

## Technology & Communication

### Systems Limited: 1QCY26 Corporate Takeaways

- Systems Limited (SYS) held a corporate briefing session to discuss the 1QCY26 performance and provide key insights on the business outlook for the company. During 1QCY26, the company delivered a 21% y/y increase in net profit, reaching Rs3.0bn and translating into EPS of Rs2.0.
- In 1QCY25, SYS revenue rose 33% y/y, while margins dipped 5ppt to 25%. The MENA region remained strong in 1QCY26, growing 37% and contributing 58% of total revenue.
- Management attributed the 1QCY26 gross margin drop (down 5ppt to 25%) to higher wages, fuel costs, currency appreciation, and fewer working days. However, they expect a return to normal levels after Q2.

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#### Key Highlights from Corporate Briefing

- In 1QCY25, SYS revenue rose 33% y/y, while margins dipped 5ppt to 25%. The MENA region remained strong in 1QCY26, growing 37% and contributing 58% of total revenue.
- Management attributed the 1QCY26 gross margin drop (down 5ppt to 25%) to higher wages, fuel costs, currency appreciation, and fewer working days. However, they expect a return to normal levels after 2QCY26.
- The Company highlighted that the appreciation of the local currency has weighed on earnings through lower revenues and exchange-rate losses. The company expects these headwinds to continue over the next six months before gradually subsiding.
- Trade receivables rose 31% q/q, primarily due to slower collections from GCC markets amid ongoing geopolitical tensions in the Middle East. While collections in the UAE remained largely stable during 1QCY26, some delays were experienced in Saudi Arabia. Management indicated that collection trends have improved in 2QCY26 and expects receivable cycles to normalize in 2HCY26, provided regional tensions do not escalate further.

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- The Management noted that, following court approval, the acquisition of Confiz has been fully consolidated into the company's financial statements. While integration benefits are expected to materialize over the next 2–3 quarters, Confiz contributed approximately 10% to revenue during the quarter. Going forward, management expects Confiz and BAT collectively to account for 12–14% of total revenues.
- The Company highlighted that visa restrictions in the UAE continue to limit the onboarding of new talent from Pakistan. The UAE currently represents 13.4% of Systems Limited's workforce. Nevertheless, the company believes its geographically diversified talent pool—comprising Pakistan (79.5%), Egypt (2.7%), and Saudi Arabia (1.1%)—will help mitigate any significant impact on operations or revenue growth.
- Management remains optimistic about the extension of the 0.25% FTR for exporters in the forthcoming Budget. The company has also urged policymakers to relax ERF limits, which it believes would enhance the sector's capacity to drive higher IT export growth.
- Management reiterated its focus on expanding SYS's presence in key international markets, including North America, Europe, and the UK. Going forward, the company's acquisition strategy will remain opportunistic, with smaller tuck-in deals expected to be pursued more regularly than large-scale transactions.

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