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SYS: 1HCY24 EPS clocks in at PKR 11.12, down 39% YoY

Systems Limited

PSX: SYS | Bloomberg: SYS PA | Reuters: SYSE.PSX

- SYS announced its 1HCY24 financial results today, wherein the company reported an EPS of PKR 11.06, compared to an EPS of PKR 18.21 SPLY. This decline is driven by the absence of exchange gain, lower gross margins (22.5% vs 27.0% SPLY), and higher administrative expenses.
- Net revenue for the company grew by 34% YoY, reaching PKR 31.0bn in 1HCY24. This growth is mainly attributed to YoY increases of 103%, 97%, and 47% in the Europe, APAC, Middle East segments, respectively.
- Operating expenses increased by 8% YoY to PKR 3.1bn during 1HCY24 due to the rise in topline and inflation. Conversely, finance cost fell by 30% YoY to PKR 287.1mn owing to a decrease in short-term borrowings.
- Other income came in at PKR 114.5mn, down 96% YoY owing to an exchange loss of PKR 203.6mn against an exchange gain of PKR 2,838.3mn during 1HCY23.
- On a quarterly basis, SYS posted a 2QCY24 EPS of PKR 5.70, below our expectation of PKR 6.53, due to lower-than-expected gross margins (22% vs. 24% expected).
- We have a Buy recommendation on SYS with our Dec-24 price target (PT) of PKR 501/share, providing an upside of 18% along with a dividend yield of 1.2%.

Key Data

PSX Ticker	SYS
Target Price (PKR)	501
Current Price (PKR)	423
Upside/(Downside) (%)	+18%
Dividend Yield (%)	1.2%
Total Return (%)	19%
12-month High (PKR)	482
12-month Low (PKR)	361
Outstanding Shares (mn)	291
Market Cap (PKR mn)	123,074

Source: Company Accounts, Akseer Research

Financial Estimates (PKR 'Mn)	2QCY23	2QCY24	YoY	1HCY23	1HCY24	YoY
Sales	12,490	15,829	27%	23,189	31,023	34%
Cost of Sales	9,022	12,350	37%	16,931	24,040	42%
Gross Profit	3,468	3,479	0%	6,259	6,983	12%
Admin expenses	1,059	1,057	0%	1,844	2,165	17%
Distribution expenses	489	441	-10%	835	874	5%
Impairment losses/(reversal)	270	106	-61%	221	85	-62%
EBIT	1,651	1,874	14%	3,359	3,859	15%
Other income	286	171	-40%	2,838	115	-96%
Finance cost	251	139	-45%	408	287	-30%
Share from associate	-113	-18	84%	-223	-38	83%
Profit before tax and Levy	1,573	1,889	20%	5,566	3,648	-34%
EPS	4.9	5.7	18%	18.2	11.1	-39%

Source: Company Accounts, Akseer Research

Summary	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
Net sales	31,760	53,435	66,758	80,528	97,269	117,841
Cost of sales	-23,124	-39,779	-51,061	-60,356	-71,721	-85,872
Gross profit	8,636	13,657	15,697	20,172	25,548	31,970
Opex	-3,273	-5,924	-6,972	-8,616	-9,755	-11,814
Operating profit	5,363	7,733	8,725	11,556	15,793	20,156
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
Profit before tax	6,981	9,280	8,846	12,374	16,963	21,357
Taxation	-352	-591	-782	-865	-1132	-1392
Profit after tax	6,630	8,689	8,064	11,509	15,830	19,965

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
Non-current assets	14,051	17,151	17,046	16,898	17,001	16,958
Current assets	24,275	33,515	38,859	48,917	66,265	85,656
Total assets	38,326	50,666	55,905	65,816	83,266	102,615
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
Total liabilities	15,397	18,335	17,034	17,738	22,525	25,900
Equity	22,928	32,332	38,870	48,077	60,742	76,714
Total equity & liabilities	38,326	50,666	55,905	65,816	83,266	102,615

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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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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