

Pakistan Equity | Technology

Jul 21, 2023

REP-057

Pakistan IT Exports reached US\$2.6bn in FY23
Net IT exports at an all time high of US\$2.3bn, Up 15% YoY



CFA Society
Pakistan
Best Local Brokerage
House 2015-16, FY2020

ASIAMONEY
Best Local Brokerage House
Brokers Poll 2011-14, 2016-22



COUNTRY
AWARDS
FOR ACHIEVEMENT
2018
FinanceAsia
Best Brokerage
House 2018,19-20,23



2019
INTERNATIONAL
FINANCE
BROKERAGE AWARDS
Best Research
House 2019-20

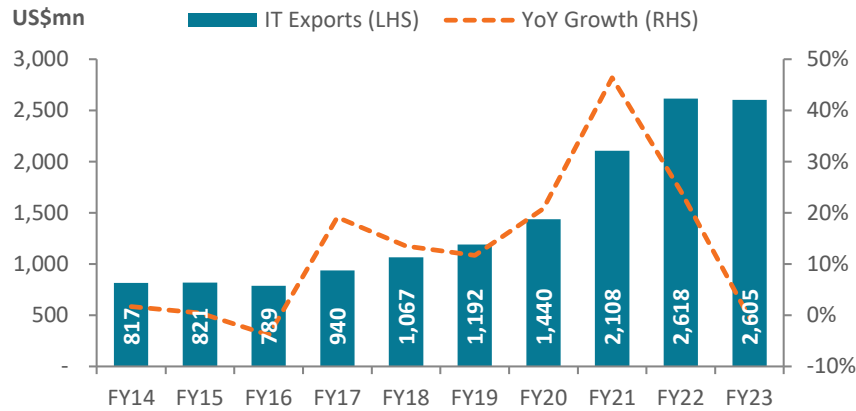


ASSET ASIAN AWARDS 2019
TRIPLE A
Best Brokerage
House 2019-21

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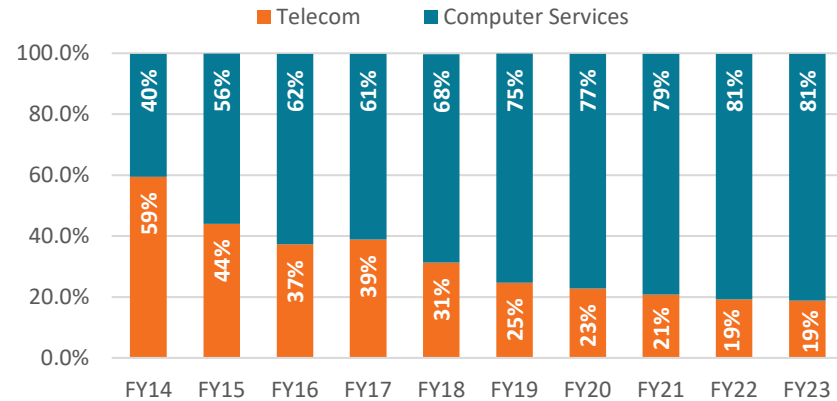
PKR volatility + global slowdown affecting Pak IT export inflows

Pakistan's IT Exports: Annual Trend



Source: SBP, Topline Research

Pakistan's IT Exports: Segment Wise Trend

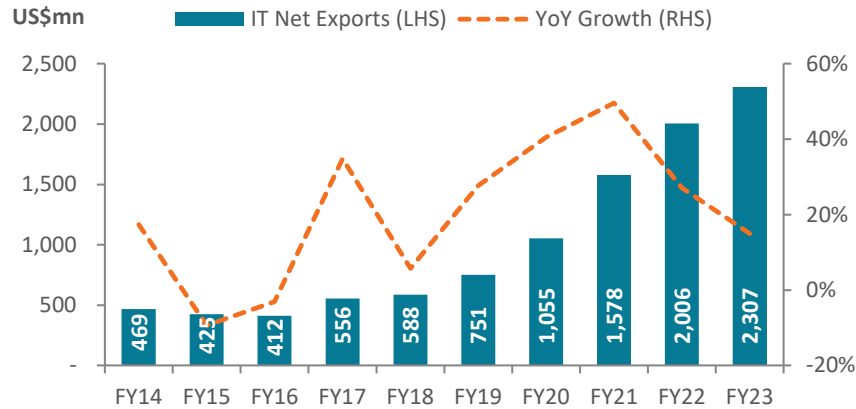


Source: SBP, Topline Research

- Pakistan's Information Technology (IT) export growth for FY23 has slowed down to its lowest level since FY16. Export inflows remained flat YoY to record US\$2.6bn.
- This growth is way lower than 5, 10, and 15 year Compound Annual Growth Rate (CAGR) of 19.5%, 12.5%, and 16.3% respectively.
- Some main reasons for slowdown in growth are 1) Tech companies retaining a greater portion of their income abroad, and 2) global economic slowdown.
- IT export number only indicates the amount remitted back to Pakistan by tech companies and freelancers. It does not include income retained abroad. According to our channel checks, IT players are retaining a greater portion of their proceeds outside the country due to declining business confidence and volatility of exchange rate.
- IT exports of Pakistan have also been victim of global slowdown in IT spending. According to Gartner Research (technology consulting firm), worldwide IT spending slowed down to 2.7% in 2022 from 10.2% in 2021.
- In 9MFY23 (as per available data), IT exports of Korea, Sri Lanka, Bangladesh, China, and Philippines have recorded YoY decline/growth of -24%, -13%, -12%, +1% and +5%. This is compared to average growth of 26% in these countries in FY22. For our analysis we have used Net IT services exporters from Asian region.
- India has been the only exception where growth in 9MFY23 stood at +20% YoY due to pivot to new services verticals and emergence of many smaller IT companies.
- Segment wise analysis indicates that Computer Services for FY23 remained flat at US\$2.1bn and Telecom Services declined by 3% YoY to US\$490mn.
- Computer services share in IT exports has increased to 81.0% in FY23 from 40.4% in FY14. Computer services are further composed of Software Consultancy, Export of Software and Other Services etc. Telecom Services are composed of Telecom and Call Centers.

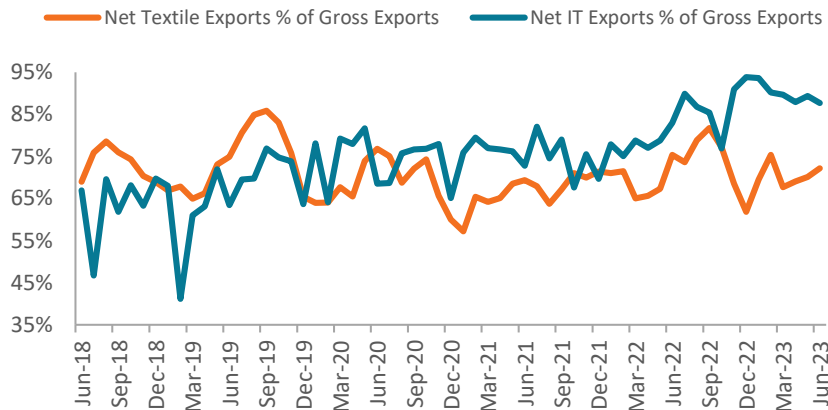
Net IT Exports reach highest ever figure of US\$2.3bn

Pakistan's Net (Exports Minus Imports) IT Exports Trend



Source: SBP, Topline Research

Net Exports Comparison: Textile vs. IT

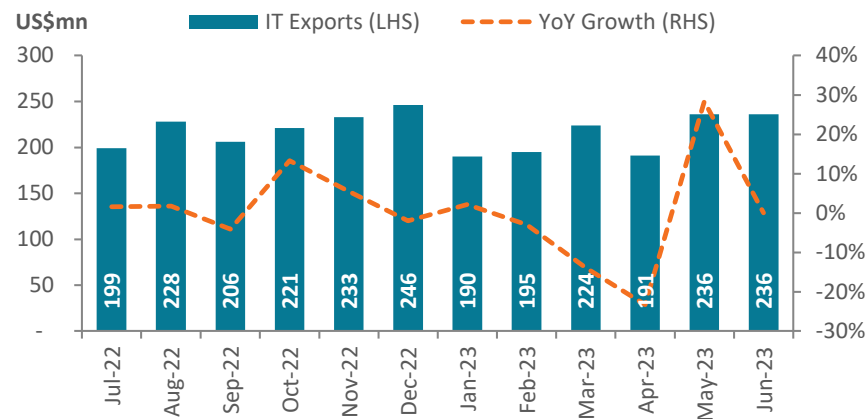


Source: SBP, Topline Research

- Net (Exports Minus Imports) IT Exports of Pakistan, unlike Gross Exports, have increased by 15% YoY in FY23. Net Exports have now reached highest ever level of US\$2.3bn.
- Net Exports have witnessed 5/10 year CAGR of 31.4%/19.2% respectively.
- Main reason for this development are Computer Services exports increasing from US\$330mn in FY14 to US\$2.1bn in FY23 at a CAGR of ~22%.
- This growth was magnified during the COVID period of FY20-FY22 where computer services exports more than doubled to US\$2.1bn in FY22 from US\$896mn in FY19.
- During COVID, IT and Telecom were declared essential services while other regional competitors faced lockdowns. IT companies and freelancers of Pakistan took advantage of increased global IT spending, especially in Middle East, to gain market share.
- Pakistan currency devaluation in FY18 and FY19 also had an impact which made software developer of Pakistan cheaper compared to other Asian competitors.
- Computer Services are mostly software based and require no raw material imports and very minimal equipment imports. Since the raw material for these exports are IT developers unlike a sector such as Textile which is dependent on Imported Cotton and Machinery to generate exports.
- As a result, IT services have become an important segment of Pakistan's exports with share in Total Exports (Goods & Services) increasing from 2.7% in FY14 to 7.4% by FY23.
- Going forward, Gartner Research expects global software spending to increase by 13.5%/14.0% in 2023/2024. These services are offered by Systems Limited (SYS), which is our top pick in the IT sector. SYS currently trades at a 2024 PE of 10.4x and PS of 1.8x.

IT exports for Jun-23 remain flat MoM at US\$236mn

Pakistan's IT Exports: Monthly Trend



Source: SBP, Topline Research

IT & Telecom Exports of Pakistan

US\$mn	Jun-23	YoY	MoM	FY23	YoY
Total	236.0	0%	0%	2,605.2	0%
Telecom services	35.4	-11%	-36%	490.4	-3%
Call centers	17.0	-7%	-47%	229.2	6%
Telecom services	18.3	-14%	-22%	261.3	-10%
Computer services	199.6	2%	11%	2,109.2	0%
Hardware consultancy	0.2	-50%	-49%	5.5	88%
Software consultancy	62.0	-22%	-5%	760.8	-4%
Maintenance of computer	0.0	NM	NM	2.9	97%
Export of Computer Software	57.9	7%	15%	598.0	6%
Other Computer services	79.5	29%	24%	742.1	0%
Information services	1.0	252%	292%	5.5	6%
News agency services	0.9	339%	571%	3.6	4%
Other information services	0.1	7%	-33%	1.9	9%

Source: SBP, Topline Research

- Pakistan's Information Technology (IT) exports for June 2023 remained flat on MoM basis with Telecom decreasing by 36% MoM and Computer increasing by 11% MoM.
- Among Computer Services, Export of Software, and Other Services increased by 15% and 24% MoM respectively and Software Consultancy decreased by 5% MoM.
- IT Export proceeds realization per working day increased to US\$12.4mn/day in June 2023 compared to US\$10.7mn/day in May 2023.
- On a YoY basis, IT export number for June 2023 also remained flat at US\$236mn with 11% YoY decrease in Telecom and 2% YoY increase in Computer Services.
- June 2023 exports is the 3rd highest number in FY23 after Dec 2022 and May 2023. December 2022 recorded highest exports of FY23 at US\$246mn.
- In Jun 2023, Telecom/Computer share of IT exports stood at 15/85% compared to 24/76% share in May 2023 and 17/83% share in Jun 2022.
- IT Exports as a % of Services Exports stood at 41% in Jun 2023 compared to 39% in May 2023 and 36% in Jun 2022.
- IT Exports as a % of Total (Goods & Services) Exports of Pakistan stood at 8.7% in Jun 2023 compared to 7.4% in May 2023 and 6.2% in Jun 2022.
- Net IT exports for Jun 2023 stood at US\$207mn which is a decline of 2% MoM and an increase of 6% on YoY basis.
- On a segment wise basis for FY23, Telecom services decreased by 3% YoY to US\$490mn and Computer services remained flat at US\$2.1bn.

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Neutral	Stock will perform in line with the average total return of stocks in universe
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