

## Earning Review

### SYS: 3QCY22 EPS clocked in at Rs7.72, up 107% YoY

#### Event

- Systems Limited (SYS PA) profitability clocked in at Rs2.2bn (EPS Rs7.72, up 107/22% YoY/QoQ) in 3QCY22 against profit of Rs1.0bn (EPS Rs3.73) in 3QCY21. This takes 9MCY22 profitability to Rs5.1bn (EPS Rs18.38, up 97% YoY) as compared to profit of Rs2.6bn (EPS Rs9.33) in 9MCY21.
- The result is in line with our expectations.

#### Impact

- We attribute increase in company's 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 and strong cash position, (3) increased revenue from Middle East region due to entrance in new territories, (4) higher domestic sales due to automation drive by public/private sectors, (5) increased contribution of maintenance contracts and (6) acquisition of new businesses.
- SYS net sales increased by 118/42% YoY/QoQ in 3QCY22. We attribute increase in sales to higher business from Middle East/North America region and acquisition of new business. To highlight, NDCTech and Treehouse (new acquisition) has contributed Rs895mn in SYS revenue in 3QCY22. Average rupee depreciation of 25.7/11.9% YoY/QoQ in 3QCY22 has provided further support to growth in revenue.
- Company Middle East region is now contributing largest share in SYS revenue which used to be North America historically.
- SYS gross margins decreased by 2.8/2.4ppt YoY/QoQ to 31.2% in 3QCY22.
- Among other major heads SYS admin expenses increased by 134/42% YoY/QoQ in 3QCY22, while selling and distribution cost increased by 5/36% YoY/QoQ in 3QCY22. Increase in these costs is attributed to exponential growth in operations.
- Furthermore, company other income increased by 173/16% YoY/QoQ in 3QCY22. Majority of increase in other income is due to exchange gain booked on translation of foreign currency denominated assets as rupee depreciated by 10.7% between reporting dates of 2QCY22 and 3QCY22, in our view. To highlight, SYS cash and short term investment of above Rs8bn has provided further support to increase in other income.
- Company other expenses increase by 35% YoY in 3QCY22 due to increased provision for WPPF/WWF and higher provision for doubtful debt, in our view.
- Furthermore, company also booked Rs82mn share of loss from its investment in associate.
- To highlight, SYS effective tax rate clocked in at 4.8% in 3QCY22.

#### 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 it 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 3QCY22 Key Financial Highlights (Rs mn)

Rs mn	3QCY22	3QCY21	YoY	QoQ	9MCY22	9MCY21	YoY
Revenue-net	8,682	3,976	118%	42%	20,145	10,524	91%
Cost of revenue	5,977	2,625	128%	47%	13,786	6,928	99%
<b>Gross Profit</b>	<b>2,705</b>	<b>1,351</b>	<b>100%</b>	<b>32%</b>	<b>6,359</b>	<b>3,596</b>	<b>77%</b>
S&A expenses	967	511	89%	40%	2,217	1,235	80%
Other op. exp	76	57	35%	-572%	97	44	117%
Operating Profit	1,662	784	112%	20%	4,045	2,316	75%
Share of loss	82	-	Na	10%	231	-	na
Other income	754	277	173%	16%	1,735	352	394%
<b>EBIT</b>	<b>2,333</b>	<b>1,060</b>	<b>120%</b>	<b>15%</b>	<b>5,549</b>	<b>2,668</b>	<b>108%</b>
Finance costs	69	28	149%	34%	153	76	101%
<b>Profit before taxation</b>	<b>2,264</b>	<b>1,033</b>	<b>119%</b>	<b>14%</b>	<b>5,395</b>	<b>2,591</b>	<b>108%</b>
Taxation	114	25	352%	-19%	280	69	304%
<b>Profit after taxation</b>	<b>2,150</b>	<b>1,007</b>	<b>113%</b>	<b>17%</b>	<b>5,116</b>	<b>2,522</b>	<b>103%</b>
NCI	(0)	(32)	-100%	na	(0)	(74)	-100%
Profit attributable to parent	2,150	1,039	107%	22%	5,116	2,596	97%
<b>EPS Diluted(@ 278.4mn sh)</b>	<b>7.72</b>	<b>3.73</b>			<b>18.38</b>	<b>9.33</b>	
Gross Margin	31.2%	34.0%			31.6%	34.2%	
EBIT Margin	26.9%	26.7%			27.5%	25.3%	
Net Margin	24.8%	25.3%			25.4%	24.0%	

Source: Company Accounts, Foundation Research, October 2022

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