



Computer Services (CSVI)

Updated October 8th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	2.5%	Volatility Percentile:	28.8%
Fair Value Price:	\$32	5 Year Growth Estimate:	7.0%	Momentum Percentile:	99.6%
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.2%	Growth Percentile:	70.6%
Dividend Yield:	1.9%	5 Year Price Target	\$45	Valuation Percentile:	15.2%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	16.7%

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 \$1.2 billion.

In early October, Computer Services reported (10/7/2019) financial results for the second quarter of fiscal 2020. The company grew its revenues by 5% thanks to higher sales of core processing, digital banking, regulatory compliance services and managed services. However, earnings-per-share remained flat at \$0.47, as early contract termination fees totaled only \$1.1 million, much lower than the \$4.2 million recorded in last year's quarter. Nevertheless, as early contract termination fees are highly unpredictable and beyond the control of the company, the report should not cause any concerns. Computer Services maintained positive business momentum, with growth prospects remaining strong. The company posted record revenues in the quarter and management expects the strong business momentum to remain in place for the foreseeable future.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.71	\$0.80	\$0.86	\$0.88	\$0.93	\$0.98	\$1.03	\$1.10	\$1.39	\$1.61	\$1.90	\$2.66
DPS	\$0.18	\$0.20	\$0.23	\$0.26	\$0.30	\$0.38	\$0.47	\$0.53	\$0.67	\$0.72	\$0.84	\$1.12
Shares¹	30.2	29.8	29.6	29.4	28.8	28.4	28.2	28.0	28.0	27.8	27.6	26.5

Computer Services has grown its sales, its earnings, and its dividend for 19, 22 and 48 consecutive years, respectively. Thanks to strong business momentum, management expects to post new all-time highs in the above metrics in this fiscal year.

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 sustained momentum in the core business, we continue to expect 7.0% annual earnings-per-share growth for the next five years.

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	23.2	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%	2.5%

Since the end of last year, Computer Services has dramatically outperformed the market, with an 83% rally (vs. 25% for The S&P 500). As a result, the stock is currently trading at a price-to-earnings ratio of 23.2, 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 6.2% annualized drag due to contraction of its price-to-earnings ratio.

¹ Share count is in millions.

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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%	44.2%	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. It is thus 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.

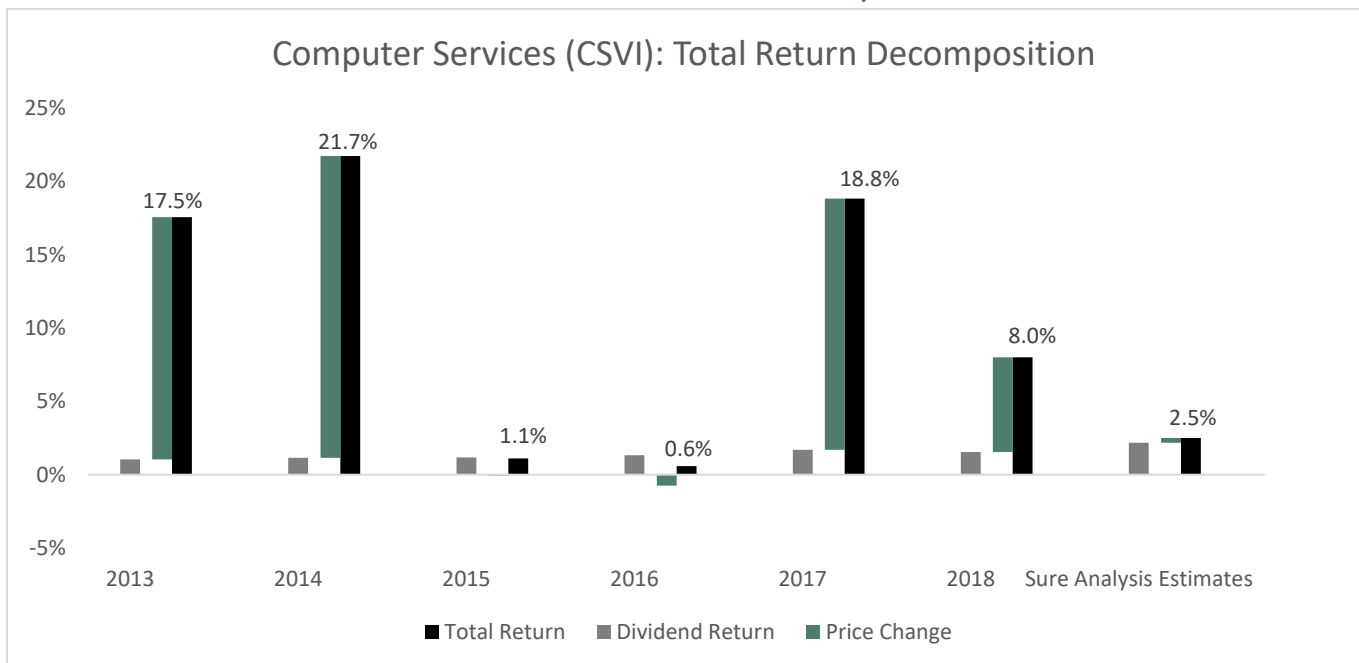
Computer Services does not carry any debt. Instead it has a net cash position of \$8 million. Thanks to its strong balance sheet and healthy payout ratio, the company can easily keep growing its dividend at a meaningful pace.

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 an economic downturn.

Final Thoughts & Recommendation

Since it bottomed at the end of last year, Computer Services has enjoyed an impressive 83% rally, primarily thanks to accelerated earnings growth. While the company 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 2.5% average annual return over the next five years. While the strong stock price momentum is likely to remain in place in the short run, the stock will have significant downside risk whenever it faces an unexpected headwind. We thus rate it as a sell, despite its high quality.

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.

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