

SYSTEX Corporation (6214 TT)

Non-rated Research Note (sample*)

Post 2Q21 results

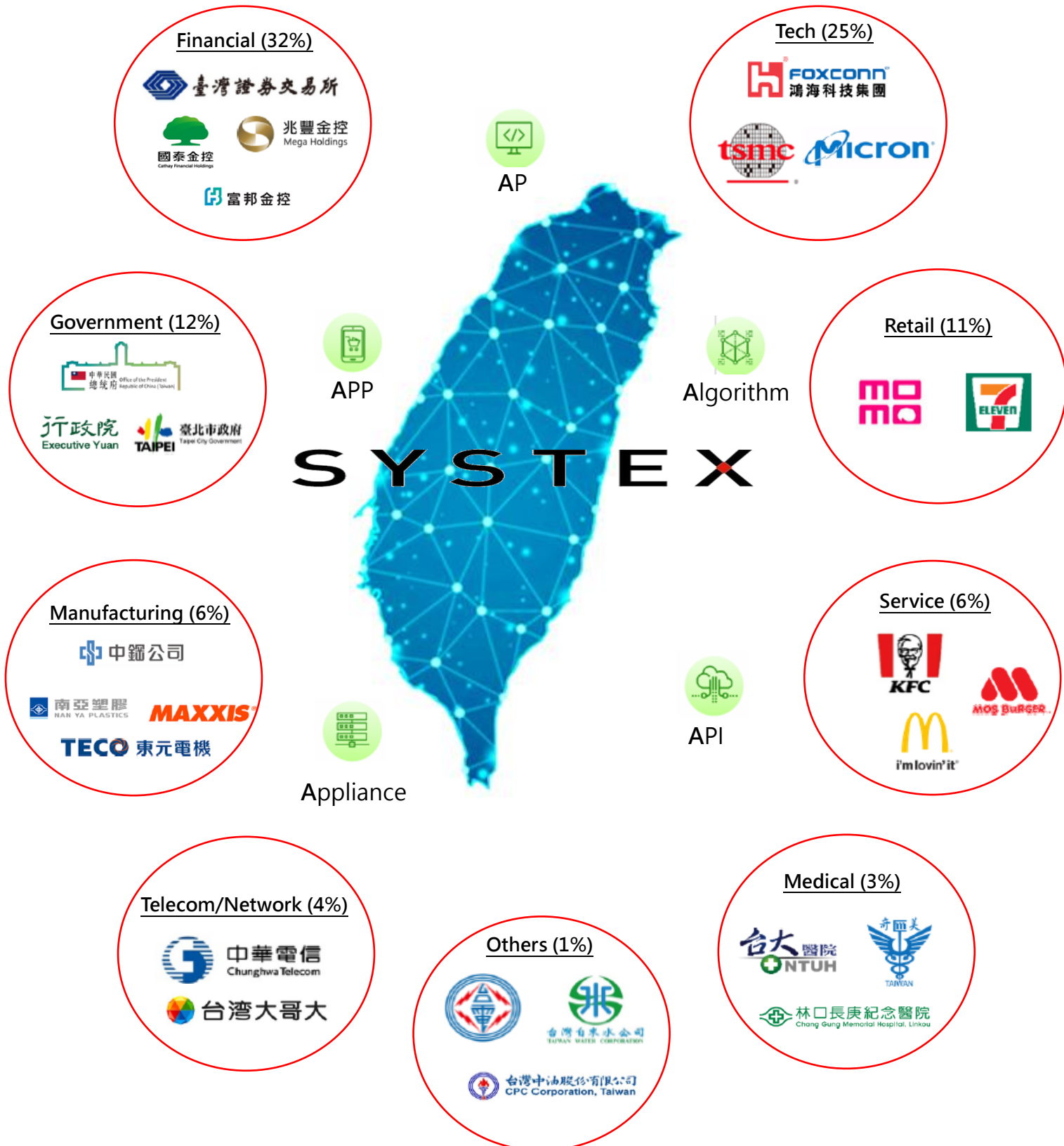
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SYSTEX Corp (6214 TT): Most crucial role supporting TW's digital development

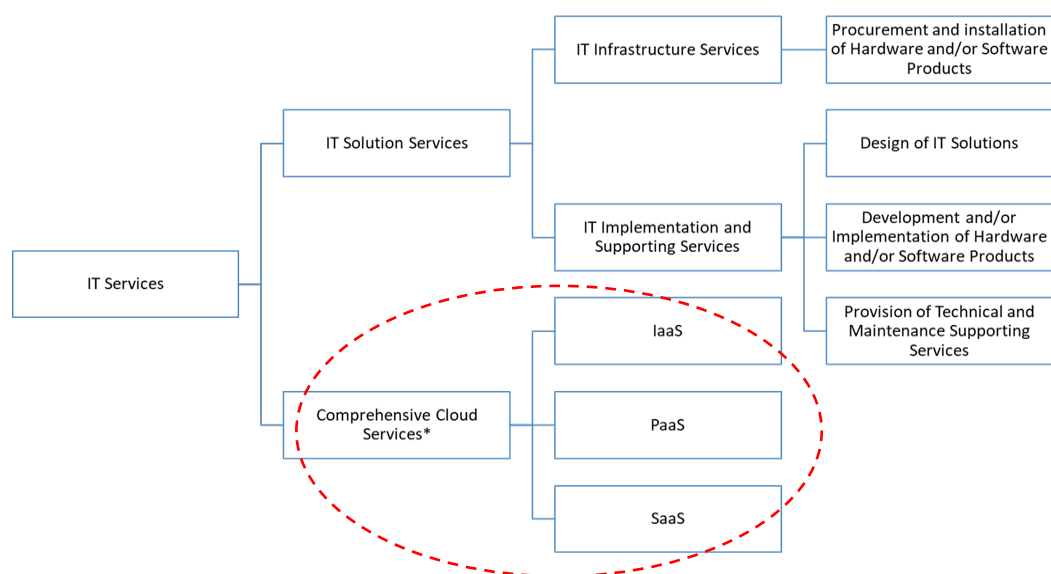
Figure 1: SYSTEX's versatile TW customer coverage (number in parentheses means revenue contribution in 2020)



INVESTMENT HIGHLIGHTS

- **Introduction of TW biggest and most comprehensive Cloud Services platform: a potential stock re-rating.** Founded in 1997 and IPO in 2003, SYSTEX Corp. is an one-stop-shop corporate IT solution service provider covering from software distribution (with value-added services) to IT outsourcing services. Its strong balance sheet, high dividend payout and as a key beneficiary of corporate digitalization trend make it a perfect candidate for low-beta and yield funds, with a bonus of stable growth.

Figure 2: SYSTEX embarks journey on Comprehensive Cloud Services



At the end of 3Q21, SYSTEX is scheduled to release TW biggest and most **comprehensive cloud management platform (CMP)**, which will offer over 80 Cloud Service Offerings (CSO) supported by AWS, Azure, Google cloud, IBM, Oracle and Garaotus, which is launched by SYSTEX and combines AI and High-Performance Computing (HPC). The service is in subscription model and customers will pay according to usage or different time ranges. Management expects the benefit of rolling out cloud service in e-commerce model will start to be realized in 4Q21 and Annual recurring return (ARR) % and cloud service revenue contribution (2021: 20%) would increase.

Currently there are over 4,000 customers using SYSTEX's CSO and CSO will be in "cloud native" structure, which means SYSTEX could offer cloud SaaS to clients outside TW, which could fulfill SYSTEX's target of becoming Asia cloud service company. In addition, SYSTEX has collaborated with independent software vendors

Figure 23: Chairman- Mr. Lin Lung-Fen



**Powered by software capabilities
and clouds, we grow
exponentially with our clients
through strategic partnership.**

- **Declining IPR monitoring scores in 2020 due to less disposal gain:** SYSTEX's IPR scores showed huge improvement in 2018-19 and declined in 2020 due to high base of financial investment disposal gain in 2019.

Figure 24: IPR monitoring scores

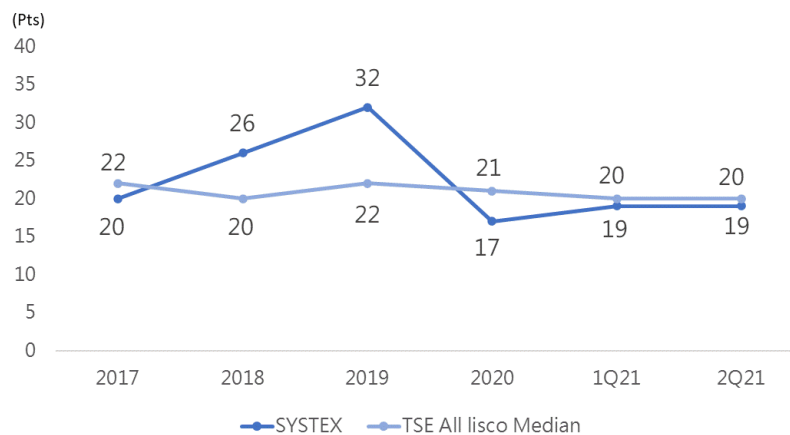


Figure 25: SYSTEX Corp's memorabilia

1997	Sysware is founded.
2000	Kimo.com was spun off from Sysware and later acquired by Yahoo!.
2003	SYSTEX was listed in TW OTC market.
2005	Merged UCOM, largest IT trainer center in TW and Yu-Lung Co., Ltd, leading securities and bonds company in domestic software market.
2007	TW's two leading IT service corporations "Sysware" and "SYSTEX" were consolidated.
2010	Invested in Forms Syntron for banking business in China. Invested in Gemini Data with the founder of Splunk for US and global business expansion.
2016	Launched the "FundRich Securities" fund platform, TW first successful real-world Fintech application.
2018	Kick off "AI+ Generator" Program to engage outstanding AI startups with enterprise to prove of solution concept in early stage of go-to-market.
2019	Won Microsoft's 2019 TW Partner of the year award.
2020	Founded AI HPC brand Garaotus focusing on overseas cloud market.
2021	Stationed in Shalun Smart Green Energy Science City in Tainan to connect Green Energy Industry Ecosystem.

Figure 26: Peers valuation

Ticker	Company Name	Price (LC)	Mkt Cap (US mn)	2020A	P/E (x) 2021E	2022E	2020A	P/B (x) 2021E	2022E	2020A	ROE 2021E	2022E
6214 TT	SYSTEX CORP	87.50	850	13.0	N/A	N/A	1.6	N/A	N/A	12.4	N/A	N/A
TW peers												
2480 TT	STARK TECHNOLOGY INC	69.00	265	14.7	N/A	N/A	2.6	N/A	N/A	17.7	N/A	N/A
6690 TT	ACER CYBER SECURITY INC	110.50	68	22.9	N/A	N/A	3.1	N/A	N/A	13.7	N/A	N/A
3029 TT	ZERO ONE TECHNOLOGY CO LTD	46.05	210	13.0	N/A	N/A	2.2	N/A	N/A	17.4	N/A	N/A
6112 TT	SYSAGE TECHNOLOGY CO LTD	38.85	264	13.4	N/A	N/A	1.7	N/A	N/A	12.7	N/A	N/A
5403 TT	DIMERCO DATA SYSTEM CORP	63.40	158	13.4	N/A	N/A	2.9	N/A	N/A	22.6	N/A	N/A
Group Average				15.1	N/A	N/A	2.3	N/A	N/A	16.1	N/A	N/A
Asia peers												
002642 CH	RONGLIAN GROUP LTD-A	4.98	515	-3.0	N/A	N/A	2.4	N/A	N/A	-53.8	N/A	N/A
1410 HK	EDVANCE INTERNATIONAL HOLDIN	0.62	80	26.6	N/A	N/A	5.5	N/A	N/A	20.1	N/A	N/A
861 HK	DIGITAL CHINA HOLDINGS LTD	4.49	965	11.9	N/A	N/A	0.8	N/A	N/A	6.7	8.5	9.3
Global peers												
TCS IN	TATA CONSULTANCY SVCS LTD	3,911.35	196,928	45.1	36.9	33.0	16.3	14.6	13.0	37.1	41.6	42.0
INFO IN	INFOSYS LTD	1,709.70	99,163	37.5	32.8	28.7	9.5	9.5	8.5	27.3	28.9	31.6
SWON SW	SOFTWAREONE HOLDING AG	22.95	3,928	20.1	29.7	22.7	4.7	4.1	3.7	25.0	16.1	17.4
Group Average				25.3	33.1	28.1	7.7	9.4	8.4	11.1	28.9	30.3
Total Average				19.7	33.1	28.1	4.8	9.4	8.4	13.8	28.9	30.3
Total Median				14.7	32.8	28.7	2.9	9.5	8.5	17.7	28.9	31.6

Note: For TATA and Infosys, 2020A, 2021E, 2022E stands for 2021A, 2022E, 2023E due to different fiscal year.

Figure 27: Income Statement

(TWD mn)	2016	2017	2018	2019	2020	1H21
Revenue	16,210	16,874	19,516	22,051	23,735	14,170
COGS	(11,878)	(12,341)	(14,482)	(16,502)	(17,933)	(10,980)
Gross Profit	4,332	4,534	5,034	5,549	5,802	3,190
Operating Expenses	(4,053)	(3,995)	(4,346)	(4,942)	(4,877)	(2,559)
Selling Exps	(3,173)	(3,195)	(3,525)	(3,962)	(3,869)	(2,022)
Administrative Exps	(421)	(359)	(369)	(406)	(429)	(289)
R&D Exps	(459)	(441)	(453)	(454)	(529)	(241)
Other Operating Exps	0	0	0	(119)	(50)	(7)
Operating Profit	279	539	688	607	925	631
Other Non-operating Income	967	761	554	1,596	926	348
Net Interest Exps	5	16	10	10	(4)	1
FX Gain/(Loss)	(70)	34	(10)	3	49	15
Income from Equity Method	84	66	44	68	98	74
Other Non-op Income	947	644	510	1,516	783	257
Pre-tax Income	1,246	1,300	1,241	2,204	1,851	978
Income Tax Expenses	(156)	(127)	(191)	(392)	(175)	(137)
Minority Interest	18	5	1	(3)	(9)	(1)
Discontinued Operations	0	0	0	0	0	0
Net Income to Parent	1,108	1,178	1,051	1,808	1,666	840
EPS (TWD)	4.50	4.79	4.27	7.31	6.72	3.39
Shares (mn)	269	269	269	269	269	269

Figure 28: Balance Sheet

(TWD mn)	2016	2017	2018	2019	2020	1H21
Cash and Cash Equivalents	4,245	3,708	2,815	2,775	3,590	3,793
Short-term Investment	3,001	3,596	3,079	3,342	3,243	2,661
AR&NR	3,590	3,486	3,968	4,128	4,007	4,708
Inventories	2,422	2,911	2,894	3,064	3,166	3,578
Other Current Assets	1,212	1,120	1,305	1,274	1,620	2,184
Total Current Assets	14,471	14,821	14,062	14,583	15,626	16,924
PPE	2,010	1,941	1,913	1,930	2,099	2,107
Long-term Investment	981	1,084	2,292	3,486	2,758	2,413
Other Non-current Assets	1,621	1,519	1,712	1,588	1,546	2,690
Total Assets	19,083	19,364	19,979	21,587	22,029	24,133
Short-term Borrowings	1,046	1,460	816	527	790	1,804
AP& NP& Accruals	3,856	4,003	4,287	5,206	5,066	6,666
Other Current Liabilities	1,163	1,304	1,389	1,740	1,987	1,896
Total Current Liabilities	6,065	6,766	6,492	7,473	7,843	10,367
Long-term Borrowings	0	0	0	0	100	91
Other Non-current Liabilities	259	276	292	631	437	395
Total Liabilities	6,323	7,042	6,785	8,104	8,380	10,853
Equity	12,759	12,322	13,195	13,482	13,649	13,281
Total Liabilities and Equity	19,083	19,364	19,979	21,587	22,029	24,133

Figure 29: Cash Flow Statement

(TWD mn)	2016	2017	2018	2019	2020	1H21
Total Operating Cash flow	1,494	220	556	1,395	1,105	106
Net Income	1,090	1,173	1,050	1,811	1,676	840
Depreciation & Amortization	193	158	137	289	290	170
Change in WC	(18)	(34)	(296)	427	(658)	(1,290)
Other Operating Cash Flow	229	(1,078)	(335)	(1,132)	(203)	386
Total Investing Cash flow	782	242	447	96	972	(683)
CAPX (net)	(57)	227	(75)	(136)	(118)	(45)
Change in Long-term Investments	(537)	(114)	311	23	1,054	(29)
Other Investing Cash flow	1,376	129	211	209	36	(609)
Total Financing Cash flow	(787)	(763)	(1,913)	(1,502)	(1,159)	837
Issuance/(Buyback) of Shares	(74)	0	0	141	0	0
Cash Dividend Paid	(673)	(943)	(1,230)	(1,240)	(1,240)	0
Change in Total Debt	462	441	(696)	(275)	226	968
Other Financing Cash flow	(502)	(261)	12	(128)	(145)	(131)
Total Cash Flow	1,489	(301)	(911)	(11)	918	261
FX	(50)	(236)	18	(29)	(103)	(57)
Total Change in Cash	1,440	(537)	(893)	(40)	815	203

Figure 30: Financial Ratios

	2016	2017	2018	2019	2020	1H21
Gross Margin (%)	26.7	26.9	25.8	25.2	24.4	22.5
EBITDA Margin (%)	14.8	13.1	9.8	18.5	12.9	10.5
Operating Margin (%)	1.7	3.2	3.5	2.8	3.9	4.5
Net Margin to Common (%)	6.8	7.0	5.4	8.2	7.0	5.9
Sales y-y Growth (%)	(0.6)	4.1	15.7	13.0	7.6	21.9
EBITDA y-y Growth (%)	103.0	(8.2)	(12.8)	112.3	(24.7)	1.5
Operating Income y-y Growth (%)	(33.4)	93.0	27.6	(11.7)	52.4	15.4
Net Income y-y Growth (%)	96.4	6.3	(10.7)	72.0	(7.8)	2.3
ROE (%)	8.6	9.4	8.2	13.6	12.3	12.9
ROA (%)	5.9	6.1	5.3	8.7	7.6	7.3
Accounts Receivable Turnover Days	77.6	72.0	65.3	61.9	58.2	54.4
Inventory Turnover Days	67.6	78.9	73.2	65.9	63.4	55.9
Accounts Payable Turnover Days	88.9	89.5	79.3	77.7	76.0	65.9
Cash Conversion Cycle Days	56.3	61.3	59.2	50.1	45.6	44.4
Fixed Asset Turnover (x)	7.9	8.5	10.1	11.5	11.8	13.5
Net Debt/(Cash) to Equity (%)	(25.1)	(18.2)	(15.2)	(16.7)	(19.8)	(14.3)
Interest Coverage Ratio (x)	51.2	41.2	41.7	66.8	59.1	70.6
PER (x)	41.7	21.1	19.4	26.3	20.4	19.2
PBR (x)	1.2	1.3	1.3	1.5	1.8	1.9
EV/EBITDA (x)	5.2	6.2	7.6	4.4	6.8	7.5
Cash Dividend Yield (%)	8.6	8.4	8.1	6.6	5.7	5.5

For more information, please contact us at info@ipradvisors.com