



# Computer Services (CSVI)

Updated April 25<sup>th</sup>, 2018 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b> \$47	<b>5 Year CAGR Estimate:</b> 6.5%	<b>Quality Percentile:</b> N/A
<b>Fair Value Price:</b> \$39	<b>5 Year Growth Estimate:</b> 6.0%	<b>Momentum Percentile:</b> N/A
<b>% Fair Value:</b> 120%	<b>5 Year Valuation Multiple Estimate:</b> -2.1%	<b>Total Return Percentile:</b> N/A
<b>Dividend Yield:</b> 2.6%	<b>5 Year Price Target:</b> \$57	<b>Valuation Percentile:</b> N/A

## Overview & Current Events

Computer Services provides regional banks with a wide range of services, such as core processing, digital banking and payments processing, along with regulatory compliance solutions. It has a market cap of over \$660 million.

Computer Services reported its fiscal 2018 results earlier this month, posting record revenues and earnings, partly thanks to its high renewal rates on its contracts with its customers. Even better, it has grown its revenues and its earnings for 18 and 21 consecutive years, respectively. Thanks to this exceptional record, the company has been able to raise its dividend for 46 consecutive years.

This year, the company will enjoy an additional tailwind, namely a reduced tax rate thanks to the recent tax reform. As its tax rate will drop from the low 30s to 21%, the benefit will be meaningful.

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>EPS</b>	\$1.10	\$1.31	\$1.43	\$1.61	\$1.72	\$1.76	\$1.85	\$1.97	\$2.07	\$2.21	<b>\$2.35</b>	<b>\$3.14</b>
<b>DPS</b>	\$0.29	\$0.33	\$0.36	\$0.41	\$0.47	\$0.53	\$0.60	\$0.76	\$0.94	\$1.06	<b>\$1.18</b>	<b>\$1.68</b>

Computer Services has grown its EPS at a rate between 5% and 7% in each of the last five years. Thanks to the consistent performance of the company and the absence of any signs of fatigue, it is reasonable to assume 6.0% average annual EPS growth for the next five years. If this growth materializes, the company will grow its EPS from \$2.35 this year to \$3.14 in 2023.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	14.6	9.9	12.6	16.6	19.1	16.9	18.0	20.6	17.4	20.4	<b>20.0</b>	<b>18.0</b>
<b>Avg. Yld.</b>	1.8%	2.6%	2.0%	1.5%	1.4%	1.8%	1.8%	1.9%	2.6%	2.4%	<b>2.6%</b>	<b>2.9%</b>

Computer Services' 10-year average P/E ratio is 18.0 excluding the outlier years 2009 and 2010. These two years don't accurately reflect the stock's normal valuation range as shares of Computer Service were significantly underpriced due to the Great Recession. Computer Services is currently trading for 20 times expected 2018 earnings. The stock appears overvalued by around 10% currently.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>Debt/A</b>	23.3%	22.5%	25.8%	21.6%	23.7%	22.6%	24.9%	23.7%	23.2%	24.5%	<b>25.0%</b>	<b>24.0%</b>
<b>Int. Cov.</b>	61.1	173	135	219	673	2616	1297	N/A	N/A	N/A	<b>N/A</b>	<b>N/A</b>
<b>Payout</b>	26.3%	25.2%	25.2%	25.5%	27.3%	30.1%	32.4%	38.6%	45.4%	48.0%	<b>50.2%</b>	<b>53.5%</b>
<b>Std. Dev.</b>	48.5%	37.6%	47.8%	28.8%	31.0%	23.4%	21.2%	24.4%	27.0%	23.2%	<b>25.0%</b>	<b>25.0%</b>

The impressive growth record of Computer Services is a testament to the strength of its business model and the existence of a significant competitive advantage. Indeed, the company signs multi-year contracts with its customers and

offers them a wide range of services. Consequently, it is very costly and inefficient for these customers to stop cooperating with the company, particularly given that they pay appreciable early-termination fees if they terminate their contracts before their expiration. For instance, Computer Services received \$7.3 M in such fees in the last fiscal year. As a result, Computer Services enjoys remarkably high renewal rates. In fact, when it loses a customer, the most frequent reason is that the bank has been acquired by another bank which is not a customer of Computer Services.

It is also remarkable that the company does not carry any debt. Instead it has a net cash position of \$8 M. Therefore, it has great financial flexibility. The company also has a reasonable payout ratio around 50%. This means that the company can easily keep growing its dividend at a meaningful pace.

Finally, thanks to its long-term contracts and the recurring nature of its revenues, Computer Services is markedly resilient during recessions. This characteristic was prominent in the Great Recession. While that recession was the worst financial crisis of the last 80 years and thus severely affected most customers of Computer Services, the latter kept growing as if there was no recession. More precisely, it grew its EPS by 17% in 2008 and another 19% in 2009. Therefore, the company is likely to keep growing even in the event of a recession. On the other hand, its shareholders should realize that the P/E ratio of the stock will steeply decrease in such an event and hence the stock price will be pressured, just like it did in the Great Recession, when it lost half of its market cap in about a year. Nevertheless, those who can focus on the underlying performance and ignore the stock price fluctuations are likely to see the stock strongly rebound after any economic downturn.

### Final Thoughts & Recommendation

Computer Services has an exceptional growth record and is likely to continue to grow its earnings for years thanks to its long-term contracts and the wide variety of services it provides to financial institutions. The only caveat is that the stock currently has a premium valuation. As a result, those who purchase the stock now are likely to earn an average annual return of 6.5% over the next five years thanks to 6.0% EPS growth and a 2.6% dividend, which will be partly offset by a 2.1% annualized P/E contraction. Therefore, investors should probably wait for a better entry point. Moreover, given its decent dividend yield, its admirable dividend growth record, its strong balance sheet and its resilience during recessions, the stock is suitable for retirees, as long as the latter wait for a more opportune entry point. Computer Services is a hold at current prices.

### Total Return Breakdown by Year

