Computer Services (CSVI)

Updated January 15th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	10.8%	**Volatility Percentile:**	3.2%
Fair Value Price:	$54	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	88.9%
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Growth Percentile:**	49.5%
Dividend Yield:	2.9%	**5 Year Price Target**	$72	**Valuation Percentile:**	51.5%
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Total Return Percentile:**	46.3%

Overview & Current Events

Computer Services provides regional banks with a wide range of services, such as core processing, digital banking, payments processing, and regulatory compliance solutions. It has a market cap of ~$700 million.

In mid-January, Computer Services reported (1/14/2019) its financial results for the third quarter of fiscal 2019. It grew its sales and its earnings-per-share by 11% and 49%, respectively, compared to last year. On one hand, strong performance resulted from increased demand for digital banking products, such as mobile banking, e-banking ,and online bill payments. On the other hand, most of the earnings growth resulted from a $2.2 million increase in early contract termination fees and a decrease in the tax rate, from 39% to 23%.

Management maintained its guidance for record sales and earnings this year. Moreover, thanks to the strong cash flows and the debt-free balance sheet, management stated that the company will continue investing in infrastructure and new technologies. This bodes well for the future growth prospects of the company.

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	***$3.20***	***$4.28***
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***
Shares	15.8	15.1	14.9	14.8	14.7	14.4	14.2	14.1	14.0	14.0	***13.9***	***13.5***

Due to high early contract termination fees and strong performance, we have raised our earnings-per-share forecast for this fiscal year, from $2.95 to $3.20. 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. It has grown its earnings-per-share at a rate between 5% and 7% in each of the last five years, excluding last year and this 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	***15.3***	***16.8***
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%***

In our previous valuation analysis, we excluded the outlier years 2009 and 2010, as Computer Services was significantly undervalued due to the Great Recession. However, due to an increased risk of an upcoming recession within the next two years, we have now included those two years in our analysis. Computer Services is currently trading at a P/E ratio of 15.3, which is lower than its 10-year average of 16.8. 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.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	25.2%	25.2%	25.5%	27.3%	30.1%	32.4%	38.6%	45.4%	48.0%	50.2%	***45.0%***	***42.1%***

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. 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 working with the company, particularly given that they pay appreciable early termination fees. 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 that is not a customer of Computer Services.

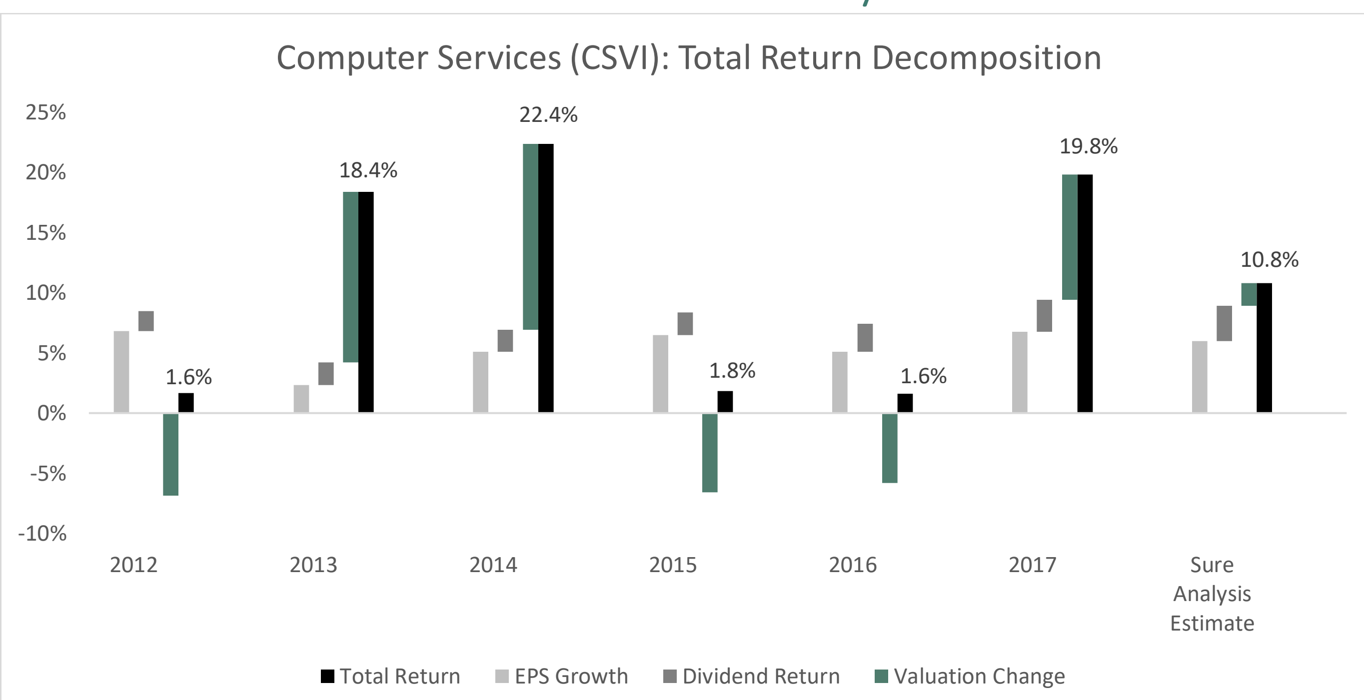
Computer Services does not carry any debt. Instead it has a net cash position of $16 million. Thanks to its strong balance sheet and healthy payout ratio, the company can easily keep growing its dividend at a meaningful pace.

Finally, thanks to its long-term contracts and the recurring nature of its revenues, Computer Services is 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 likely 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

Since our last research report, in October, in which we recommended buying Computer Services, the stock has outperformed the market by a wide margin, as it has remained flat whereas the S&P has shed 10%. Computer Services has an exceptional growth record and continues to grow without any signs of fatigue. As a result, the stock is likely to offer a 10.8% average annual return over the next five years. We maintain our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	N/A	N/A	N/A	178.2	198.3	212.9	221.4	224.7	234.9	249.6
SG&A Exp.	N/A	N/A	N/A	137.8	156.4	168.8	175.6	N/A	N/A	N/A
D&A Exp.	N/A	N/A	N/A	13.5	14.9	15.5	14.6	15.0	15.5	16.3
Operating Profit	N/A	N/A	N/A	40.4	41.9	44.1	45.8	48.1	50.0	47.7
Operating Margin	N/A	N/A	N/A	22.7%	21.1%	20.7%	20.7%	21.4%	21.3%	19.1%
Net Profit	N/A	N/A	N/A	25.5	25.8	26.7	27.8	29.1	30.9	38.8
Net Margin	N/A	N/A	N/A	14.3%	13.0%	12.5%	12.6%	13.0%	13.2%	15.6%
Free Cash Flow	N/A	N/A	N/A	35.4	20.0	23.0	26.8	25.1	35.5	25.9
Income Tax	N/A	N/A	N/A	14.8	16.0	17.4	18.0	19.0	19.2	9.0

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	N/A	N/A	N/A	165.0	162.0	174.9	189.2	203.2	225.2	247.0
Cash & Equivalents	N/A	N/A	N/A	8.5	0.5	1.1	11.8	17.4	34.6	40.7
Accounts Receivable	N/A	N/A	N/A	21.3	22.0	26.0	25.7	28.0	28.2	30.5
Goodwill & Int. Ass.	N/A	N/A	N/A	85.8	88.4	86.3	85.0	88.2	86.0	88.6
Total Liabilities	N/A	N/A	N/A	39.1	36.6	43.6	44.8	47.2	55.2	56.4
Accounts Payable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.3	8.1	7.7
Long-Term Debt	N/A	N/A	N/A	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Shareholder's Equity	N/A	N/A	N/A	125.8	125.4	131.3	144.4	156.0	170.0	190.6
D/E Ratio	N/A	N/A	N/A	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	N/A	N/A	N/A	16.9%	15.8%	15.8%	15.3%	14.9%	14.4%	16.4%
Return on Equity	N/A	N/A	N/A	21.9%	20.6%	20.8%	20.2%	19.4%	19.0%	21.5%
ROIC	N/A	N/A	N/A	21.6%	20.5%	20.8%	20.2%	19.4%	19.0%	21.5%
Shares Out.	N/A	N/A	N/A	14.8	14.7	14.4	14.2	14.1	14.0	14.0
Revenue/Share	N/A	N/A	N/A	12.05	13.47	14.74	15.63	15.93	16.77	17.87
FCF/Share	N/A	N/A	N/A	2.39	1.36	1.59	1.89	1.78	2.54	1.85

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.