



Computer Services (CSVI)

Updated July 8th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	2.2%	Market Cap:	\$1.5 B
Fair Value Price:	\$37	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	8/30/21 ¹
% Fair Value:	147%	5 Year Valuation Multiple Estimate:	-7.4%	Dividend Payment Date:	9/24/21
Dividend Yield:	1.8%	5 Year Price Target	\$55	Years Of Dividend Growth:	49
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	19.0%

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 \$1.5 billion.

In early July, Computer Services reported (7/7/2021) financial results for the first quarter of fiscal 2022. The company grew its revenue by 8% and its earnings-per-share by 2% over the prior year, to new all-time high levels. The tepid earnings growth resulted from much higher termination fees received in last year's quarter but Computer Services maintained its strong business momentum. Digital banking solutions enjoyed high growth thanks to the efforts of banks to support their customers online while revenues from regulatory compliance and payments processing remained strong. It is also important to note that 90% of the total revenues are generated from long-term contracts. Management expects momentum to accelerate in the second half of this year thanks to new customers coming online.

In 2020, Computer Services signed 24 new core partnerships and achieved a 95% retention rate in long-term contracts. This is a testament to its strong business momentum, which is also confirmed by management's bright outlook and the special dividend of \$1.00 per share (1.8% at the current stock price) that the company paid at the end of December.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.80	\$0.86	\$0.88	\$0.93	\$0.98	\$1.03	\$1.10	\$1.39	\$1.69	\$1.91	\$2.15	\$3.16
DPS	\$0.20	\$0.23	\$0.26	\$0.30	\$0.38	\$0.47	\$0.53	\$0.67	\$0.72	\$0.84	\$1.00	\$1.48
Shares²	29.8	29.6	29.4	28.8	28.4	28.2	28.0	28.0	27.8	27.7	27.6	26.5

Computer Services has grown its sales, earnings, and its dividend for 20, 23 and 49 consecutive years, respectively. Thanks to strong business momentum, management expects to post new all-time highs in the above metrics this year.

Computer Services has grown its earnings-per-share at a 10.2% average annual rate over the last decade. The pandemic has not affected the performance of Computer Services at all. Thanks to sustained momentum in the core business of the company and no signs of fatigue, we expect it to grow its earnings-per-share by 8.0% per year over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	9.9	12.6	16.6	19.1	16.9	18.0	20.6	17.4	20.4	22.0	25.6	17.4
Avg. Yld.	2.5%	2.1%	1.8%	1.7%	2.3%	2.5%	2.3%	2.8%	2.1%	2.0%	1.8%	2.7%

Computer Services is currently trading at a price-to-earnings ratio of 25.6, which is a nearly 10-year high level and much higher than its 10-year average of 17.4. If the stock reverts to its average valuation level in the next five years, it will incur a -7.4% annualized drag due to the contraction of its price-to-earnings ratio.

¹ Estimated date.

² Share count is in millions.

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	25.5%	27.3%	30.1%	32.4%	38.6%	45.4%	48.0%	48.2%	42.6%	44.0%	46.5%	46.7%

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.

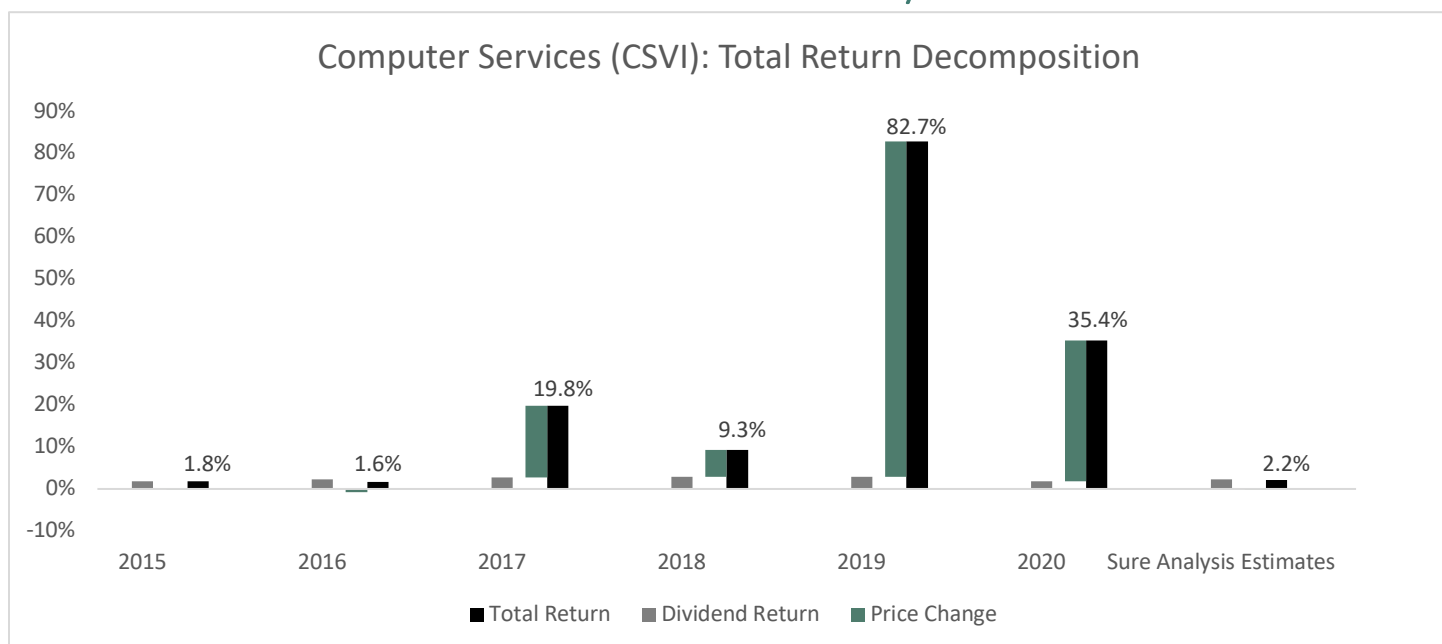
Computer Services carries a negligible amount of net debt of \$63 million. Thanks to its strong balance sheet and its healthy payout ratio, the company can easily keep growing its dividend at a meaningful pace.

Finally, thanks to its long-term contracts and the recurring nature of its revenues, Computer Services is 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 steeply declined in the Great Recession, when the stock lost half of its market cap in a year. The company has proved resilient once gain in the ongoing coronavirus crisis, as it has posted all-time high revenues and earnings. Those who can focus on the underlying performance and ignore the stock price gyrations could see the company rebound after an economic downturn.

Final Thoughts & Recommendation

Since it bottomed at the end of 2018, Computer Services has enjoyed a 130% rally, primarily thanks to accelerated earnings growth. While it 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 lackluster returns over the next five years. While the stock may maintain its premium valuation for a considerable period, it 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	164	178	198	213	221	225	235	250	263	284
D&A Exp.	14	14	15	16	15	15	15	16	19	23
Operating Profit	40	40	42	44	46	48	50	48	55	65
Operating Margin	24.3%	22.7%	21.1%	20.7%	20.7%	21.4%	21.3%	19.3%	21.0%	23.0%
Net Profit	24	26	26	27	28	29	31	39	47	53
Net Margin	14.7%	14.3%	13.0%	12.5%	12.6%	13.0%	13.2%	15.7%	17.9%	18.6%
Free Cash Flow	22	35	20	23	27	25	36	26	37	39
Income Tax	16	15	16	17	18	19	19	9	13	14

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	136	165	162	175	189	203	225	247	310	372
Cash & Equivalents	4	9	0	1	12	17	35	41	57	70
Accounts Receivable	19	21	22	26	26	28	28	31	39	38
Goodwill & Int. Ass.	69	86	88	86	85	88	86	89	90	88
Total Liabilities	29	39	37	44	45	47	55	61	88	121
Accounts Payable	---	16	13	19	19	7	8	8	8	10
Long-Term Debt	3	---	---	---	---	---	---	---	---	---
Shareholder's Equity	107	126	125	131	144	156	170	186	223	250
D/E Ratio	0.03	0.00	0.00	0.00	---	---	---	---	---	---

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	16.9%	15.8%	15.8%	15.3%	14.9%	14.4%	16.6%	16.9%	15.5%
Return on Equity	---	21.9%	20.6%	20.8%	20.2%	19.4%	19.0%	22.0%	23.0%	22.3%
ROIC	---	21.6%	20.5%	20.8%	20.2%	19.4%	19.0%	22.0%	23.0%	22.3%
Shares Out.	29.8	29.6	29.4	28.8	28.4	28.2	28.0	28.0	27.8	27.7
Revenue/Share	5.54	6.06	6.78	7.37	7.82	7.97	8.39	8.94	9.47	10.27
FCF/Share	0.73	1.20	0.69	0.80	0.94	0.89	1.27	0.93	1.34	1.39

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

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