Retirement Suitability Score

C

Reasonably Suitable

Computer Services (CSVI)

Updated October 5th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	10.8%	**Volatility Percentile:**	4.1%
Fair Value Price:	$54	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	49.7%
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Valuation Percentile:**	74.0%
Dividend Yield:	2.9%	**5 Year Price Target**	$72	**Total Return Percentile:**	70.3%

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 about $700 million.

Computer Services reported its financial results for the second quarter of fiscal 2019 yesterday. It grew its sales and its earnings-per-share by 10% and 71%, respectively, compared to last year. Excluding its $4.3 million in early contract termination fees and a $3.9 million gain from an investment sale, the company grew its sales and its earnings-per-share by 4% and 37%, respectively. About two-thirds of the earnings-per-share growth resulted from the decrease in the tax rate, from 39% in last year's quarter to 23%. Management maintained its guidance for record sales and earnings this year thanks to high customer renewal rates, 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	***$1.44***	***$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.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2023
Avg. P/E	9.9	12.6	16.6	19.1	16.9	18.0	20.6	17.4	20.4	16.7	***16.6***	***18.2***
Avg. Yld.	2.6%	2.0%	1.5%	1.4%	1.8%	1.8%	1.9%	2.6%	2.4%	2.9	***2.9%***	***2.5%***

Computer Services' 10-year average P/E ratio is 18.2 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 16.6. If the stock reverts to its average valuation level in the next five years, it will enjoy a 1.9% 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%	22.7%	***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%	***48.8%***	***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.

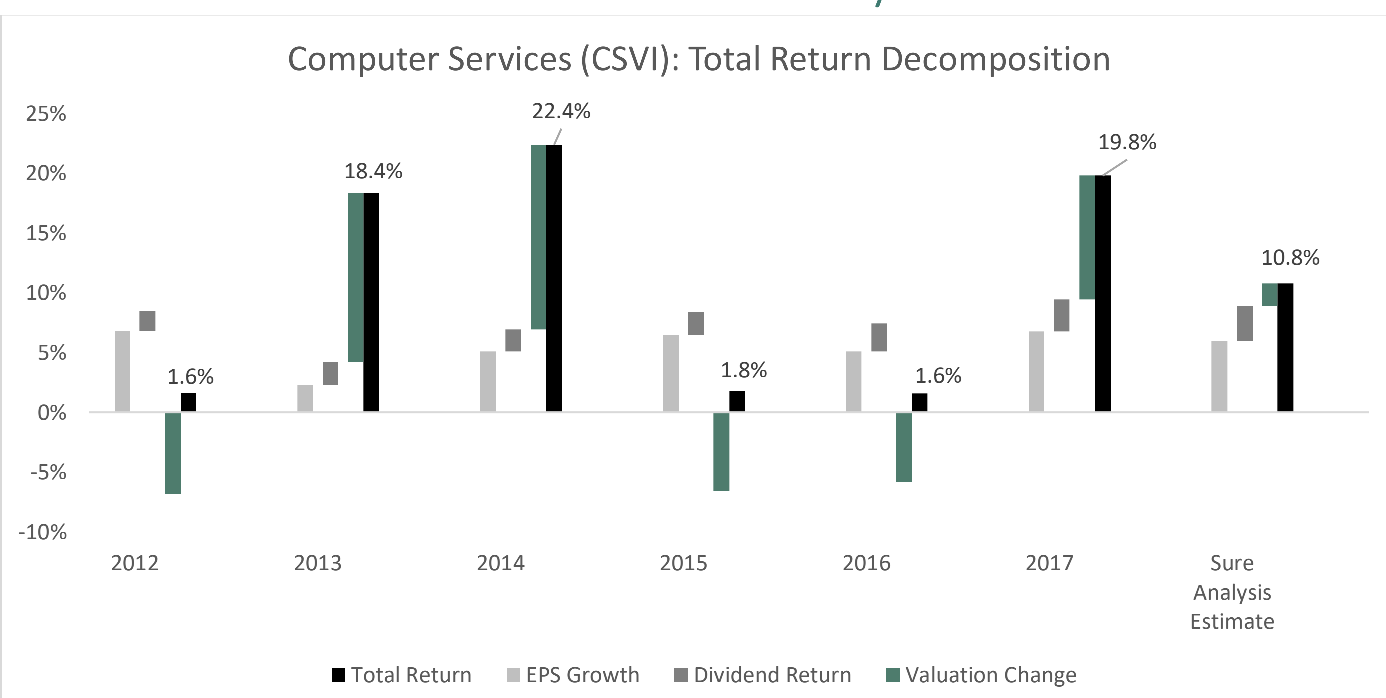
Computer Services does not carry any debt. Instead it has a net cash position of $14 million. Thanks to its strong balance sheet and its healthy payout ratio, the company can easily keep growing its dividend at a meaningful pace.

Finally, thanks to its long-term contracts and the recurring nature of its revenues, Computer Services is markedly resilient during recessions. In the Great Recession, it grew its earnings-per-share by 17% in 2008 and another 19% in 2009. On the other hand, its P/E ratio will steeply decrease in a recession and the stock price will plunge, just like it did in the Great Recession, when it lost half of its market cap in 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 10.8% average annual return over the next five years thanks to 6.0% EPS growth, a 2.9% dividend and a 1.9% annualized P/E expansion. We maintain our buy rating. The company earns a C rating for retirement suitability, with its high payout ratio being the role reason it does not rank higher.

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.