Infosys Ltd. (INFY)

Updated September 24th, 2018 by Nick McCullum

Key Metrics

Current Price:	$10.00	**5 Year CAGR Estimate:**	7.7%	**Volatility Percentile:**	41.9%
Fair Value Price:	$9.60	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	88.5%
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Valuation Percentile:**	50.9%
Dividend Yield:	1.6%	**5 Year Price Target**	$13.44	**Total Return Percentile:**	61.1%

Overview & Current Events

Infosys Ltd. Is a global information technology corporation that provides services through a number of wholly-owned subsidiaries including Progeon Ltd., Infosys Technologies (Shanghai) Co. Ltd., Infosys Consulting, and Infosys Technologies (Australia) Pty. Ltd. The company's solutions include consulting, software development, engineering, systems integration, and banking software services. The company is headquartered in Bangalore, India, and employs more than 175,000 people. United States investors can initiate an ownership stake in Infosys through American Depository Receipts that trade on the New York Stock Exchange under the ticker INFY, which has a market capitalization of $44 billion.

In mid-July, Infosys reported (7/13/18) financial results for the first quarter of fiscal 2019 (which ended on June 20th, 2018). In the quarter, USD-denominated revenues grew by 6.8%, or 6.0% in constant-currency. On the bottom line, earnings-per-share grew by 3.9% year-on-year. The company generated strong performance sequentially as compared to the fourth quarter of fiscal 2018. More specifically, revenues grew by 0.9% sequentially, or 2.3% on a constant-currency basis. The company's return on equity of 25.5% expanded considerably over the 24.1% reported in the fourth quarter of 2018. Infosys' first quarter earnings release was positively received by the markets and shares rose by nearly 10% in the weeks following the announcement.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.28	$0.29	$0.33	$0.38	$0.38	$0.39	$0.44	$0.45	$0.47	$0.55	***$0.60***	***$0.84***
DPS	$0.05	$0.06	$0.07	$0.09	$0.08	$0.10	$0.15	$0.18	$0.19	$0.22	***$0.25***	***$0.41***
Shares	2291.3	2284.0	2285.3	2285.6	2285.6	2274.3	2296.9	2285.6	2285.7	2173.3	***2170.0***	***2100.0***

Infosys has managed to generate appealing business growth over the last decade. More specifically, the company has compounded its adjusted earnings-per-share at 7.0% per year over the last decade. Infosys is likely to generate similar rates of growth moving forward. We believe the company is likely to print earnings-per-share of around $0.60 in fiscal 2019. Applying a 7% growth rate to our 2019 earnings-per-share estimate allows us to compute a 2024 earnings-per-share estimate of $0.84.

Infosys' dividend payments have grown far more rapidly than the company's per-share earnings over the last ten years. More specifically, the company's dividends have compounded at 16.9% per year during the last decade. We believe the company is likely to pay around $0.25 in dividends in the ongoing fiscal year, with 10% growth each year thereafter for the next five years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.9	19.9	24.9	19.2	15.3	16.6	17.5	18.8	17.3	14.3	***16.7***	***16.0***
Avg. Yld.	1.0%	1.0%	0.8%	1.2%	1.4%	1.5%	1.9%	2.1%	2.3%	2.7%	***1.6%***	***3.1%***

Infosys has traded at an average price-to-earnings ratio of 17.9 over the last decade. We believe that this is a tad rich for a company of Infosys' caliber. Instead, the company's fair value is likely somewhere around 16 times earnings. Infosys is trading at a price-to-earnings ratio of 16.7 today. If the company's price-to-earnings ratio were to expand to 14 over the next 5 years, this would reduce the company's annualized returns by 0.9% during that time period.

Income investors should note that India has no dividend withholding tax, so Infosys' gross dividend yield of 1.6% is equal to its net dividend yield because no capital is withheld at source by the Indian tax authority.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	38.4%	45.0%	33.4%	38.5%	38.2%	32.3%	31.1%	33.5%	33.4%	31.2%	***32.5%***	***32.5%***
Debt/A	13.0%	13.4%	12.8%	12.7%	12.8%	14.1%	16.7%	17.5%	18.1%	17.2%	***18.0%***	***18.0%***
Payout	16.1%	20.7%	20.0%	24.0%	21.1%	24.7%	33.0%	40.0%	40.4%	39.1%	***41.7%***	***48.2%***
Std. Dev.	46.2%	30.1%	23.2%	31.1%	31.9%	38.6%	21.3%	24.4%	20.5%	16.5%	***22.0%***	***22.0%***

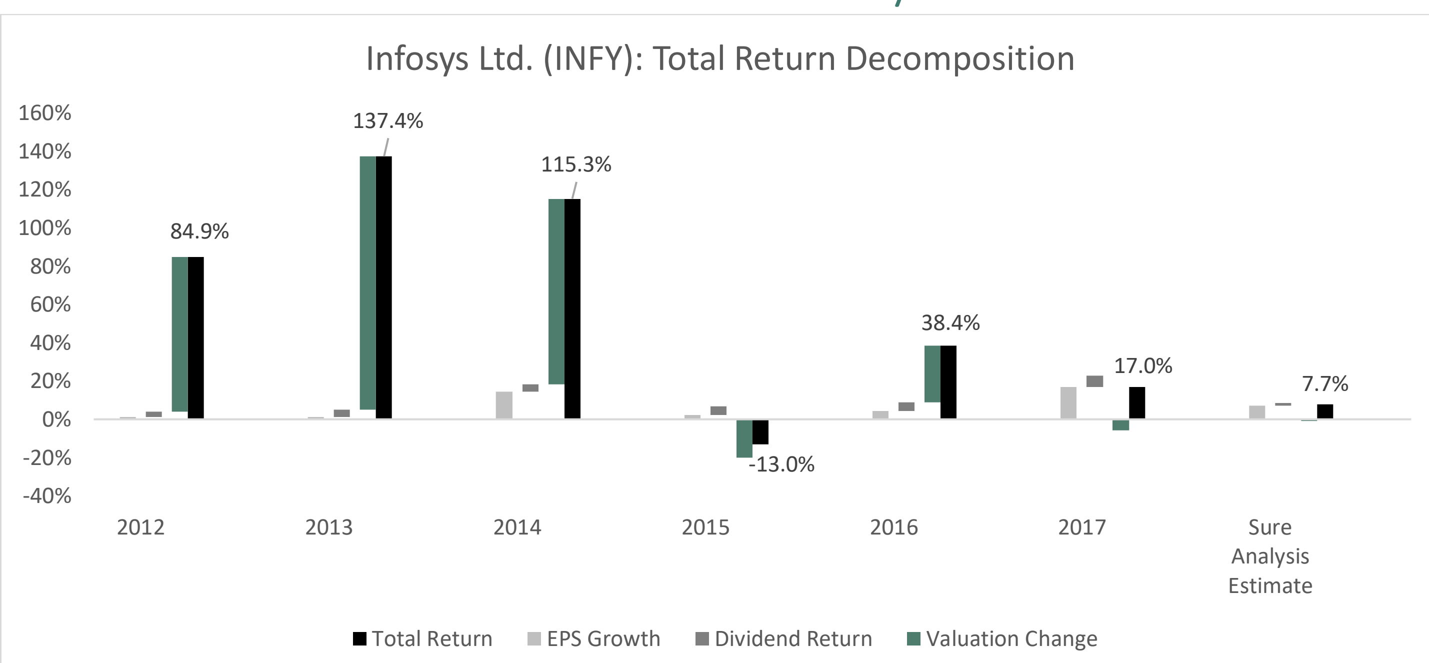
Infosys scores well on a number of quantitative measures of business quality. The company generates a tremendous amount of gross profits relative to its asset base, and less than one-fourth of its balance sheet is funded by debt. In addition, Infosys' dividend payout ratio has never exceeded 50%. Even with our robust projection for 10% annualized dividend growth over the next 5 years, the company should still pay out less than 50% of its earnings at the end of this time period. The only metric by which Infosys does not score well is stock price standard deviation. The company's ADRs are far more volatile than the average security in our investment universe.

Final Thoughts & Recommendation

Infosys is a global leader in information technology services. The company gives attractive exposure to a growing industry (technology) and a growing economy (India).

With that said, the company is priced to deliver annualized total returns of less than 8%. For context, the company's domestic equivalent – International Business Machines Corporation (IBM) – is forecasted to deliver total returns of nearly 12% per year moving forward. Due to subpar expected total returns, Infosys earns a hold recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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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.