

## Systems Limited: 1HCY24 Corporate Briefing Takeaways

- SYS posted a consolidated revenue of PKR 31.0bn (up 34% YoY), translating into an EPS of 11.1 in 1HCY24 (up 39% YoY).
- Headcount from Pakistan has now decreased to 84.6% (1HCY24) from 86.3% (CY23).
- SYS is currently not focusing on new geographical expansions but will work on consolidating existing expansions.
- Pakistan segment is expected to show profitability from Q4CY24 onwards but the gross margins are expected to remain around 10% considering the pricing levels in Pakistan.
- According to the management, the historical levels of gross margins (>30%) are now a far-fetched goal, the company is now aiming for keeping gross margins around 25%.
- Effective tax rate has increased due to imposition of corporate tax in UAE which was tax-free earlier.
- Under the new strategy, SYS is focusing on core business strengthening and EBITDA rather than benefitting from exchange rate fluctuations.
- SYS is affected by seasonality in the form of 'man-days'; 15% more man-days (billable days) are expected in 2HCY24 due to lesser global budgeted holidays which will have an impact on the topline.
- The new State Bank regulation will allow SYS to retain 50% of their export revenues, enabling the Company to carry M&A transactions for which it has built a separate team.
- Global recession helps the company increase its number of clients as businesses look for more economical options aided by 60% costs incurred in PKR. Therefore, SYS stands to benefit from both the outcomes, i.e. recession and expansion, after rate-cut cycles.
- We have a Buy recommendation on SYS with our Dec-24 price target (PT) of PKR 501/share, providing an upside of 21% along with a dividend yield of 1.2%.

### Key Data

PSX Ticker	SYS
Target Price (PKR)	501
Current Price (PKR)	414
Upside/(Downside) (%)	+21%
Dividend Yield (%)	1.2%
Total Return (%)	22.2%
12-month High (PKR)	482
12-month Low (PKR)	361
Outstanding Shares (mn)	291
Market Cap (PKR mn)	120,558

Source: Company Accounts, Akseer Research

Key Financial Ratios	CY21A	CY22A	CY23A	CY24F	CY25F	CY26F
EPS	16.21	23.6	29.9	28.5	39.5	54.3
EPS YoY	-8.9%	45.7%	26.4%	-4.6%	38.7%	37.5%
DPS	3.5	5.0	5.0	5.7	7.9	10.9
PER	36.1	22.8	15.8	17.6	12.7	9.2
Div. Yield	0.4%	0.5%	1.1%	1.2%	1.6%	2.2%
P/B	30.0	28.6	19.8	21.3	23.9	26.0
ROE	43.7%	37.9%	31.4%	23.3%	26.4%	29.0%

Source: Company Accounts, Akseer Research

## Valuation Basis

Our PT for Systems Limited (SYS) has been computed using a blended approach, assigning equal weightages to FCFF and P/E multiple-based valuation. We have used a risk-free rate of 14%, a beta of 1.1, a market-risk premium of 6%, and the cost of debt of 10% to arrive at a weighted average cost of capital of 20.0%. Our computed Earnings Multiple stands at 15.9.

## Investment Thesis

We have a Buy recommendation on the stock based on our Dec-24 PT of PKR 501/share. Our price target provides an upside of 18%, including a dividend yield of 1.2%. Our investment case on SYS is based on (1) growing demand of the company's services, particularly in the Middle East and APAC. (2) a gradual improvement in margins due to the company's cost optimization efforts and subsiding local inflation (3) expected initiation of the rate cut cycle by Fed, serving as a trigger for stimulating topline growth in North America.

## Risks

Key downside risks to our investments thesis are: (1) lower-than-expected topline growth (2) increasing local inflation putting margins under pressure and, (3) lower-than-expected PKR devaluation.

## Company Description

Systems Limited is a public limited company incorporated in Pakistan under the Companies Act, 2017. The company is primarily engaged in the business of software development, trading of software, and business process outsourcing services. SYS operates in 5 regions, including North America, the Middle East & Africa, Europe, APAC, and Pakistan.

## Financial Highlights - SYS

Income Statement (PKR mn)	CY22	CY23	CY24F	CY25F	CY26F	CY27F
<b>Net sales</b>	<b>31,760</b>	<b>53,435</b>	<b>66,758</b>	<b>80,528</b>	<b>97,269</b>	<b>117,841</b>
Cost of sales	-23,124	-39,779	-51,061	-60,356	-71,721	-85,872
<b>Gross profit</b>	<b>8,636</b>	<b>13,657</b>	<b>15,697</b>	<b>20,172</b>	<b>25,548</b>	<b>31,970</b>
Opex	-3,273	-5,924	-6,972	-8,616	-9,755	-11,814
<b>Operating profit</b>	<b>5,363</b>	<b>7,733</b>	<b>8,725</b>	<b>11,556</b>	<b>15,793</b>	<b>20,156</b>
Other income	2,230	3,194	756	1,267	1,463	1,452
Other charges	-324	-778	-54	-8	7	22
Finance cost	-288	-869	-580	-441	-300	-273
<b>Profit before tax</b>	<b>6,981</b>	<b>9,280</b>	<b>8,846</b>	<b>12,374</b>	<b>16,963</b>	<b>21,357</b>
Taxation	-352	-591	-782	-865	-1132	-1392
<b>Profit after tax</b>	<b>6,630</b>	<b>8,689</b>	<b>8,064</b>	<b>11,509</b>	<b>15,830</b>	<b>19,965</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)	CY22	CY23	CY24F	CY25F	CY26F	CY27F
Fixed Assets	11,486	14,904	14,837	14,682	14,795	14,721
Other LT assets	2,564	2,246	2,209	2,216	2,206	2,237
<b>Non-current assets</b>	<b>14,051</b>	<b>17,151</b>	<b>17,046</b>	<b>16,898</b>	<b>17,001</b>	<b>16,958</b>
Current assets	24,275	33,515	38,859	48,917	66,265	85,656
<b>Total assets</b>	<b>38,326</b>	<b>50,666</b>	<b>55,905</b>	<b>65,816</b>	<b>83,266</b>	<b>102,615</b>
Non-current liabilities	1,995	2,966	2,170	1,987	1,840	1,766
Current liabilities	13,403	15,369	14,865	15,751	20,684	24,134
<b>Total liabilities</b>	<b>15,397</b>	<b>18,335</b>	<b>17,034</b>	<b>17,738</b>	<b>22,525</b>	<b>25,900</b>
<b>Equity</b>	<b>22,928</b>	<b>32,332</b>	<b>38,870</b>	<b>48,077</b>	<b>60,742</b>	<b>76,714</b>
<b>Total equity &amp; liabilities</b>	<b>38,326</b>	<b>50,666</b>	<b>55,905</b>	<b>65,816</b>	<b>83,266</b>	<b>102,615</b>

Source: Company Accounts, akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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