

## Earning Review

### SYS: 4QCY22 EPS clocked in at Rs5.21, DPS Rs5.0

#### Event

- Systems Limited (SYS PA) profitability clocked in at Rs1.5bn (EPS Rs5.21, down 19/14% YoY/QoQ) in 4QCY22 against profit of Rs1.9bn (EPS Rs6.43) in 4QCY21. This takes CY22 profitability to Rs6.6bn (EPS Rs22.84, up 49% YoY) as compared to profit of Rs4.5bn (EPS Rs15.37) in CY21.
- The result is accompanied with cash payout of Rs5.0 per share/
- The result is below our expectations given lower gross profit margin of the company.

#### Impact

- We attribute decrease in profitability to higher selling and administration expense, and lower other income due absence of exchange gain on translation of foreign currency denominated assets.
- However, gross profit of the company increased on the back of (1) increased business from North America region, (2) increased revenue from Middle East region due to entrance in new territories, (3) higher domestic sales due to automation drive by public/private sectors, (4) increased contribution of maintenance contracts and (5) acquisition of new businesses.
- SYS net sales increased by 143/89% YoY/QoQ in 4QCY22. We attribute increase in sales to higher business from Middle East/North America region and acquisition of new business. Average rupee depreciation of 21.7% YoY in 4QCY22 has provided further support to growth in revenue.
- Company's Middle East region is now contributing largest share in SYS revenue which used to be North America historically.
- SYS gross margins decreased by 9.6/11.5ppt YoY/QoQ to 19.6% in 4QCY22.
- Among other major heads SYS selling and admin expenses increased by 74/46% YoY/QoQ in 4QCY22. Increase in these costs is attributed to exponential growth in operations.
- Furthermore, company other income decreased by 55/24% YoY/QoQ in 4QCY22 due to absence of exchange gain booked on translation of foreign currency denominated assets as rupee appreciated by 0.89% between reporting dates of 3QCY22 and 4QCY22, in our view.
- Furthermore, company also booked Rs93mn share of loss from its investment in associate.
- To highlight, SYS effective tax rate clocked in at 4.5% in 4QCY22.

#### Outlook

- We have an "Underperform" stance on the scrip with Dec'23 TP of Rs369 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 4QCY22 Key Financial Highlights (Rs mn)

Rs mn	4QCY22	4QCY21	YoY	QoQ	CY22	CY21	YoY
Revenue-net	11,615	4,780	143%	89%	31,760	15,304	108%
Cost of revenue	9,338	3,386	176%	129%	23,124	10,314	124%
<b>Gross Profit</b>	<b>2,277</b>	<b>1,394</b>	<b>63%</b>	<b>11%</b>	<b>8,636</b>	<b>4,990</b>	<b>73%</b>
S&A expenses	1,007	577	74%	46%	3,224	1,812	78%
Other op. exp	(48)	(36)	31%	196%	49	8	502%
Operating Profit	1,318	853	55%	-5%	5,363	3,169	69%
Share of loss	93	67	38%	24%	324	83	288%
Other income	495	1,102	-55%	-24%	2,230	1,469	52%
<b>EBIT</b>	<b>1,720</b>	<b>1,887</b>	<b>-9%</b>	<b>-12%</b>	<b>7,269</b>	<b>4,555</b>	<b>60%</b>
Finance costs	135	45	198%	161%	288	121	137%
<b>Profit before taxation</b>	<b>1,586</b>	<b>1,842</b>	<b>-14%</b>	<b>-17%</b>	<b>6,981</b>	<b>4,434</b>	<b>57%</b>
Taxation	72	(15)	na	-48%	352	54	552%
<b>Profit after taxation</b>	<b>1,514</b>	<b>1,857</b>	<b>-18%</b>	<b>-14%</b>	<b>6,630</b>	<b>4,380</b>	<b>51%</b>
NCI	1	(9)	na	na	1	(83)	na
Profit attributable to parent	1,513	1,866	-19%	-14%	6,629	4,462	49%
<b>EPS</b>	<b>5.21</b>	<b>6.43</b>			<b>22.84</b>	<b>15.37</b>	
Gross Margin	19.6%	29.2%			27.2%	32.6%	
EBIT Margin	14.8%	39.5%			22.9%	29.8%	
Net Margin	13.0%	38.9%			20.9%	28.6%	

Source: Company Accounts, Foundation Research, April 2023

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