

Earning Review

SYS: 1QCY23 EPS clocked in at Rs13.36, up 3.2x YoY

Event

- Systems Limited (SYS PA) profitability clocked in at Rs3.9bn (EPS Rs13.36, up 223/156% YoY/QoQ) in 1QCY23 against profit of Rs1.2bn (EPS Rs4.14) in 1QCY22.

Impact

- We attribute increase in profitability mainly because of higher other income on the back of exchange gains on translation of foreign currency denominated assets.
- Moreover, (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 provided further impetus to profitability.
- However, higher selling and distribution expense has restricted company's profitability growth.
- SYS net sales increased by 101% YoY in 1QCY23. We attribute increase in sales to higher business from Middle East/North America region and acquisition of new business. Average rupee depreciation of 46.6% YoY in 1QCY23 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 3.9ppt YoY to 26.1% in 1QCY23.
- Among other major heads SYS selling and admin expenses increased by 101/12% YoY/QoQ in 1QCY23. Increase in these costs is attributed to exponential growth in operations.
- Furthermore, company other income increased by 663/416% YoY/QoQ in 1QCY23 due to exchange gain booked on translation of foreign currency denominated assets as dollar appreciated by ~25% between reporting dates of 4QCY22 and 1QCY23, in our view.
- Furthermore, company also booked Rs110mn share of loss from its investment in associate.
- To highlight, SYS effective tax rate clocked in at 2.8% in 1QCY23.

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 1QCY23 Key Financial Highlights (Rs mn)

Rs mn	1QCY23	1QCY22	YoY	QoQ
Revenue-net	10,699	5,333	101%	-8%
Cost of revenue	7,908	3,734	112%	-15%
Gross Profit	2,790	1,599	75%	23%
S&A expenses	1,132	562	101%	12%
Other op. exp	(49)	37	-234%	3%
Operating Profit	1,708	1,000	71%	30%
Share of loss	110	75	48%	19%
Other income	2,552	334	663%	416%
EBIT	4,149	1,260	229%	141%
Finance costs	157	33	380%	17%
Profit before taxation	3,992	1,227	225%	152%
Taxation	113	27	325%	57%
Profit after taxation	3,879	1,201	223%	156%
NCI	0	0	700%	-86%
Profit attributable to parent	3,879	1,200	223%	156%
EPS Diluted(@ 278.4mn sh)	13.36	4.14		
Gross Margin	26.1%	30.0%		
EBIT Margin	38.8%	23.6%		
Net Margin	36.3%	22.5%		

Source: Company Accounts, Foundation Research, April 2023

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