Computer Services (CSVI)

Updated August 17th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	9.6%	**Volatility Percentile:**	2.2%
Fair Value Price:	$53	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	50.4%
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Valuation Percentile:**	69.6%
Dividend Yield:	2.8%	**5 Year Price Target**	$71	**Total Return Percentile:**	64.0%

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 $700 million.

In July, Computer Services reported (7/12/18) its financial results for the first quarter of fiscal 2019. On the surface, the increase in the earnings per share from $0.71 in Q1-2018 to $0.72 in Q1-2019 might look disappointing. However, the company received only $1.3 million in early contract termination fees this year whereas it received $5.3 million last year. Excluding this non-operating item, the earnings per share would have increased by about 35% in Q1. About 3/4 of this growth resulted from the pronounced decrease in the tax rate, from 39% in last year's quarter to 23%. Moreover, approximately 90% of the revenues came from existing customers.

Management remains optimistic for the remainder of fiscal 2019 thanks to high renewal rates from existing customers, geographic expansion and growth in volume from existing customers.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	*2019*	2024
EPS	$1.31	$1.43	$1.61	$1.72	$1.76	$1.85	$1.97	$2.07	$2.21	**$2.78**	***$2.95***	***$3.95***
DPS	$0.33	$0.36	$0.41	$0.47	$0.53	$0.60	$0.76	$0.94	$1.06	**$1.34**	***$1.52***	***$1.80***

Computer Services has grown its revenues and its earnings for 18 and 21 consecutive years, respectively. Thanks to this impressive record, it has raised its dividend for 46 consecutive years. The company has grown its earnings per share at a rate between 5% and 7% in each of the last five years, excluding last year, which benefited from a great decrease in the tax rate. 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 earnings-per-share growth for the next five years. If this growth materializes, the company will grow its earnings per share from $2.95 this fiscal year to $3.95 in 2024.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.6	9.9	12.6	16.6	19.1	16.9	18.0	20.6	17.4	20.4	***17.3***	***18.0***
Avg. Yld.	1.8%	2.6%	2.0%	1.5%	1.4%	1.8%	1.8%	1.9%	2.6%	2.4%	***2.8%***	***2.5%***

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 the stock was significantly underpriced due to the Great Recession. Computer Services is currently trading at a P/E ratio of 17.3. If the stock reverts to its average valuation level in the next five years, it will enjoy a 0.8% annualized boost thanks to expansion of its P/E ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Debt/A	22.5%	25.8%	21.6%	23.7%	22.6%	24.9%	23.7%	23.2%	24.5%	**25.0%**	***25.0%***	***24.0%***
Int. Cov.	173	135	219	673	2616	1297	N/A	N/A	N/A	**N/A**	***N/A***	***N/A***
Payout	25.2%	25.2%	25.5%	27.3%	30.1%	32.4%	38.6%	45.4%	48.0%	**50.2%**	***51.5%***	***45.6%***
Std. Dev.	37.6%	47.8%	28.8%	31.0%	23.4%	21.2%	24.4%	27.0%	23.2%	**25.0%**	***25.0%***	***25.0%***

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. Thus 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. As a result, Computer Services enjoys 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.

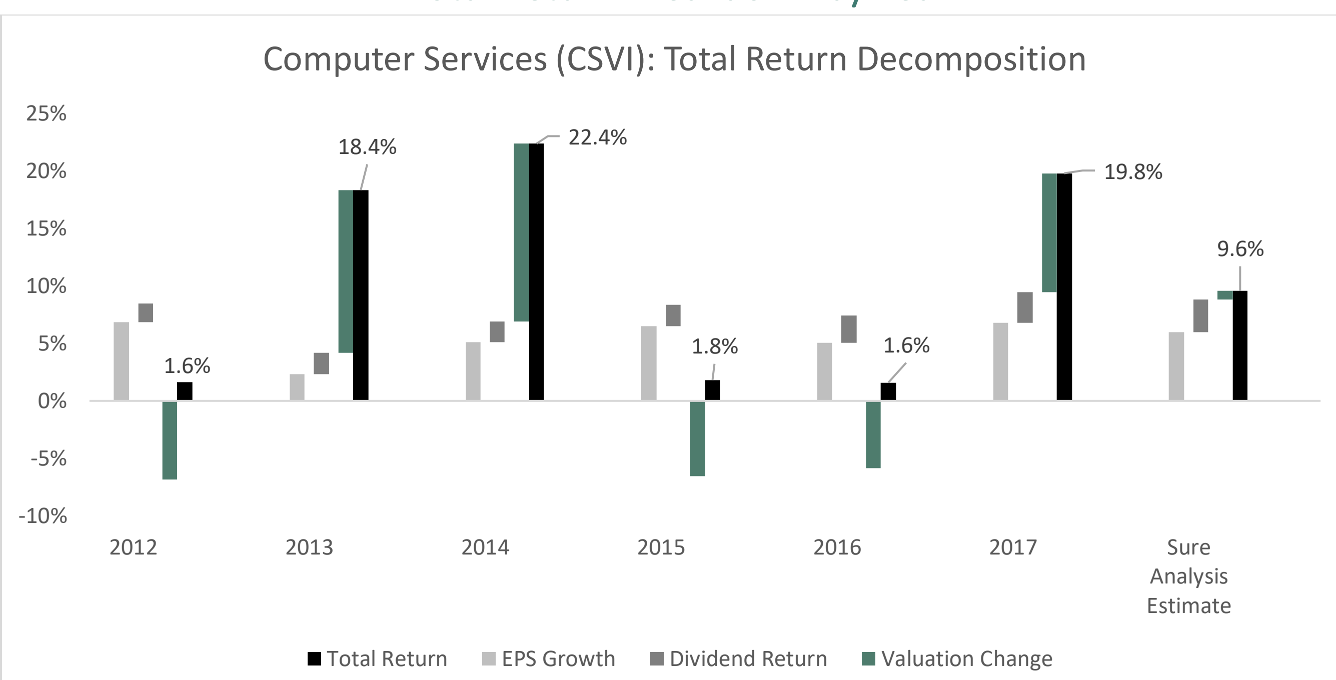
It is also remarkable that the company does not carry any debt. Instead it has a net cash position of $14 million. Therefore, it has great financial flexibility. The company also has a reasonable payout ratio around 50%. This means that the company can easily keep growing its dividend at a meaningful 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. It grew its EPS by 17% in 2008 and another 19% in 2009. 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 gyrations are likely to see the stock 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. The stock is likely to offer a 9.6% average annual return over the next five years thanks to 6.0% EPS growth, a 2.8% dividend and a 0.8% annualized P/E expansion. Given its decent dividend yield, its admirable dividend growth record, and its resilience during recessions, the stock is suitable for income-oriented investors. We rate it as a buy at its current stock price.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.