

Pakistan Technology & Communication

27 August 2021

Systems Ltd

Delivering handsome growth; upgrade estimates

- We have upgraded our estimates for SYS and rolled over valuations to Dec 2022 – with a new TP of PKR950/sh (vs. PKR685/sh earlier) maintaining our Buy rating. While our overall thesis is unchanged, SYS has delivered higher-than-expected revenues/profits in 1HCY21 to warrant the upgrade.
- Our new CY21/22f EPS are PKR23.4/33.1, where key driver is the robust demand for software implementation, cloud based and AI related services among global client base. Recent partnership with SAP will also sustain present trajectory of revenue and profitability, in our view.
- SYS is presently trading at a CY22f P/E of 20x, where we argue that its 5yr EPS CAGR of 35% command a P/E of around 30x – which is still at a 50% discount to average valuations fetched by comparable global companies.

Visionet offers ample room for organic growth

We revise our CY21/22f earnings estimates for Systems Ltd (SYS) on the back of better-than-expected 1HCY21 revenues/net-profits, which grew by 44%/42% yoy. We have upgraded our CY21-23f EPS by 8% on average and rolled over our valuation to December 2022. Our new TP of PKR950/sh (from PKR685/sh earlier) maintains our Buy rating. Growth is majorly backed by continuous induction of new employees (including off-shore), coupled with a global clientele undergoing rapid digital transformation, partly accelerated by the pandemic. We think SYS is aiming to grab greater revenues through an associated company in the US, Visionet System Inc., which in CY20 had total revenues c.US\$150mn, while SYS exports from US and Europe were only c.US\$32mn. As per the management, SYS is the only IT services company associated with Visionet (which also has an Indian subsidiary but solely for BPO services). SYS will continue to add employees, so that it can maximize services provided to the US and European clients routed through Visionet, besides expanding the pool of IT services to existing clients.

Two potential catalysts for value unlock are Retailistan...

SYS has maintained that it will continue to look for acquisition opportunities. It recently invested PKR468mn (c.US\$3mn) for a 20% stake in Retailistan, which is a startup focused on digitalization of the retail supply chain in Pakistan. Retailistan has a fully owned subsidiary named Jugnu, which provides B2B supply chain solutions to small and medium sized retailers. The acquisition will complement another subsidiary of SYS, E-Processing Systems Ltd. Jugnu has a direct competition with Bazar and Retailo, both are start-ups and have recently raised US\$30mn and US\$6.3mn as seed and series financing from leading global venture capital firms; so far both companies have received US\$38mn and US\$9mn, respectively. However, we understand that SYS does not intend to monetize the stake in Retailistan and sees long-term synergies with One Load.

...and One Load (EPS) while interest in Pakistani startups is raging

SYS also has a c.45% stake in E-Processing Systems Ltd (EPS) that owns One Load, which has obtained an e-money license (EMI) from the SBP in 2020. The possible inclusion of Fintech in EPS, apart from the existing service of mobile credit top-up, can unlock additional value for SYS. Notably, major global VCs have invested a cumulative US\$228mn in Pakistan startups in 2021 so far, compared with US\$77mn in CY20 (the startups include Fintech, e-commerce and distribution companies). If SYS raises more capital for EPS through such funding as obtained by the aforementioned startups in Pakistan, it will be another source of value unlock, in our view (not incorporated).

Continued on the next page...

Buy

SYS PA

Price: PKR671.33/sh

Target Price: PKR950/sh

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Systems Limited

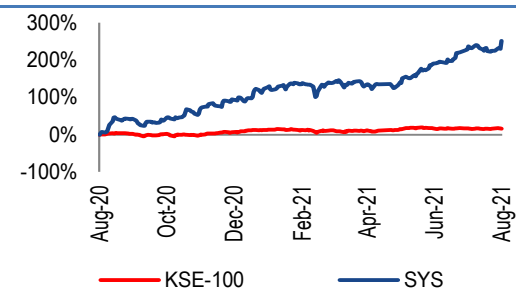
Bloomberg / Reuters	SYS PA/SYSE.KA
Mkt Cap (US\$m)	553
Upside (%)	42%
Fwd D/Y (%)	1.0%
Total Return (%)	43%
12m Hi-Low (PKR/sh)	671.33/191.27
6m Avg. D. Vol ('000 shrs)	133
6m Avg. Td Val (US\$m)	0.43

Valuation Snapshot

	CY19A	CY20A	CY21f	CY22f	CY23f
EPS (PKR)	11.36	15.68	23.36	33.14	43.67
EPS Gth (%)	47.7%	38.0%	49.0%	41.9%	31.8%
PER (x)	59.10	42.8	28.7	20.3	15.4
DPS (PKR)	2.05	3.18	4.50	6.50	8.50
DY (%)	0.3%	0.5%	0.7%	1.0%	1.3%
PBV (x)	16.8	11.6	8.7	6.4	4.8
ROE (%)	32.3%	32.1%	34.5%	36.5%	35.9%
Gross Margin	31.4%	33.0%	35.2%	35.9%	36.5%
Net Margin	20.8%	21.9%	25.1%	27.6%	28.8%

Source: IMS Research

SYS vs. KSE100 Index



Source: IMS Research

2022f P/E comparison

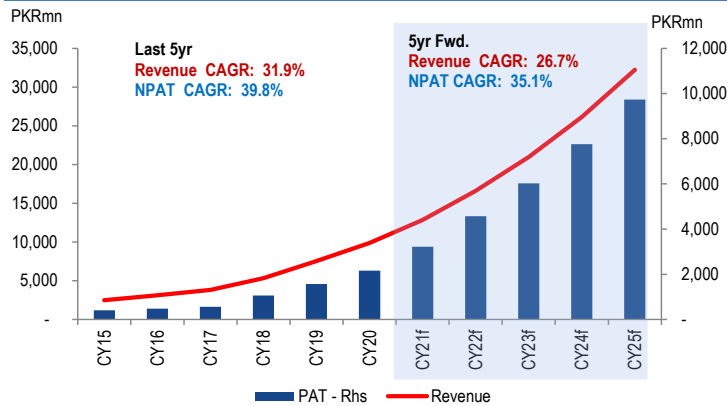
	Fwd. P/E (x)
Systems	20.00
Globant	68.80
EPAM	58.78

Source: Bloomberg, IMS Research

Premium valuations are the norm globally

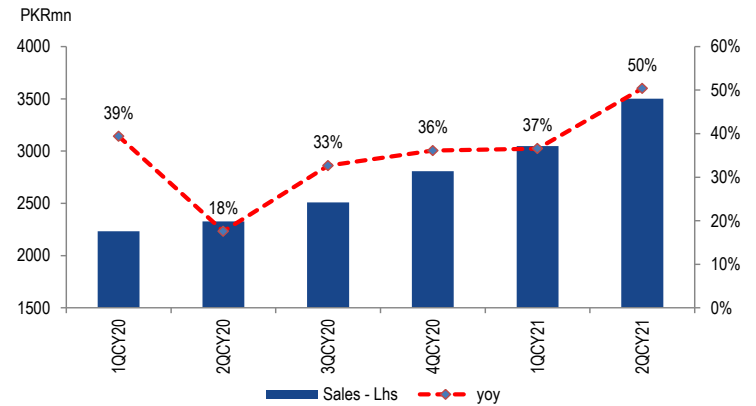
SYS presently trades at P/E multiple of 20x on CY22f earnings – at a significant discount of c.70% as compared with its comparable global IT services companies such as Epam and Globant (both based US but have employees in CIS region and South America, respectively) which have similar Revenue and earnings growth trajectory as does SYS (as per Bloomberg). Given the stupendous growth outlook, SYS should trade at forward P/E of 30x (still 50% discount than global comparable), in our view. Our blended Target Price of PKR950/sh offers a potential upside of 42% from last closing.

Despite the stupendous growth, Systems will not stop here



Source: Company Financials, IMS Research

Maintaining Revenue growth of over 30% yoy



Source: Company Financials, IMS Research

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Ratings Guide*	Criteria
Buy	Total return expectation of \geq 15% or expected to outperform the KSE-100 index
Neutral	Total return expectation of $>$ -5% or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: (i) PKR appreciation against US\$, (ii) slower than expected demand, (iii) high employee turnover, and (iv) late reaction towards new technology

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