Infosys Ltd. (INFY)

Updated January 15th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$10.4	**5 Year CAGR Estimate:**	7.8%	**Volatility Percentile:**	99.7%
Fair Value Price:	$9.6	**5 Year Growth Estimate:**	7.0%	**Momentum Percentile:**	4.9%
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.6%	**Growth Percentile:**	64.3%
Dividend Yield:	2.4%	**5 Year Price Target**	$13.4	**Valuation Percentile:**	28.1%
Dividend Risk Score:	A	**Retirement Suitability Score:**	A	**Total Return Percentile:**	37.7%

Overview & Current Events

Infosys Ltd. Is a global information technology corporation that provides services through a number of 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. The company has a market capitalization of $46 billion.

Infosys reported its third quarter (fiscal 2019) earnings results on January 11. Infosys was able to grow its revenues to $2.99 billion, which represents an increase of 8.3% compared to the prior year's quarter. On a constant currency basis, i.e. backing out the impact of a strengthening dollar, Infosys was able to grow its revenues by an even better 10.1% year over year. Revenue growth was primarily driven by a strong performance of Infosys' digital revenues, which rose by 33% compared to Q3 2018.

With that said, Infosys was not able to translate the solid revenue growth rate into compelling earnings growth. Infosys' operating earnings rose by just 1% year over year to $675 million. At the same time, earnings-per-share did not grow at all, and actually declined by 34% year over year, as earnings-per-share totaled just $0.12 during Q3.

Infosys guides for revenue growth of 8.5%-9% in fiscal 2019 in constant currencies. Reported revenue growth will likely be slightly lower than that. Infosys continues to expect an operating margin of 22%-24%.

Infosys announced a new share repurchase program of roughly $1.2 billion, and at the same time Infosys has declared a special dividend payment of $0.06 per share.

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	2290	2280	2280	2290	2290	2270	2300	2290	2290	2170	***2160***	***2100***

Infosys has managed to generate a solid rate of business growth over the last decade. The company has compounded its adjusted earnings-per-share at 7% per year over the last decade. Infosys has been able to grow its earnings-per-share quite consistently over that time frame. Its profits did not decline at any point during the last decade. Infosys also remained profitable during the last financial crisis.

Infosys' profit growth was primarily based on rising revenues in the past, and this will likely remain the case going forward. Due to growing demand for the services Infosys offers to its customers, and due to incentives for outsourcing for Infosys' customers, it is likely that Infosys will be able to grow its top line during the coming years. Infosys has had a relatively stable share count during most of the last decade, but the company has started to buy back its shares a couple of years ago. This should be a positive for Infosys' earnings-per-share growth going forward. When we assume that Infosys will be able to generate earnings-per-share of $0.60 during fiscal 2018, and that its growth during the coming year will be in line with its growth during the last decade, Infosys would be able to earn $0.84 per share during 2024. Infosys will, we believe, continue to raise its dividend consistently, but the dividend growth rate will likely slow down.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.9	19.9	24.9	19.2	15.3	16.6	17.5	18.8	17.3	14.3	***17.3***	***16.0***
Avg. Yld.	1.0%	1.0%	0.8%	1.2%	1.4%	1.5%	1.9%	2.1%	2.3%	2.7%	***2.4%***	***3.1%***

Infosys trades at roughly 17 times this year's expected earnings right now. This represents a premium over how the company's shares were valued in the past. The small overvaluation will represent a headwind for Infosys' total returns going forward, as multiple normalization will slow down Infosys' share price growth over the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	17.9%	20.7%	21.2%	23.7%	21.1%	25.6%	34.1%	40.0%	40.4%	39.1%	***41.7%***	***48.8%***

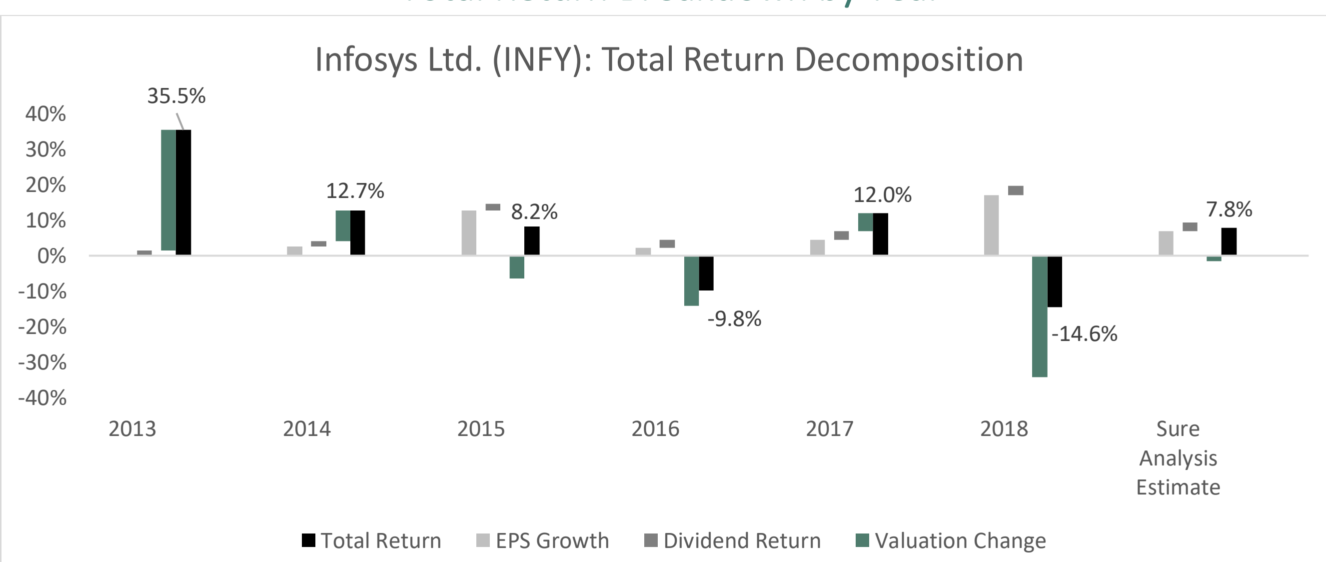
Infosys has raised its dividend payout ratio relatively consistently over the last decade. This is not surprising, as the dividend growth rate was substantially higher than the earnings-per-share growth rate over those ten years. Infosys still does not pay out an overly large portion of its net profits in the form of dividends, though, as the payout ratio is still in the 40s. Infosys' dividend looks very safe, due to a payout ratio that is not overly high.

Infosys competes with several peers, but due to the fact that the overall market for the services that Infosys offers continues to grow, competition is not a problem. Infosys and its peers can all grow profitably without acting aggressively towards each other. Infosys remained profitable during the last financial crisis, and it is quite likely that Infosys will remain profitable during future recessions as well. Infosys does thus not look like a risky stock, as both competitive threats as well as the vulnerability versus recessions are relatively negligible.

Final Thoughts & Recommendation

Infosys is a large IT services company that has managed to grow at a solid pace in the past. Due to market growth and share repurchases Infosys should be able to maintain a meaningful earnings-per-share growth rate over the coming years. Infosys offers a dividend yield that is slightly higher than that of the broad market, but shares look slightly overvalued right here. We thus rate Infosys a hold at the current price.

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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	4663	4804	6041	6994	7398	8249	8711	9501	10208	10939
Gross Profit	1964	2055	2544	2876	2761	2957	3337	3551	3762	3938
Gross Margin	42.1%	42.8%	42.1%	41.1%	37.3%	35.8%	38.3%	37.4%	36.9%	36.0%
SG&A Exp.	590	595	680	863	852	978	890	1002	1018	1091
D&A Exp.	165	199	189	195	207	226	175	222	254	289
Operating Profit	1374	1460	1779	2013	1909	1979	2329	2368	2541	2670
Operating Margin	29.5%	30.4%	29.4%	28.8%	25.8%	24.0%	26.7%	24.9%	24.9%	24.4%
Net Profit	1281	1313	1499	1716	1725	1751	2013	2052	2140	2486
Net Margin	27.5%	27.3%	24.8%	24.5%	23.3%	21.2%	23.1%	21.6%	21.0%	22.7%
Free Cash Flow	1124	1314	1013	1361	1354	1552	1389	1449	1688	1947
Income Tax	194	356	547	694	617	668	805	799	834	657

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	4369	6148	7010	7537	8539	9522	10615	11378	12854	12255
Cash & Equivalents	2167	2698	3737	4047	4021	4331	4859	4935	3489	3041
Accounts Receivable	724	778	1043	1156	1305	1394	1554	1710	1900	2016
Goodwill & Int. Ass.	142	195	196	229	432	417	597	717	683	377
Total Liabilities	585	787	888	961	1208	1589	1853	2054	2217	2295
Accounts Payable	5	2	10	5	35	29	22	58	57	107
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	3784	5361	6122	6576	7331	7933	8762	9324	10637	9960
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	28.9%	25.0%	22.8%	23.6%	21.5%	19.4%	20.0%	18.7%	17.7%	19.8%
Return on Equity	33.3%	28.7%	26.1%	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%
ROIC	33.3%	28.7%	26.1%	27.0%	24.8%	22.9%	24.1%	22.7%	21.4%	24.1%
Shares Out.	2290	2280	2280	2290	2290	2270	2300	2290	2290	2170
Revenue/Share	1.02	1.05	1.32	1.53	1.62	1.80	1.91	2.08	2.23	2.42
FCF/Share	0.25	0.29	0.22	0.30	0.30	0.34	0.30	0.32	0.37	0.43

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