

SYS has announced its 1QCY20 result where it posted profit after tax of Rs508mn (EPS: Rs4.12) as compared to profit after tax of Rs287mn (EPS: Rs2.32) in same period last year, up by 77.4% YoY.

The company has posted the revenue of Rs1.6bn against Rs1.1bn in SPLY, recording a growth of 45.4% 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 squeezed to 31.8% in 1QCY20 as compared to 34.3% in 1QCY19 on account of and lower retention income during the period.

SG&A expenses have grown by 50.6% YoY to Rs185mn as compared to Rs123mn during SPLY.

Finance cost has been increased by 150.1% YoY to Rs9mn in 1QCY20 as compared to Rs4mn in SPLY on account of higher working capital requirement.

The effective taxation has been decreased to 1.7% as compared to 1.8% during SPLY.

SYS is currently trading at CY20E PE of 9.9x. Furthermore, it is also trading at a CY20E PB of 2.77x which offers a discount of 46% relative to its historical 5-year average of 5.14x. We maintain our **BUY** stance on the script with a DCF based Jun-21 TP of Rs186 which provides an upside potential of 35%.

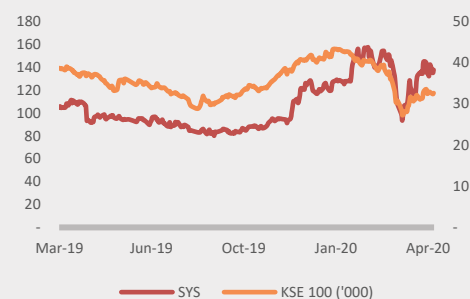
Rupees' millions	1QCY20	1QCY19	YoY	CY19	CY18	YoY
Net Sales	1,624	1,117	45.4% ▲	5,349	3,761	42.2% ▲
Cost of Sales	1,108	734	50.9% ▲	3,572	2,583	38.3% ▲
Gross Profit	516	383	34.9% ▲	1,776	1,179	50.7% ▲
SG&A Expenses	185	123	50.6% ▲	548	424	29.3% ▲
Other Expenses	14	4	265.6% ▲	139	118	17.5% ▲
Other Income	210	40	429.4% ▲	343	438	21.7% ▼
Operating Profit	527	296	78.3% ▲	1,432	1,074	33.3% ▲
Finance Cost	9	4	150.1% ▲	39	19	107.9% ▲
Profit Before Taxation	517	292	77.3% ▲	1,393	1,055	32.0% ▲
Taxation	9	5	72.2% ▲	29	46	37.4% ▼
Profit After Taxation	508	287	77.4% ▲	1,364	1,009	35.1% ▲
Earnings Per Share	4.12	2.32	77.4% ▲	11.05	8.18	35.1% ▲
Dividend	0.00	0.00		2.25	2.00	
Bonus	0%	0%		0%	10%	
Gross Margin	31.8%	34.3%	2.5% ▼	33.2%	31.3%	1.9% ▲
SG&A Expenses to Sales	11.4%	11.0%	0.4% ▲	10.2%	11.3%	1.0% ▼
Other Expenses to Sales	0.9%	0.4%	0.5% ▲	2.6%	3.1%	0.5% ▼
Other Income to Sales	12.9%	3.6%	9.4% ▲	6.4%	11.6%	5.2% ▼
Effective Taxation	1.7%	1.8%	0.1% ▼	2.0%	4.3%	2.3% ▼
Net Margin	31.3%	25.7%	5.7% ▲	25.5%	26.8%	1.3% ▼

Source: ACPL Research, Company Financials

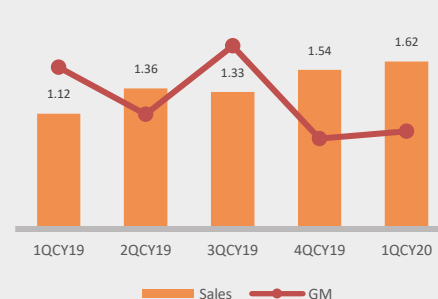
Key Statistics

Symbol	SYS
TP - Jun 21	186.00
LDGP	137.45
Upside	35%
Free Float (mn)	74
Market Cap. (Rs.mn)	16,966

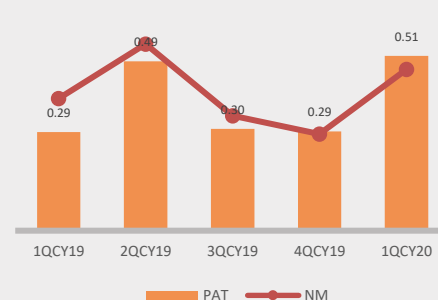
SYS vs KSE 100



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 ⁴ millions	CY15	CY16	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
Net sales	2,263	2,680	2,911	3,761	5,349	6,498	8,050	9,888	10,382
Cost of sale	1,507	1,883	2,049	2,583	3,572	4,443	5,556	6,875	7,219
Gross profit	757	797	862	1,179	1,776	2,055	2,493	3,013	3,163
Distribution expenses	70	37	114	47	100	147	189	243	255
Administrative expenses	262	251	287	377	448	594	714	850	893
Research and development expenses	29	2	-	-	-	-	-	-	-
Other expenses	20	31	88	118	139	58	72	89	93
Other income	92	33	118	438	343	533	556	688	722
Operating Profit	468	509	492	1,074	1,432	1,788	2,073	2,518	2,644
Finance cost	2	3	11	19	39	37	31	26	22
Profit before taxation	466	506	481	1,055	1,393	1,751	2,042	2,492	2,622
Taxation	13	- 9	8	46	29	38	44	53	56
Profit after taxation	453	515	473	1,009	1,364	1,713	1,999	2,439	2,567
EPS	3.67	4.17	3.84	8.18	11.05	13.88	16.19	19.76	20.79

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%	21.5%	23.9%	22.8%	5.0%
Cost of sale	21.2%	25.0%	8.8%	26.1%	38.3%	24.4%	25.0%	23.7%	5.0%
Gross profit	11.3%	5.4%	8.1%	36.7%	50.7%	15.7%	21.4%	20.8%	5.0%
Distribution expenses	16.9%	-46.4%	205.0%	-59.0%	114.0%	47.5%	28.3%	28.9%	5.0%
Administrative expenses	32.1%	-4.1%	14.1%	31.5%	18.8%	32.4%	20.3%	19.0%	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%	-57.9%	23.9%	22.8%	5.0%
Other income	138.9%	-64.0%	257.3%	269.7%	-21.7%	55.6%	4.2%	23.7%	5.0%
Operating Profit	7.5%	8.9%	-3.3%	118.2%	33.3%	24.9%	15.9%	21.4%	5.0%
Finance cost	-46.8%	51.5%	233.3%	75.9%	107.9%	-4.7%	-16.9%	-16.3%	-15.5%
Profit before taxation	8.0%	8.7%	-4.8%	119.2%	32.0%	25.7%	16.6%	22.0%	5.2%
Taxation	213.5%	-170.5%	-188.0%	466.3%	-37.4%	31.6%	15.9%	21.4%	5.0%
Profit after taxation	6.0%	13.8%	-8.1%	113.3%	35.1%	25.6%	16.7%	22.0%	5.2%
EPS	6.0%	13.8%	-8.1%	113.3%	35.1%	25.6%	16.7%	22.0%	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	31.62	30.97	30.47	30.47
NP Margin	%	19.99	19.22	16.26	26.84	25.50	26.37	24.83	24.67	24.72
OP Margin	%	20.66	19.00	16.91	28.55	26.77	27.52	25.76	25.47	25.47
ROE	%	18.13	17.66	14.74	24.75	29.11	27.99	25.43	24.41	21.17
ROCE	%	18.08	17.60	14.69	24.64	26.66	26.06	23.98	23.26	20.30
ROA	%	15.85	16.23	12.36	20.19	22.07	20.82	20.00	19.97	17.93
Liquidity Ratios		CY15A	CY16A	CY17A	CY18A	CY19E	CY20E	CY21E	CY22E	CY23E
Current	x	6.80	10.04	4.59	4.21	4.57	4.11	5.11	6.14	7.56
Acid-test	x	5.27	7.41	3.22	3.08	3.24	3.06	3.80	4.58	5.87
Cash to current liab.	x	0.41	0.74	0.73	0.44	0.25	0.78	1.05	1.40	2.43
Activity Ratios		CY15A	CY16A	CY17A	CY18A	CY19E	CY20E	CY21E	CY22E	CY23E
Receivables Days		191	192	149	210	218	204	206	205	191
Payables Days		10	3	29	10	10	10	10	10	10
Operating Cycle		181	188	120	200	208	194	196	195	180
Investment Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
EPS		3.67	4.17	3.84	8.18	11.05	13.88	16.19	19.76	20.79
DPS		1.25	1.86	1.75	2.00	2.25	2.10	2.50	3.50	5.00
Div. Yield	%	0.91	1.35	1.27	1.46	1.64	1.53	1.82	2.55	3.64
Dividend Cover		2.93	2.24	2.19	4.09	4.91	6.61	6.48	5.65	4.16
BVPS		20.22	23.63	26.02	33.04	37.96	49.59	63.68	80.95	98.24
Payout	%	34.10	44.57	45.63	24.46	20.36	15.13	15.44	17.71	24.05
Retention	%	65.90	55.43	54.37	75.54	79.64	84.87	84.56	82.29	75.95
No. of Shares	'mn	123.43	123.43	123.43	123.43	123.43	123.43	123.43	123.43	123.43
P/E		37.49	32.94	35.84	16.81	12.44	9.90	8.49	6.96	6.61
Sales per share		18.34	21.71	23.58	30.47	43.33	52.64	65.21	80.11	84.11
P/BV		6.80	5.82	5.28	4.16	3.62	2.77	2.16	1.70	1.40
Price to Sales		7.50	6.33	5.83	4.51	3.17	2.61	2.11	1.72	1.63
Gearing Ratios		CY15A	CY16A	CY17A	CY18A	CY19E	CY20E	CY21E	CY22E	CY23E
Debt to Equity	%	0.51	0.58	6.85	11.81	10.29	15.22	9.57	6.08	4.06
Interest Cover		220.47	158.46	45.96	57.02	36.56	47.93	66.85	96.95	120.50

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months.

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

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

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

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