

Systems Limited

1QCY21: ANALYST BRIEFING TAKEAWAYS

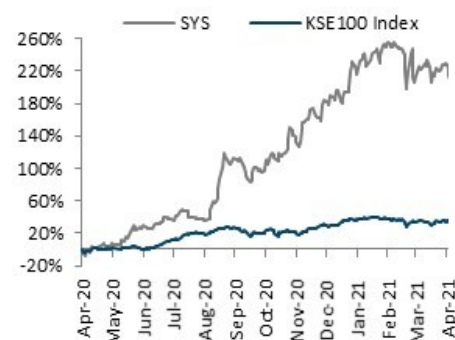
Making inroads for a digital future

Systems Limited (SYS) held its corporate briefing session today to discuss 1QCY21 financial result and future roadmap. To recall, the company posted consolidated earnings of PKR 0.6Mn (EPS: PKR 4.5) in 1QCY21, up 16/7% YoY/QoQ.

Key takeaways from the briefing are summarized below:

- As per the management, the post-pandemic world has accelerated the global digital transformation and consequently, the company has witnessed a growth in demand for its services.
- The company recorded a dollar-based growth of 38% YoY in top-line to reach PKR 3.0Bn in 1QCY21. Over 80% of the revenue was generated from exports with 45% contribution from the North American segment, followed by Middle East and European markets at 30% and 9%, respectively.
- On the other hand, verticals-wise, Retail and Telecoms continued to remain top revenue contributors with a share of 20% and 19%, respectively.
- SYS has also signed up a new partnership with SAP recently, which is expected to support top-line growth going forward. The company is currently focusing on building a core team for SAP business as there are a lot of opportunities for this service in the domestic, Middle Eastern and other markets globally.
- Due to growing acceptability of remote working, IT industry and IT exports from Pakistan have grown by over 44% in 9MFY21. The company continues to expect growth in its offshoring business as it expands their footprint in all three international regions. It is expecting IT exports to reach USD 3.0-5.0Bn in the coming years.
- To meet the growing demand of IT services globally, it is strategically investing in human resource talent. Compared to SPLY, IT professionals in the company have grown by over 43% to 1,812 members. In order to further expand human resource, the company is planning to set up offices in 2nd tier cities to attract talent from all across Pakistan.
- SYS has also started a new business unit, the Digital Infrastructure Services (DIS), to cater to the rising demand in Infrastructure, Cloud and Security Services segment. In the initial phase, the company is planning to target local market and existing customers and will subsequently explore new avenues going forward.
- The company is currently exploring various opportunities for inorganic growth through its subsidiary, Systems Ventures.
- The management is not expecting any significant changes for the IT sector in the upcoming budget. As per the Income Tax Amendment 2021, the government has already withdrew tax exemptions available to the IT sector and replaced them with 100% tax credit.
- Given the attractive ROE generation of over 30%, diversified revenue streams along with strong exports growth, and enormous valuation potential of OneLoad business, we reiterate our BUY rating on the scrip with Dec'21 TP of PKR 611/sh (potential upside of 37%).

SYS vs. KSE-100 Index



| % | 3M | 6M | 12M |
|-----------------|----|----|-----|
| Absolute | -8 | 41 | 195 |
| Relative to KSE | -4 | 30 | 165 |

Source: PSX

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| | |
|---|-------------------------------|
| Buy | >15% expected total return |
| Hold | 10%-15% expected total return |
| Underperform | <10% expected total return |
| *Total stock return = capital gain + dividend yield | |

Old rating system

| | |
|--------------|--|
| Overweight | Total sector return > expected market return |
| Marketweight | Expected market return |
| Underweight | Total stock return < expected market return |

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)