

Earning Review

SYS: 3QCY21 EPS clocked in at Rs7.53, up 88% YoY

Event

- Systems Limited (SYS PA) profitability clocked in at Rs1,039mn (EPS Rs7.53 up 88/11% YoY/QoQ) in 3QCY21 against Rs552mn (EPS Rs4.00) in 3QCY20. This will take 9MCY21 profitability to Rs2,596mn (EPS Rs18.8 up 59% YoY) as compared to profit of Rs1,631mn in 9MCY20 (EPS Rs11.8).
- The result is below our expectations due to lower than expected margins and higher distribution cost.

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) higher other income due to exchange gain booked on translation of foreign currency denominated assets.
- SYS net sales increased by 58/14% YoY in 3QCY21. 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 decreased/increased by 3.4/0.3ppt YoY/QoQ in 3QCY21 to 34.0%. Company gross margins declined on YoY basis due to normalization of business operations as compared to one-offs in 3QCY20 due to COVID outbreak, in our view.
- Company's other operating expense declined by 22% YoY in 3QCY21. However on sequential basis other expenses increased by 14.2x QoQ due to higher provision for doubtful debt, in our view.
- Among other major heads, company's admin expense increased by 56/23% YoY/QoQ in 3QCY21. Increase in admin cost is attributable to aggressive hiring drive by the company in anticipation of increased business in near future, in our view.
- Furthermore, SYS distribution cost increased by 74/31% YoY/QoQ in 3QCY21.
- Moreover, SYS other income increased by 10.7x YoY to Rs277mn. Majority of increase in other income is due to exchange gain booked on translation of foreign currency denominated assets as rupee depreciated by 7.55% between reporting dates in 1QCY21.
- To highlight, EP Systems loss also increased significantly in 3QCY21 and company has also booked share of loss from associate amounting to Rs16.1mn in 3QCY21.

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.

Analyst

Usman Arif
 +92 21 3561 2290-94

usman.arif@fs.com.pk
 Ext 339

Fig 1: SYS 3QCY21 Key Financial Highlights (Rs mn)

Rs mn	3QCY21	3QCY20	YoY	QoQ	9MCY21	9MCY20	YoY
Revenue-net	3,976	2,509	58%	14%	10,524	7,069	49%
Cost of revenue	2,625	1,570	67%	13%	6,928	4,701	47%
Gross Profit	1,351	939	44%	15%	3,596	2,368	52%
S&A expenses	511	316	62%	26%	1,235	835	48%
Other op. exp	57	73	-22%	1322%	44	102	-56%
Operating Profit	784	551	42%	2%	2,316	1,431	62%
Other income	277	26	972%	45%	352	262	34%
EBIT	1,060	576	84%	10%	2,668	1,692	58%
Finance costs	28	15	85%	0%	76	39	94%
Profit before taxation	1,033	561	84%	11%	2,591	1,653	57%
Taxation	25	13	95%	27%	69	37	89%
Profit after taxation	1,007	549	84%	10%	2,522	1,616	56%
NCI	(32)	(3)	913%	21%	(74)	(15)	389%
Profit attributable to parent	1,039	552	88%	11%	2,596	1,631	59%
EPS Diluted(@ 138.04mn sh)	7.53	4.00			18.8	11.8	
Gross Margin	34.0%	37.4%	3.4%		34.2%	33.5%	
EBIT Margin	26.7%	23.0%	0.3%		25.3%	23.9%	
Net Margin	25.3%	21.9%			24.0%	22.9%	

Source: Company Accounts, Foundation Research, October 2021

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. 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 mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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