



Computer Services (CSVI)

Updated May 7th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$74	5 Year CAGR Estimate:	3.2%	Volatility Percentile:	9.6%
Fair Value Price:	\$58	5 Year Growth Estimate:	6.0%	Momentum Percentile:	99.0%
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-4.7%	Growth Percentile:	53.2%
Dividend Yield:	1.9%	5 Year Price Target	\$78	Valuation Percentile:	19.5%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	13.9%

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 \$1.0 billion.

On April 1st, the company declared a two-for-one stock split. As this corporate event took place after the latest quarter, we have kept our share count intact in our analysis and will adjust all the figures in our next report.

In early May, Computer Services reported (5/6/2019) financial results for the fourth quarter of fiscal 2019. In the quarter, the company grew its sales and its earnings-per-share by 7% and 9%, respectively, compared to last year thanks to higher sales of core processing, digital banking, regulatory compliance services and managed services. In the year, sales and earnings-per-share grew 7% and 16%, respectively, thanks to the above reasons and expansion into new geographic markets. The company added a record number of new core customers, who signed contracts with an average duration above 9 years.

Overall, it was another year characterized by record performance. Computer Services has now grown its sales, its earnings and its dividend for 19, 22 and 47 consecutive years, respectively. Thanks to strong business momentum, management expects to post new all-time highs in the above metrics in the new fiscal year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.43	\$1.61	\$1.72	\$1.76	\$1.85	\$1.97	\$2.07	\$2.21	\$2.78	\$3.23	\$3.45	\$4.62
DPS	\$0.36	\$0.41	\$0.47	\$0.53	\$0.60	\$0.76	\$0.94	\$1.06	\$1.34	\$1.44	\$1.60	\$2.00
Shares	15.1	14.9	14.8	14.7	14.4	14.2	14.1	14.0	14.0	13.9	13.8	13.5

Computer Services has grown its earnings-per-share at a rate between 5% and 7% in each of the last five years, excluding the last two years, which benefited from a large 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 growth for the next five years. For fiscal 2020, we expect 7% growth thanks to the strong current business momentum.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2025
Avg. P/E	9.9	12.6	16.6	19.1	16.9	18.0	20.6	17.4	20.4	16.7	21.4	16.8
Avg. Yld.	2.6%	2.0%	1.5%	1.4%	1.8%	1.8%	1.9%	2.6%	2.4%	2.9	1.9%	2.6%

Since our last research report, in January, Computer Services has dramatically outperformed the market, with a 51% rally (vs. 14% of S&P). As a result, the stock is currently trading at a price-to-earnings ratio of 21.4, which is much higher than its 10-year average of 16.8. If the stock reverts to its average valuation level in the next five years, it will incur a 4.7% annualized drag due to contraction of its price-to-earnings ratio.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	25.2%	25.5%	27.3%	30.1%	32.4%	38.6%	45.4%	48.0%	50.2%	44.6%	46.4%	43.3%

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.

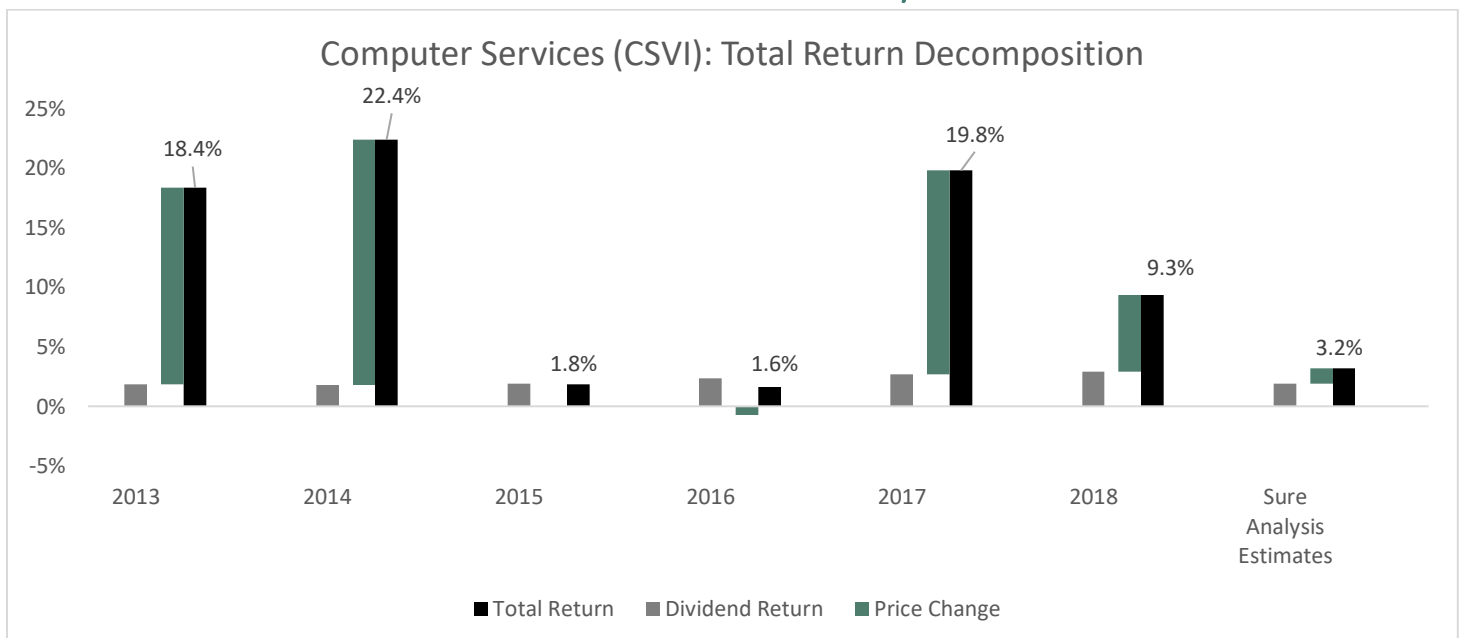
Computer Services does not carry any debt. Instead it has a net cash position of \$16 million. Thanks to its strong balance sheet and healthy payout ratio, the company can easily keep growing its dividend at a meaningful pace.

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 price-to-earnings ratio could steeply decline in a recession and the stock price would 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 January, in which we recommended buying Computer Services, the stock has enjoyed an impressive 51% rally. About two-thirds of the stock price gains materialized after the announcement of the stock split, even though this event does not change the underlying fundamentals of the stock. There has been no other piece of news to justify such a steep rally. While Computer Services has an exceptional growth record and continues to grow without any signs of fatigue, the stock has become richly valued. As a result, it may offer just a 3.2% average annual return over the next five years. We thus rate it as a hold.

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	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.

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