, Foundation Research, August 2021

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Recommendations definitions

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