

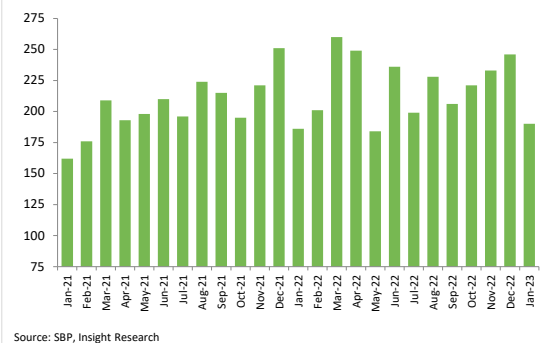
Pakistan Technology

Adjustment in FX rate to improve export flows

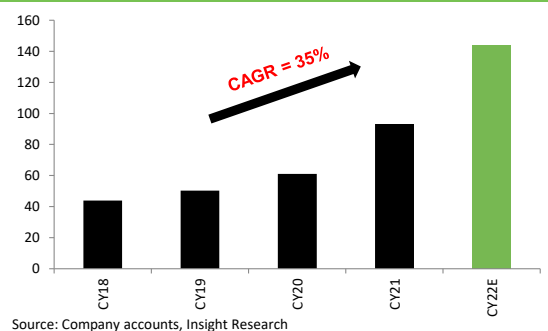
IT exports - hurdles in growth

Pakistan's IT sector has performed remarkably well post pandemic and has potential to grow exponentially. IT exports have been growing at a 5-year CAGR of 23% to clock in at US\$2.6bn in FY22. To note, the major contributor in the growth is computer services under which software consultancy and software exports are highest contributors, having share of 30% & 23%, respectively. However, after recording decent growth in last couple of years, export proceeds growth recorded a slowdown in 7MFY23 where exports increased only by 2% to clock in at US\$1.5bn. IT Exports in Jan'23 clock in at US\$190mn, lowest in last 8 months. The slowdown in export proceeds are primarily due to administrative hold on official PKR/USD rate, which resulted in wide spread between official and grey market rate. This abrupt disruption in FX rate induced local firms to retain their FX income outside the country as they were getting much lower realized exchange rate. In addition, domestic firms were facing challenges in repatriation of USD which hindered their ability to reinvest in the business for future expansions, resulting in lower exports. In later part of January, SBP gave up the administrative hold on currency resulting in appreciation of USD by ~13% till date. We believe that adjustment in official FX rate along with SBP's decision to allow IT exporters to hold 35% of export receipts in foreign currency accounts for smooth management of operations and reinvestment in business will improve official export figures in coming months.

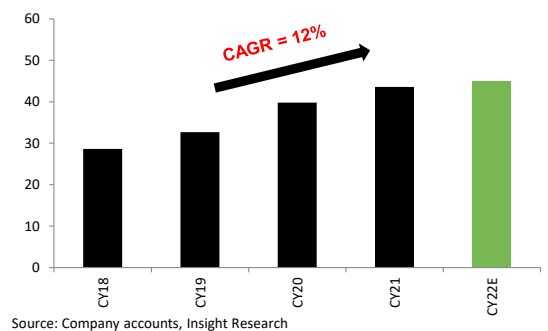
Monthly Telecommunication & Information Service Exports (US\$ mn)



SYS Ltd. Topline (US\$ mn)



AVN Ltd Topline (US\$ mn)



Listed IT companies are demonstrating decent growth

In 9MCY22, ISL IT universe posted revenue of PKR24.7bn, up by 75% YoY as compared to SPLY. Whereas in dollarized terms, industry's revenue witnessed growth of 39% YoY. Despite global recessionary fears and slowdown in IT related spending, Middle East region witnessed robust growth due to booming economy. To recall, Middle East segment has contributed about 42% in SYS Ltd topline in 9MCY22 vs. 31% in SPLY. Similarly, AVN derives 65-70% of the revenues from MEA region.

Domestic IT companies are the prime beneficiary of recent devaluation of domestic currency as significant portion of their cost is in local currency, while revenues are linked with foreign currency.

IT sector is key beneficiary of PKR devaluation

PKR Devaluation Sensitivity	SYS Ltd.	AVN Ltd.
Revenue in 9MCY22 (PKR mn)	20,145	4,614
Revenue in 9MCY22 (USD mn)*	100.2	22.8
Assuming same dollarized revenues		
Revised revenue (PKR mn) **	26,041	5,923
% increase in revenue	29%	28%

Source: Company Accounts, Insight research

PKR/USD @ 202 *

PKR/USD @ 260 **

Valuation Snap shot

	TTM P/E	TTM P/S
Systems Ltd.	20.51	5.74
Avanceon Ltd.	7.75	2.56

Source: Company Accounts, Insight research

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- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
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Frequently Used Acronyms

TP	Target Price	DCF	Discounted Cash Flows	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DDM	Dividend Discount Model
SOTP	Sum of the Parts	P/E	Price to Earnings ratio	P/Bv	Price to Book ratio
P/S	Price to Sales	EVA	Economic Valued Added	BVPS	Book Value per Share
EPS	Earnings per Share	DPS	Dividend per Share	DY	Dividend Yield
ROE	Return on Equity	ROA	Return on Assets	CAGR	Compounded Annual Growth Rate

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