

Earning Review

SYS: 1QCY22 EPS clocked in at Rs4.35, up/down 94/36% YoY/QoQ

Event

- Systems Limited (SYS PA) profitability clocked in at Rs1,200mn (EPS Rs4.35 up/down 94/36% YoY/QoQ) in 1QCY22 against profit of Rs618mn (EPS Rs2.24) in 1QCY21.
- The result is below our expectations due to decline in margins given domestic political uncertainty, in our view.

Impact

- We attribute increase in company's 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.
- Furthermore, company has also notified that its board of directors authorized the management to look for possible opportunities to expand and develop its digital technology business through direct and indirect acquisitions of entities providing IT services locally and internationally, including software development, software maintenance and system integration.
- SYS net sales increased by 75/12% YoY/QoQ in 1QCY22. Majority of sales growth is driven by (1) exponential growth in revenue from Europe and North America region, (2) recovery of sales in MEA region (3) higher domestic sales and (4) avg 10.7% YoY rupee depreciation against greenback, in our view
- SYS gross margins declined by 5.0ppt YoY/QoQ in 1QCY22 to 30.0%. Company gross margins declined on YoY basis due to normalization of business operations and aggressive recruitment drive by the company, in our view.
- Company reported other operating expense of Rs37mn in 1QCY22, this may be due to provision of doubtful debt and higher provision for WWF/WPPF given increase in profitability of the company, in our view.
- Among other major heads, company's admin expense increased by 79% YoY in 1QCY22.
- Moreover, company reported other income increased significantly in 1QCY22 due to exchange gain booked on translation of foreign currency denominated assets as rupee depreciated by 3.6% between reporting dates.
- Furthermore, company also booked Rs74.5mn share of loss from its investment in associate.
- To highlight, for the first time company reported positive non-controlling interest share in 1QCY22.

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 1QCY22 Key Financial Highlights (Rs mn)

| | 1QCY22 | 1QCY21 | YoY | QoQ |
|--------------------------------|--------------|--------------|------------|-------------|
| Revenue-net | 5,333 | 3,048 | 75% | 12% |
| Cost of revenue | 3,734 | 1,982 | 88% | 10% |
| Gross Profit | 1,599 | 1,066 | 50% | 15% |
| S&A expenses | 562 | 319 | 76% | -3% |
| Other op. exp | 37 | (16) | -327% | -201% |
| Operating Profit | 1,000 | 763 | 31% | 17% |
| Other income | 260 | (116) | -324% | -75% |
| EBIT | 1,260 | 647 | 95% | -33% |
| Finance costs | 33 | 21 | 56% | -27% |
| Profit before taxation | 1,227 | 626 | 96% | -33% |
| Taxation | 27 | 24 | 9% | -273% |
| Profit after taxation | 1,201 | 602 | 99% | -35% |
| NCI | 0 | (16) | -100% | -100% |
| Profit attributable to parent | 1,200 | 618 | 94% | -36% |
| EPS Diluted(@ 276mn sh) | 4.35 | 2.24 | | |
| Gross Margin | 30.0% | 35.0% | | |
| EBIT Margin | 23.6% | 21.2% | | |
| Net Margin | 22.5% | 19.7% | | |

Source: Company Accounts, Foundation Research, April 2022

Analyst

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
Ext 339

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Recommendations definitions

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