

Foundation Alert

SYS: Analyst Briefing Takeaways

Event

- Systems Limited (SYS PA) held its analyst briefing session today that was organized by **Foundation Securities** to discuss its financial performance for 9MCY22 along with future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Systems Limited (SYS PA) profitability clocked in at Rs5.1bn (EPS Rs18.38, up 97% YoY) as compared to profit of Rs2.6bn (EPS Rs9.33) in 9MCY21.
- Management attributes increase in profitability to (1) exponential growth in Middle East region which has now become larger than North America region, (2) increased business from Europe and North America region, (3) higher other income due to exchange gain on translation of foreign currency denominated assets and strong cash position, (4) higher domestic sales due to automation drive by public/private sectors and contribution from acquisition of new businesses and (5) increased contribution of maintenance contracts as company maintained its growth momentum.
- SYS management also discussed its headcount and disclosed that company has added 750 new employees in 9MCY22 (including employees of NDC and TH) that takes its total headcount to above 6000. Furthermore, SYS has currently 5,637 employees that are based in Pakistan and 387 are based in Middle East.
- Company management shared that SYS sales increased by 91% YoY in 9MCY22 due to significant growth in revenue from Middle East, North America/Europe region and increase in domestic revenue post acquisition of new businesses. To highlight, System has generated 76/14/10% of its revenue from Digital/Managed/BPO Services.
- Furthermore, SYS has consolidated financials of NDCTech and Treehouse from 3QCY22 that has contributed Rs895mn to SYS revenue in 3QCY22. Moreover, NDC is generating 66% of its revenue through domestic sales while remaining is generated through exports.
- Management also shared breakup up of revenue and disclosed that Telecommunication/BFS/Retail & CPG/Technology services are driving majority of company business with sales contribution of 18/24/16/55% in 9MCY22.
- SYS management also shared that 80/5/15% of its revenue is based in US\$/Euro/PKR while 76% of its cost is based in PKR and remaining in US\$.
- To highlight, in 9MCY22 company active clients with revenue above US\$100k increased to 161 as compared to 109 in 9MCY21 while top 20 clients contributed 47% in company revenue.
- On geographic expansion front, management disclosed that Systems has started operations in Egypt, South Africa, Singapore and Australia.
- Company management has also shared that SYS has incurred Rs1.2bn of CAPEX in 9MCY22 that would allow company to host ~1,000 employees in that premises in future.

Outlook

- We have an “Underperform” stance on the scrip as stock is currently trading at a significant premium to the market despite slowdown of business growth in North America and Europe region. Besides this, Systems is also relying on its associates (based on common directorship not ownership in these companies) for generating business from North America and Europe region that warrant a discount to valuation.

Fig 1: SYS 9MCY22 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%
Gross Profit	2,705	1,351	100%	32%	6,359	3,596	77%
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%
EBIT	2,333	1,060	120%	15%	5,549	2,668	108%
Finance costs	69	28	149%	34%	153	76	101%
Profit before taxation	2,264	1,033	119%	14%	5,395	2,591	108%
Taxation	114	25	352%	-19%	280	69	304%
Profit after taxation	2,150	1,007	113%	17%	5,116	2,522	103%
NCI	(0)	(32)	-100%	na	(0)	(74)	-100%
Profit attributable to parent	2,150	1,039	107%	22%	5,116	2,596	97%
EPS Diluted(@ 278.4mn sh)	7.72	3.73			18.38	9.33	
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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Recommendations definitions

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