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## Pakistan

Technology & Communication

Reuters SYSE.PSX  
 Bloomberg SYS PA

Priced on 30 December 2021  
 KSE100 @ 44,260.1

12M hi/lo PKR818.5/357.4

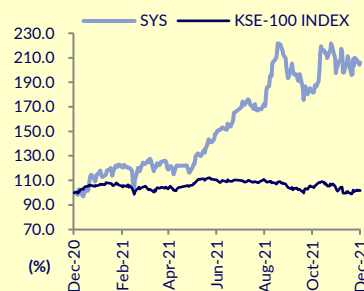
Dec-22 price target PKR1,068.4  
 ±% potential +39.2%

Shares in issue 138.1m  
 Free float 60.0%

Mkt. cap USD596.8m

3M ADV USD0.7m

### SYS vs KSE100 performance



Source: PSX, Bloomberg

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## Tech Adoption: A boon for company

### Systems Ventures to provide further upside triggers

Technology, being heralded as the new engine for growth in societies is poised to seep into every domain of life in the coming times. In this backdrop, taking a bet on Systems Limited (SYS) is dual faceted, a bet on company's ability to keep growing and a bet on the future of technology itself. This is a company that automates tasks, streamlines processes, and develops solutions ranging from commerce to security thus its potential for growth knows no bound. Its historic performance also conforms to this thesis. Since listing, it has grown its revenue by a CAGR of 34% and its profit by a CAGR of 36%. We posit that the company will keep this momentum intact and will grow its revenue by 41%/26% and its profit by 47%/31% in CY22/23 respectively. We have used FCFF based approach to value the company and arrived at price target of PKR1,068/sh. This provides a room for capital appreciation of 39.2%.

### A word about company

Systems is one of the most significant technology companies listed on PSX. Its services are offered through three major segments; (1) software implementation, (2) outsourcing services and (3) software trading. Key verticals of the company are Consulting, Implementation, Managed services and Business Process Outsourcing (BPO) & Contact Centre. The company possesses expertise in deploying and supporting Enterprise Resource Planning (ERP), Business Process Management (BPM), Turnkey, and Complex Software solutions. It has a vast geographic presence with operations in Pakistan, Middle East, USA and Europe.

### New business units and growth avenues

Company has started a new business unit, the Digital Infrastructure Services (DIS), to cater the heavy demand in Infrastructure, Cloud and Security Services. In the first phase, the Company is targeting the domestic market and existing customers and will subsequently explore new avenues going forward.

Systems Ventures – a subsidiary - invests in start-ups and can provide significant upside if any investee company starts showing promising results. Recently the company invested in Retailistan, a startup focused on digitally transforming the landscape of retail supply chain in Pakistan. Apart from Retailistan, company is actively looking to invest in other startups with significant growth potential.

SYS operates –through its subsidiary E Processing Systems- a platform for digital payments known as One Load which got approval from SBP as Electronic Money Institution (EMI) in CY20. IFC also invested in OneLoad post its approval as EMI.

### Financials Snapshot

	CY19	CY20	CY21E	CY22E	CY23E	CY24E
Net Sales (PKR Mn)	7,536	9,877	15,082	21,284	26,776	31,705
Profit After Tax (PKR Mn)	1,568	2,164	3,674	5,394	7,040	8,586
EPS (PKR)	11.4	16.0	27.4	39.5	51.0	61.9
DPS (PKR)	2.3	3.5	5.5	10.0	12.8	15.5
BVPS (PKR)	40.4	57.8	78.9	108.1	146.3	193.0
P/E (x)	8.5	15.6	27.3	18.9	14.6	12.1
P/BV (x)	2.5	4.3	9.5	6.9	5.1	3.9
Earnings Growth (%)	47.7	38.0	69.8	46.8	30.5	22.1
ROA (%)	21.3	18.9	23.4	26.2	26.1	25.4
ROE (%)	28.4	27.1	33.7	36.1	34.8	32.2

Source: Company Accounts, Alfalah CLSA Research

OneLoad provides a vast array of services such as utility bill payments, mobile top-ups and e-commerce services. OneLoad can prove to be the future avenue of growth for Systems Ltd as digital payment platforms and digital banking gets adopted in Pakistan as witnessed in few African nations recently. Company is working to set up 8 regional sales hub across country that will help in on-boarding new retailers on its network.

**Product Offerings**

Haute Logic

A platform that provides a complete suite encompassing tools related to fashion supply chain. It optimizes operations whether they are related to finance, management, production or sourcing and provide omni-channel fulfilment distribution including centralized channel management and merchandising. Furthermore, timely analytics including dynamic dashboard and comprehensive report add to the appeal of this platform. It is based on subscription based pricing model with no upfront licensing cost.

Partner Communication Solutions

Systems offer solutions for partner communication. It provides e integration with Microsoft Dynamics 365 for finance and operations and supports integration with other ERP system. This communication tool is for both EDI and non-EDI trading partners. Key benefits include high throughput, multi user support, scheduling and analytics. It supports a vast array of data formats thus leading to easy validation of data by different parties. It allows integration with other ERP systems as well. Partner Communication allows organizations to choose either SaaS or on-premises deployment.

Middleware Connector

An omnichannel enablement tool that use platform-native integration to enable information flow between ecommerce platform and Microsoft Dynamics 365. It ensures that product specifications and pricing across different channels and platforms are consistent. It thus makes centralizing inventory management possible for multichannel retailers.

Travel Insurance Policy System

This solution allows client to create and issue policies, manage agencies, provide insights using agency and user reports. It is a cloud based comprehensive suite that offer services ranging from customer data management, policy acquisition, policy servicing and claim processing. It offers customized workflows and integration with multiple payment gateways.

Retail Analytics

This solution processes data from different sources with very low latency to generate output using big-data, cloud and artificial intelligence capabilities. It provide insights related to inventory optimization, product performance, sales and operational intelligence and AI-driven customer insights.

**A peek through its financial performance**

Revenue has been growing at 37% per annum for the past 5 years. Revenue growth from new territories has lessened the company’s reliance on North American operations. European region which currently accounts for 11% of revenue and 14% of profit has been growing untethered. Moreover, the management continues to see more opportunity in the European market for skilled offshore resources.

Figure 1

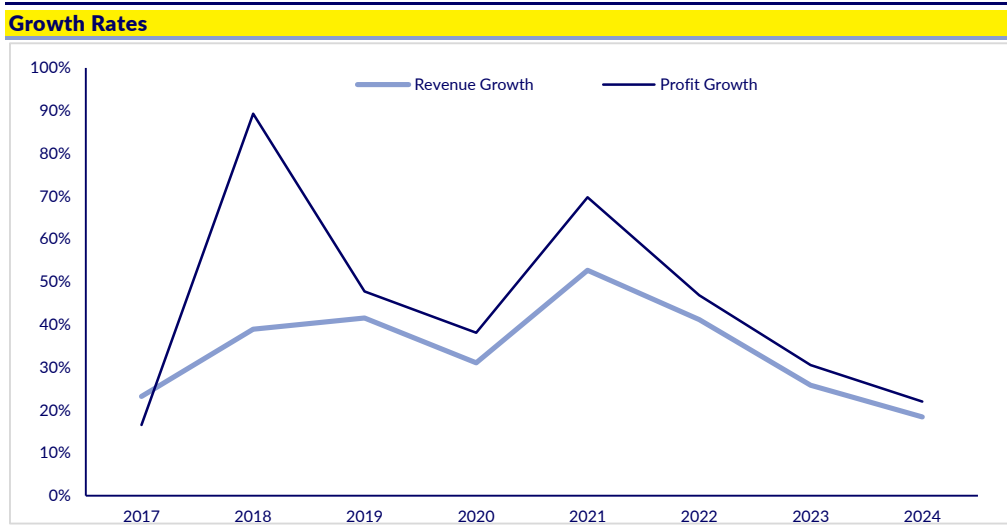
Revenue Decomposition		
	Export	Local
Outsourcing services	14%	2%
Software Trading	1%	4%
Software Implementation	65%	11%
Sale of air-time	0%	3%

Source: Company Accounts, Alfalah CLSA Research

With the acceptability of remote working, offshoring has become more acceptable, and the customers are now open to consider Pakistan as an outsourcing destination. This has increased overall demand in the IT industry and IT exports from Pakistan have grown by over 44% in last 9 months.

Emergence of Omicron variant of Covid and its rapid spread in multiple countries is likely to keep this momentum intact for some time to come. This pandemic has led to greater adoption of technology in general spheres of life. So, post-covid world is likely to be more tech reliant than its pre-covid counterpart. This bodes well for the future of Systems.

Figure 2

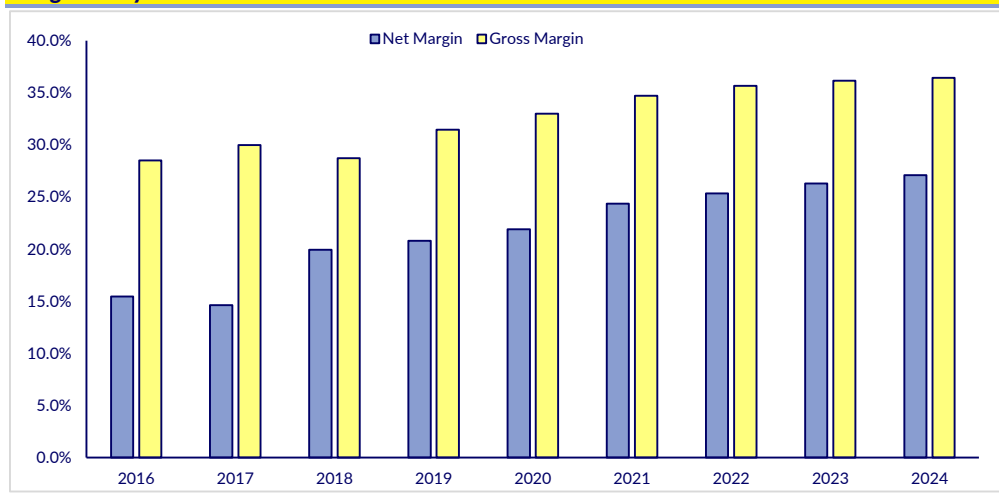


Source: Company Accounts, Alfalah CLSA Research

With new software implementation contracts yielding higher margins, we contend that gross and net margins will show upward trend in the time to come. For any additional contract, we have assumed 38% gross margin. Thus gross margin will increase to 36.4% by 2024 and net margin will also increase to 27.1% by then. Furthermore, remaining conservative, we believe revenue will grow by 41% for CY22 and gradually taper-off with decrement of 7% per annum.

Figure 3

**Margin Analysis**



Source: Company Accounts, Alfalah CLSA Research

**Eprocessing System Limited**

**Subsidiaries and Associates**

Systems Ltd currently holds 45% shareholding in this EP System. Eprocessing system is primarily engaged in purchase and sale of telecom airtime and allied services. It owns and operates OneLoad, a fintech that enables retailers to earn money by selling digital products – including mobile top-ups and payments of utility bills. SBP has already granted an in-principle approval of Electronic Money Institution (EMI) license to Eprocessing System Ltd, enabling it to offer complete e-wallet facilities.

International Finance Corporation and Bill & Melinda Gates foundation are some of the investees in Eprocessing System Limited given its socio-economic work for financial access and inclusion for the informal and unbanked retailers and consumers in Pakistan.

The fintech already has over 50,000 merchants on its network and it aims to accelerate financial inclusion in the country by employing strong technological solutions. Moreover, it is also geared towards aggregating financial services for the unbanked. It provides e-merchants primarily engaged in e-commerce business to get payments from customers with oneload account or from people having VISA or Mastercard products. The GMV of the company has reached around PKR 13,086 million in 3QCY21 from PKR 8,995 million in 3QCY20.

Trodding the path of Easypaisa and Jazz Cash, the company allows its customers to send money to anyone with a mobile number free of cost. It provide services such as utility bill payments, mobile topups, local and international gift vouchers.

**TechVista Systems FZ LLC**

A wholly owned subsidiary of Systems Ltd, this company is based out of Dubai and is primarily engaged in software development and providing related support solutions. Company also has its own subsidiary namely TechVista Pvt Limited based in Australia to look after its Australasian operations.

**SUS JV Ltd**

A 95% owned subsidiary of Systems Ltd, this company is primarily involved in implementation of Land Records Management Information Systems (LRMIS) in Balochistan in partnership with Ultrasoft System. This will ensure security, transparency, scalability and improve accessibility of land records by simplifying procedures.

**Systems Venture**

A 99.98% owned subsidiary of Systems Ltd, Systems venture is engaged in investing in companies with promising future outlook. Recently the company has invested PKR 468Mn to acquire 20% stake in Retailistan Private Limited.

Retailistan started with an aim to disrupt the standard supply chain market in Pakistan by automating processes of consumer goods companies and allied retail sales through its product Salesflo. It adopts SaaS model wherein it provides technology solutions to producers making them capable of effectively managing their supply process starting from inventory management to the final step of cash collection, all integrated in a single app.

Salesflo-Core provides efficient journey planning using tools of operations research that allow order bookers to visit more stores in the same time frame. Through batch code management it provides users control over inventory management and helps them ascertain stock visibility of the product. It also provides firms to offer different prices based on customer type and channel levels. It aids in sales forecasting by providing outlet level KPI data to sub-distributor and automates asset tracking through barcodes. Finally, by automating claims and promotions and providing tailor-made dashboards for operational efficiencies, Salesflo offers an holistic application for the needs of producers and distributors.

Retailistan launched another product by the name of Jugnu in 2019. This application is geared toward the needs of retailer as it allows them to digitally procure inventory for their stores. It offers 24 hours delivery compared to 48 to 72 hours period usually demanded by conventional distributors.

Jugnu faces competition from a plethora of similar applications like Tajir, Bazar and Dastgyr. However, it faces an inherent advantage over others in the form of already established network by core Salesflo team.

**A hedge against PKR depreciation**

Majority of company's revenue is USD denominated, so investing in this company provides an effective hedge against PKR depreciation. We have assumed PKR to depreciate by around 5.72% per annum keeping in line with historic inflation differential between Pakistan and US and subsequent exchange rate adjustments suggested by the theory of relative purchasing power parity. Inflation averaged 7.85% in Pakistan and 2.13% in USA since the dawn of 21st century. Thus, Systems provide a hedge against the vagaries of USD/PKR parity over time.

**Synergies across subsidiaries**

Company's investment in Retailistan is aimed to capitalize on rapidly transforming digital landscape of retail in Pakistan. Oneload, a product of EP System Ltd and Jugnu, a subsidiary of Retailistan, complement each other well leading to potential synergies among them. One load provides cash-in and cash-out facilities to retailers and Jugnu allows retailers to directly order from its mobile application, saving time and decreasing risk of stock-outs.

**Partnerships with global giants**

Technology is seldom rival in nature as high usage of a platform may lead to further adoption at higher pace due to network externalities. Keeping this in mind, Microsoft launched its partner program wherein both parties reap dividends of this symbiotic relationship. Microsoft benefits by higher uptake of its products and partners benefit by making use of those products in their offerings.

Systems also rely on a host of Microsoft applications to build tailor-made solutions for its client. It is a Microsoft certified gold partner that will help it solidify footings in new market. Company offers a wide array of services using Microsoft platforms and these certifications inspire initial confidence in company to bag contracts. Once these contacts are established then company will by its own quality of work will be able to retain and grow its client base.

Similarly, company has also recently entered into affiliation with SAP along the lines of existing affiliations with likes of Oracle, IBM and Microsoft and offers solutions to its clients in domains of application and content development and enterprise resource planning.

### Financial Statements

Systems is expected to show impressive financial performance in future with dollar revenue expected to increase 26% over the coming year. Earnings are expected to show 3-year CAGR of 28%. Like last year, we have assumed 20% payout ratio to continue in the future as well.

With these healthy earnings, balance sheet is expected to become stronger over the coming years. Massive increase in retained earnings will provide the company ample room to further invest in lucrative start-ups.

Figure 4

<b>Balance Sheet Snapshot (PKR mn)</b>				
	<b>CY20A</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>
PPE	1,723	2,010	2,344	2,734
<b>Total Non-Current Assets</b>	<b>1,968</b>	<b>2,254</b>	<b>2,589</b>	<b>2,978</b>
Cash & Short Term Investments	5,630	7,910	10,579	14,698
Trade Debts	2,372	3,622	5,112	6,431
Other Current Assets	1,506	1,884	2,333	2,731
<b>Total Current Assets</b>	<b>9,509</b>	<b>13,416</b>	<b>18,024</b>	<b>23,861</b>
<b>Total Assets</b>	<b>11,476</b>	<b>15,670</b>	<b>20,613</b>	<b>26,839</b>
Long Term Financing	287	431	647	970
Other Non-Current Liabilities	110	132	158	190
<b>Total Non-Current Liabilities</b>	<b>397</b>	<b>563</b>	<b>805</b>	<b>1160</b>
Trade and Other Payables	1,186	1,714	2,383	2,976
<b>Total Current Liabilities</b>	<b>3,103</b>	<b>4,213</b>	<b>4,882</b>	<b>5,475</b>
Equity	7,976	10,894	14,926	20,205
<b>Total Liabilities and Equity</b>	<b>11,476</b>	<b>15,670</b>	<b>20,613</b>	<b>26,839</b>

Source: Company Accounts, Alfalah CLSA Research

Figure 5

<b>Income Statement Snapshot (PKR mn)</b>				
	<b>CY20A</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>
Net Sales	9,877	15,082	21,284	26,776
Cost of Sales	6,620	9,847	13,692	17,097
Gross Profit	3,257	5,235	7,592	9,679
Operating Profit	2,504	3,459	5,164	6,707
EBIT	2,776	3,967	5,799	7,511
PBT	2,282	3,823	5,624	7,344
PAT	2,164	3,672	5,411	7,076
EPS	16.0	27.4	39.6	51.3

Source: Company Accounts, Alfalah CLSA Research

**Valuation Methodology**

We have used FCFE based methodology to value the company. Our key assumptions include risk free rate of 11%, equity risk premium of 6.5%, adjusted beta of 1.2 (computed using average CY21 raw beta of 1.2988) and terminal growth rate of 10%.

**Recommendation**

At our Dec-22 price target of PKR 1,068/sh, Systems offers potential capital appreciation of 39.2% from last close. With a further dividend yield of 1.3%, total upside comes to 40.5%. Thus, we assign a BUY call to SYS.

**Upside risks**

- PKR depreciation
- Higher than assumed growth rate
- Slowing down of digitization drive after pandemic ends
- Onload gaining further traction on lines of easypaisa
- Better US Pakistan relations translating into more contracts in North America

**Downside risks**

- Disruptive new technologies adopted by competition
- Investment in startups not bearing fruit as anticipated
- Higher interest rates

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