

Foundation Alert

SYS: Analyst Briefing Takeaways

Event

- Systems Limited (SYS PA) held its analyst briefing session today to discuss its financial performance for CY22/1QCY23 along with future outlook of the company. Following are the key takeaways of the briefing.

Impact

- 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.
- Company booked profit of Rs3.9bn (EPS Rs13.36, up 223/156% YoY/QoQ) in 1QCY23 against profit of Rs1.2bn (EPS Rs4.14) in 1QCY22.
- Management attribute growth in profitability to exchange gain of Rs2.2bn in 1QCY23 due to devaluation of Pak Rupee.
- In CY22/1QCY23, all geographies posted robust growth, with the Middle East Region leading the trend. The export sales of the Company are roughly 81%/86% of services revenue in CY22/1QCY23 excluding passthrough cost of trading.
- Pakistan segment has about half of the contracts denominated in USD hedging the company from devaluation.
- SYS management also discussed its headcount and disclosed that company has added 827 new employees in CY22 that takes its total headcount to 6,147 at Dec'31.
- Management also shared breakup up of revenue and disclosed that BFS/Telecommunication/Technology/Retail & CPG services are driving majority of company business with sales contribution of 29/21/13/11% in 1QCY23 compared with contribution of 26%/17%/14%/15% in CY22.
- SYS management also shared that 81/3/16% of its revenue is based in US\$/Euro/PKR in 1QCY23 while 70% of its cost is based in PKR and remaining in US\$. Moreover, in CY22 79%/5%/16% of company's revenue was based in US\$/Euro/PKR and 74% of its cost was US\$ denominated.
- The Company is witnessing slower growth in Europe and the US in the 1HCY23, which is expected to improve in the 2H.
- Management shares that company continues to build on the strategic advantage of BFS and Telco verticals in the new geographies. The Company believes that the economic environment is expected to remain stable in MEA and other key geographies during 2023 and the Company can capitalize on the opportunities available in these markets.
- On acquisition front, management shares that the Company continues to evaluate businesses that are aligned with the strategy, structure and culture of the Company.

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	CY22	CY21	YoY
Revenue-net	10,699	5,333	101%	-8%	31,760	15,304	108%
Cost of revenue	7,908	3,734	112%	-15%	23,124	10,314	124%
Gross Profit	2,790	1,599	75%	23%	8,636	4,990	73%
S&A expenses	1,132	562	101%	12%	3,224	1,812	78%
Other op. exp	(49)	37	-234%	3%	49	8	502%
Operating Profit	1,708	1,000	71%	30%	5,363	3,169	69%
Share of loss	110	75	48%	19%	324	83	288%
Other income	2,552	334	663%	416%	2,230	1,469	52%
EBIT	4,149	1,260	229%	141%	7,269	4,555	60%
Finance costs	157	33	380%	17%	288	121	137%
Profit before taxation	3,992	1,227	225%	152%	6,981	4,434	57%
Taxation	113	27	325%	57%	352	54	552%
Profit after taxation	3,879	1,201	223%	156%	6,630	4,380	51%
NCI	0	0	700%	-86%	1	(83)	-101%
Profit attributable to parent	3,879	1,200	223%	156%	6,629	4,462	49%
EPS Diluted(@ 278.4mn sh)	13.36	4.14			22.84	15.37	
Gross Margin	26.1%	30.0%			27.2%	32.6%	
EBIT Margin	38.8%	23.6%			22.9%	29.8%	
Net Margin	36.3%	22.5%			20.9%	28.6%	

Source: Company Accounts, Foundation Research, May 2023

AnalystResearch
+92 21 3561 2290-94research@fs.com.pk
Ext 312

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

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