

SYS has announced its 3QCY20 result where it posted profit after tax of Rs1.6bn (EPS: Rs12.68) in 9MCY20 as compared to profit after tax of Rs1.1bn (EPS: Rs8.71) in same period last year, up by 45.6% YoY.

The company has posted the revenue of Rs5.4bn against Rs3.8bn in SPLY, recording a growth of 40.8% YoY. We note that this growth is attributed to the higher maintenance contracts and higher exports owing to competitive USD/PKR parity.

Gross margin has been expanded to 36.6% in 9MCY20 as compared to 33.9% in 9MCY19 on account of and higher retention income during the period.

SG&A expenses have grown by 40.4% YoY to Rs540mn as compared to Rs384mn during SPLY.

Finance cost has been increased by 28.5% YoY to Rs32mn as compared to Rs25mn in SPLY on account of higher working capital requirement.

Lastly, the effective taxation has been decreased to 2.1% as compared to 3.1% during SPLY.

Going forward, the prospects of the company are bright. However, the fundamentals of the company do not justify the current share price in our view. SYS is currently trading at CY20E PE of 18.26x. We have a **SELL** stance on the script with a DCF based Jun-21 TP of Rs260 which provides a downside potential of 16%.

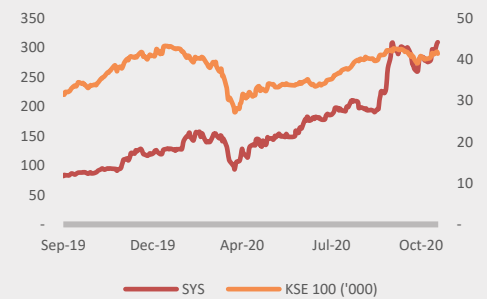
| Rupees' millions | 3QCY20 | 3QCY19 | YoY | 9MCY20 | 9MCY19 | YoY |
|-------------------------|--------|--------|--------------|--------|--------|---------|
| Net Sales | 1,971 | 1,328 | 48.4% ▲ | 5,360 | 3,807 | 40.8% ▲ |
| Cost of Sales | 1,170 | 862 | 35.8% ▲ | 3,401 | 2,516 | 35.2% ▲ |
| Gross Profit | 801 | 466 | 71.9% ▲ | 1,959 | 1,291 | 51.8% ▲ |
| SG&A Expenses | 217 | 124 | 75.8% ▲ | 540 | 384 | 40.4% ▲ |
| Other Expenses | 53 | 17 | 212.9% ▲ | 70 | 80 | 12.9% ▼ |
| Other Income | 28 | 0 | 6133265.1% ▲ | 280 | 308 | 9.0% ▼ |
| Operating Profit | 559 | 326 | 71.7% ▲ | 1,630 | 1,134 | 43.7% ▲ |
| Finance Cost | 11 | 9 | 26.5% ▲ | 32 | 25 | 28.5% ▲ |
| Profit Before Taxation | 548 | 317 | 73.0% ▲ | 1,598 | 1,109 | 44.1% ▲ |
| Taxation | 12 | 21 | 43.4% ▼ | 33 | 34 | 3.5% ▼ |
| Profit After Taxation | 536 | 296 | 81.1% ▲ | 1,565 | 1,075 | 45.6% ▲ |
| Earnings Per Share | 4.34 | 2.40 | 81.1% ▲ | 12.68 | 8.71 | 45.6% ▲ |
| Dividend | 0.00 | 0.00 | | 0.00 | 0.00 | |
| Bonus | 0% | 0% | | 0% | 0% | |
| Gross Margin | 40.6% | 35.1% | 5.5% ▲ | 36.6% | 33.9% | 2.7% ▲ |
| SG&A Expenses to Sales | 11.0% | 9.3% | 1.7% ▲ | 10.1% | 10.1% | 0.0% ▼ |
| Other Expenses to Sales | 2.7% | 1.3% | 1.4% ▲ | 1.3% | 2.1% | 0.8% ▼ |
| Other Income to Sales | 1.4% | 0.0% | 1.4% ▲ | 5.2% | 8.1% | 2.9% ▼ |
| Effective Taxation | 2.1% | 6.5% | 4.4% ▼ | 2.1% | 3.1% | 1.0% ▼ |
| Net Margin | 27.2% | 22.3% | 4.9% ▲ | 29.2% | 28.2% | 1.0% ▲ |

Source: ACPL Research, Company Financials

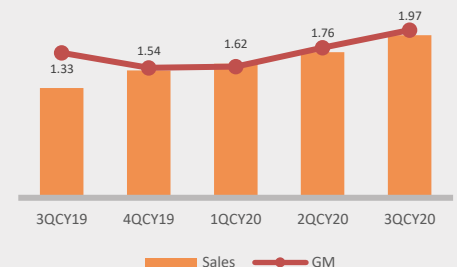
Key Statistics

| Symbol | SYS |
|---------------------|--------|
| TP - Jun 21 | 260.00 |
| LDPCP | 309.06 |
| Upside | -16% |
| Free Float (mn) | 74 |
| Market Cap. (Rs.mn) | 38,149 |

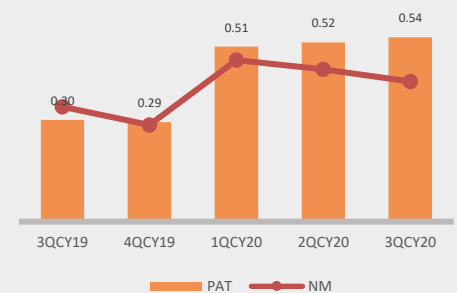
SYS vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117

Email: fawad@abbasiandcompany.com

Financial Projections

| Rupees' millions | CY15 | CY16 | CY17A | CY18A | CY19A | CY20E | CY21E | CY22E | CY23E |
|-----------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net sales | 2,263 | 2,680 | 2,911 | 3,761 | 5,349 | 6,966 | 8,628 | 10,600 | 11,130 |
| Cost of sale | 1,507 | 1,883 | 2,049 | 2,583 | 3,572 | 4,503 | 5,639 | 6,983 | 7,332 |
| Gross profit | 757 | 797 | 862 | 1,179 | 1,776 | 2,462 | 2,990 | 3,617 | 3,798 |
| Distribution expenses | 70 | 37 | 114 | 47 | 100 | 124 | 160 | 207 | 218 |
| Administrative expenses | 262 | 251 | 287 | 377 | 448 | 574 | 688 | 815 | 856 |
| Research and development expenses | 29 | 2 | - | - | - | - | - | - | - |
| Other expenses | 20 | 31 | 88 | 118 | 139 | 104 | 129 | 159 | 167 |
| Other income | 92 | 33 | 118 | 438 | 343 | 518 | 564 | 698 | 733 |
| Operating Profit | 468 | 509 | 492 | 1,074 | 1,432 | 2,177 | 2,576 | 3,134 | 3,291 |
| Finance cost | 2 | 3 | 11 | 19 | 39 | 44 | 36 | 30 | 25 |
| Profit before taxation | 466 | 506 | 481 | 1,055 | 1,393 | 2,133 | 2,539 | 3,104 | 3,266 |
| Taxation | 13 | - | 9 | 46 | 29 | 44 | 52 | 63 | 66 |
| Profit after taxation | 453 | 515 | 473 | 1,009 | 1,364 | 2,089 | 2,488 | 3,042 | 3,200 |
| EPS | 3.67 | 4.17 | 3.84 | 8.18 | 11.05 | 16.93 | 20.15 | 24.64 | 25.92 |

Source: ACPL Research, Company Financials

Horizontal Analysis

| | CY15 | CY16 | CY17A | CY18A | CY19A | CY20E | CY21E | CY22E | CY23E |
|-----------------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|-------------|
| Net sales | 17.7% | 18.4% | 8.6% | 29.2% | 42.2% | 30.2% | 23.9% | 22.9% | 5.0% |
| Cost of sale | 21.2% | 25.0% | 8.8% | 26.1% | 38.3% | 26.1% | 25.2% | 23.8% | 5.0% |
| Gross profit | 11.3% | 5.4% | 8.1% | 36.7% | 50.7% | 38.6% | 21.4% | 21.0% | 5.0% |
| Distribution expenses | 16.9% | -46.4% | 205.0% | -59.0% | 114.0% | 24.8% | 28.8% | 29.4% | 5.0% |
| Administrative expenses | 32.1% | -4.1% | 14.1% | 31.5% | 18.8% | 28.0% | 19.8% | 18.4% | 5.0% |
| Research and development expenses | 1102.0% | -93.9% | -100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Other expenses | -13.1% | 55.3% | 183.2% | 34.9% | 17.5% | -24.8% | 23.9% | 22.9% | 5.0% |
| Other income | 138.9% | -64.0% | 257.3% | 269.7% | -21.7% | 51.1% | 8.9% | 23.8% | 5.0% |
| Operating Profit | 7.5% | 8.9% | -3.3% | 118.2% | 33.3% | 52.0% | 18.3% | 21.7% | 5.0% |
| Finance cost | -46.8% | 51.5% | 233.3% | 75.9% | 107.9% | 12.4% | -17.4% | -16.8% | -16.2% |
| Profit before taxation | 8.0% | 8.7% | -4.8% | 119.2% | 32.0% | 53.2% | 19.1% | 22.2% | 5.2% |
| Taxation | 213.5% | -170.5% | -188.0% | 466.3% | -37.4% | 52.6% | 18.3% | 21.7% | 5.0% |
| Profit after taxation | 6.0% | 13.8% | -8.1% | 113.3% | 35.1% | 53.2% | 19.1% | 22.3% | 5.2% |
| EPS | 6.0% | 13.8% | -8.1% | 113.3% | 35.1% | 53.2% | 19.1% | 22.3% | 5.2% |

Source: ACPL Research, Company Financials

Key Ratios

| Profitability Ratios | | CY15A | CY16A | CY17A | CY18A | CY19A | CY20E | CY21E | CY22E | CY23E |
|-----------------------|-----|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GP Margin | % | 33.44 | 29.75 | 29.62 | 31.33 | 33.21 | 35.35 | 34.65 | 34.13 | 34.13 |
| NP Margin | % | 19.99 | 19.22 | 16.26 | 26.84 | 25.50 | 30.00 | 28.83 | 28.69 | 28.75 |
| OP Margin | % | 20.66 | 19.00 | 16.91 | 28.55 | 26.77 | 31.25 | 29.85 | 29.57 | 29.57 |
| ROE | % | 18.13 | 17.66 | 14.74 | 24.75 | 29.11 | 32.16 | 29.30 | 27.86 | 23.82 |
| ROCE | % | 18.08 | 17.60 | 14.69 | 24.64 | 26.66 | 30.06 | 27.75 | 26.66 | 22.94 |
| ROA | % | 15.85 | 16.23 | 12.36 | 20.19 | 21.12 | 23.89 | 23.23 | 23.07 | 20.46 |
| Liquidity Ratios | | CY15A | CY16A | CY17A | CY18A | CY19A | CY20E | CY21E | CY22E | CY23E |
| Current | x | 6.80 | 10.04 | 4.59 | 4.21 | 3.83 | 4.08 | 5.27 | 6.54 | 8.29 |
| Acid-test | x | 5.27 | 7.41 | 3.22 | 3.08 | 3.16 | 3.45 | 4.46 | 5.55 | 7.21 |
| Cash to current liab. | x | 0.41 | 0.74 | 0.73 | 0.44 | 1.48 | 1.89 | 2.53 | 3.28 | 4.71 |
| Activity Ratios | | CY15A | CY16A | CY17A | CY18A | CY19A | CY20E | CY21E | CY22E | CY23E |
| Receivables Days | | 191 | 192 | 149 | 210 | 144 | 139 | 136 | 135 | 126 |
| Payables Days | | 10 | 3 | 29 | 10 | 10 | 10 | 10 | 10 | 10 |
| Operating Cycle | | 181 | 188 | 120 | 200 | 134 | 129 | 126 | 125 | 116 |
| Investment Ratios | | CY15A | CY16A | CY17A | CY18A | CY19A | CY20E | CY21E | CY22E | CY23E |
| EPS | | 3.67 | 4.17 | 3.84 | 8.18 | 11.05 | 16.93 | 20.15 | 24.64 | 25.92 |
| DPS | | 1.25 | 1.86 | 1.75 | 2.00 | 2.25 | 4.00 | 5.00 | 5.50 | 6.00 |
| Div. Yield | % | 0.40 | 0.60 | 0.57 | 0.65 | 0.73 | 1.29 | 1.62 | 1.78 | 1.94 |
| Dividend Cover | | 2.93 | 2.24 | 2.19 | 4.09 | 4.91 | 4.23 | 4.03 | 4.48 | 4.32 |
| BVPS | | 20.22 | 23.63 | 26.02 | 33.04 | 37.96 | 52.64 | 68.79 | 88.43 | 108.86 |
| Payout | % | 34.10 | 44.57 | 45.63 | 24.46 | 20.36 | 23.63 | 24.81 | 22.32 | 23.14 |
| Retention | % | 65.90 | 55.43 | 54.37 | 75.54 | 79.64 | 76.37 | 75.19 | 77.68 | 76.86 |
| No. of Shares | 'mn | 123.43 | 123.43 | 123.43 | 123.43 | 123.43 | 123.43 | 123.43 | 123.43 | 123.43 |
| P/E | | 84.30 | 74.06 | 80.59 | 37.79 | 27.97 | 18.26 | 15.33 | 12.54 | 11.92 |
| Sales per share | | 18.34 | 21.71 | 23.58 | 30.47 | 43.33 | 56.43 | 69.90 | 85.87 | 90.17 |
| P/BV | | 15.29 | 13.08 | 11.88 | 9.35 | 8.14 | 5.87 | 4.49 | 3.49 | 2.84 |
| Price to Sales | | 16.86 | 14.23 | 13.11 | 10.14 | 7.13 | 5.48 | 4.42 | 3.60 | 3.43 |
| Gearing Ratios | | CY15A | CY16A | CY17A | CY18A | CY19A | CY20E | CY21E | CY22E | CY23E |
| Debt to Equity | % | 0.51 | 0.58 | 6.85 | 11.81 | 17.33 | 17.30 | 10.66 | 6.69 | 4.40 |
| Interest Cover | | 220.47 | 158.46 | 45.96 | 57.02 | 36.56 | 49.44 | 70.78 | 103.53 | 129.66 |

Source: ACPL Research, Company Financials

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DEFINITION OF TERMS

| | | | | | |
|-------------|---------------------------|-------------|-----------------------------|-------------|------------------------|
| TP | Target Price | CAGR | Compound Annual Growth Rate | FCF | Free Cash Flows |
| FCFE | Free Cash Flows to Equity | FCFF | Free Cash Flows to Firm | DCF | Discounted Cash Flows |
| PE | Price to Earnings Ratio | PB | Price to Book Ratio | BVPS | Book Value Per Share |
| EPS | Earnings Per Share | DPS | Dividend Per Share | ROE | Return of Equity |
| ROA | Return on Assets | SOTP | Sum of the Parts | LDCP | Last Day Closing Price |

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- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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|--------------|----------------------------|
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| HOLD | Between -5% to 15% |
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| Sector Rating | Sector Outlook |
|---------------|----------------|
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| Market Weight | Neutral |
| Underweight | Negative |

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RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com