

Earning Preview

SYS: 3QCY21 EPS expected at Rs8.85, up 121% YoY

Event

- Systems Limited (SYS PA) profitability is expected to clock in at Rs1,222mn (EPS Rs8.85, up 121/30% YoY/QoQ) in 3QCY21 against profit of Rs552mn (EPS Rs4.00) in 3QCY20. This will take 9MCY21 profitability to Rs2,779mn (EPS Rs20.1) as compared to profit of Rs1,631mn (EPS Rs11.8) in 9MCY20.

Impact

- We attribute this expected increase in SYS profitability to (1) increased business from Europe and North America region, (2) higher other income due to exchange gain on translation of foreign currency denominated assets, (3) higher domestic sales due to automation drive by public/private sectors and (4) increased contribution of maintenance contracts revenue from MEA and North America segment.
- SYS net sales in 3QCY21 are expected to increase by 54/11% YoY/QoQ due to ~80% export driven revenue. Moreover increase in sales is primarily due to increased business from Europe and North America region and increased domestic sales due to digitalization drive of public and private sector post COVID outbreak. To highlight, further growth in SYS revenue remained limited due to avg 1.7% YoY rupee appreciation in 3QCY21.
- Company's gross margins are expected to decrease/increase by 1.9/1.9ppt YoY/QoQ in 3QCY21. Gross margins would decline on YoY basis due to normalization of business operations as compared to one-offs in 3QCY20 due to COVID outbreak. However, on sequential basis gross margins would increase due to sequential rupee depreciation of avg 6.0% in 3QCY21 and increased business from Europe and North America region.
- Among other major heads company's admin/distribution is expected to increase/decrease by 38/7% YoY in 1QCY21 due to increased operations.
- Furthermore, company's other income is expected to increase by 11.4/1.5x YoY/QoQ in 3QCY21 due to exchange gain on translation of foreign currency denominated as rupee depreciated by 7.55% between reporting dates of 2QCY21 and 3QCY21, in our view.

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 company has changed its strategy to expand into new geographies through its associates (common directorship) instead of its 100% owned subsidiaries outside Pakistan.

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Fig 1: SYS 3QCY21E Key Financial Highlights (Rs mn)

Rs mn	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Revenue-net	3,872	2,509	54%	11%	10,421	7,069	47%
Cost of revenue	2,495	1,570	59%	7%	6,799	4,701	45%
Gross Profit	1,377	939	47%	17%	3,622	2,368	53%
S&A expenses	391	316	24%	-4%	1,115	835	34%
Other op. exp	23	73	-68%	478%	11	102	-89%
Operating Profit	963	551	75%	25%	2,496	1,431	74%
Other income	294	26	1041%	54%	369	262	41%
EBIT	1,258	576	118%	31%	2,865	1,692	69%
Finance costs	27	15	80%	-2%	76	39	93%
Profit before taxation	1,231	561	119%	32%	2,790	1,653	69%
Taxation	31	13	141%	57%	75	37	105%
Profit after taxation	1,200	549	119%	31%	2,715	1,616	68%
NCI	(22)	(3)	604%	-16%	(64)	(15)	325%
Profit attributable to parent	1,222	552	121%	30%	2,779	1,631	70%
EPS Diluted(@ 138.04mn sh)	8.85	4.00			20.1	11.8	
Gross Margin	35.6%	37.4%			34.8%	33.5%	
EBIT Margin	32.5%	23.0%			27.5%	23.9%	
Net Margin	31.0%	21.9%			26.1%	22.9%	

Source: Company Accounts, Foundation Research, October 2021

Important disclosures:

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Recommendations definitions

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