

Foundation Alert

SYS: Analyst Briefing Takeaways

Event

- Systems Limited (SYS PA) held its analyst briefing today to discuss its financial performance for CY21 along with future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Systems Limited (SYS PA) profitability clocked in at Rs4,462mn (EPS Rs32.32 up 102% YoY) as compared to profit of Rs2,210mn in CY20 (EPS Rs16.00).
- Management attributes increase in 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 and revenue from Middle East region (4) higher other income due to exchange gain booked on translation of foreign currency denominated assets and (5) one-time fair value gain from investment in E-Processing Systems resulting from dilution of control in E-Processing Systems B.V. given new investment in the company.
- Company management shared that SYS sales increased by 55% YoY in CY21 due to significant growth in revenue from Middle East and North America/Europe region. Furthermore, rupee depreciation against Greenback also provided support in revenue growth as majority of Systems exports are denominated in US\$ or currencies pegged with US\$. To highlight, System has generated 42/32/19/7% of its revenue from North America/Middle East/Pakistan/Europe region in CY21.
- Management also shared breakup up of revenue and disclosed that Retail & CPG/Telecommunication/BFS/BPO services are driving majority of company business with sales contribution of 19/19/15/10% in CY21.
- To highlight, in CY21 company active clients increased to 267 as compared to 207 in CY20 while top 20 clients contributed 54% in company revenue.
- On head count, company management disclosed that Systems number of employees stand at 5,320 at the end of CY21 which increased due to addition of 1,800 new employees during the year.
- Management also discussed its resource expansion plans and disclosed that company is in the process of creating office space to accommodate 3,000 new employees in future.
- Moreover due to strong balance sheet position SYS is continuously evaluating different options to achieve organic/in-organic growth through its subsidiary Systems Ventures and has acquired 20% equity stake in Retailistan during CY21 for USD3mn.
- On geographic expansion front, management disclosed that after entering into KSA Systems is now targeting to establish its footprints in Egypt, Africa and Singapore markets.
- While discussing OneLoad performance management has disclosed that OneLoad gross merchandise value (GMV) increased to Rs17.9bn in CY21 as compared to Rs11.4bn in CY20 and active retailers count also increased to 48.5K at the end of CY21.

Outlook

- We have an “Underperform” stance on the scrip with Dec-22 TP of Rs262/sh 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.

Fig 1: SYS 4QCY21 Key Financial Highlights (Rs mn)

	4QCY21	4QCY20	YoY	QoQ	CY21	CY20	YoY
Revenue-net	4,780	2,808	70%	20%	15,304	9,877	55%
Cost of revenue	3,386	1,919	76%	29%	10,314	6,620	56%
Gross Profit	1,394	890	57%	3%	4,990	3,257	53%
S&A expenses	577	88	554%	13%	1,812	923	96%
Other op. exp	(36)	118	-131%	-164%	8	220	-96%
Operating Profit	853	683	25%	9%	3,169	2,114	50%
Other income	1,034	(26)	N/A	274%	1,386	235	489%
EBIT	1,887	657	187%	78%	4,555	2,349	94%
Finance costs	45	27	65%	62%	121	67	82%
Profit before taxation	1,842	629	193%	78%	4,434	2,282	94%
Taxation	(15)	81	-119%	-161%	54	118	-54%
Profit after taxation	1,857	548	239%	84%	4,380	2,164	102%
NCI	(9)	(30)	N/A	N/A	(83)	(45)	82%
Profit attributable to parent	1,866	578	223%	80%	4,462	2,210	102%
EPS Diluted(@ 138.1mn sh)	13.52	4.19			32.32	16.00	
Gross Margin	29.2%	31.7%			32.6%	33.0%	
EBIT Margin	39.5%	23.4%			29.8%	23.8%	
Net Margin	38.9%	19.5%			28.6%	21.9%	

Source: Company Accounts, Foundation Research, March 2022

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