



# Computer Services (CSVI)

Updated May 27<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$41	<b>5 Year CAGR Estimate:</b>	10.7%	<b>Market Cap:</b>	\$1.2 B
<b>Fair Value Price:</b>	\$44	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	5/31/22
<b>% Fair Value:</b>	94%	<b>5 Year Valuation Multiple Estimate:</b>	1.2%	<b>Dividend Payment Date:</b>	6/27/22
<b>Dividend Yield:</b>	2.6%	<b>5 Year Price Target</b>	\$61	<b>Years Of Dividend Growth:</b>	50
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Buy

## 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 May, Computer Services reported (5/4/2022) financial results for the fourth quarter of fiscal 2022. The company grew its revenue by 7%, from \$75.5 million to a nearly all-time high of \$81.0 million, and its earnings-per-share by 24%, from \$0.49 to \$0.61, thanks to new accounts, continued demand for digital banking services and higher demand for payments processing and regulatory compliance. Notably approximately 90% of the total revenues are generated from long-term contracts. Management expects to accelerate investments in the business in the new fiscal year. Given also higher staffing levels and a return to pre-pandemic travel levels, management expects earnings growth to somewhat decelerate later this year. In September, Computer Services raised its dividend by 8.0%, which marked the 50<sup>th</sup> consecutive year of dividend growth.

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 model, which proved resilient in one of the fiercest recessions.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$0.86	\$0.88	\$0.93	\$0.98	\$1.03	\$1.10	\$1.39	\$1.69	\$1.91	\$2.25	<b>\$2.50</b>	<b>\$3.51</b>
<b>DPS</b>	\$0.28	\$0.32	\$0.44	\$0.50	\$0.56	\$0.62	\$0.72	\$0.84	\$1.00	\$1.08	<b>\$1.08</b>	<b>\$1.76</b>
<b>Shares<sup>1</sup></b>	29.6	29.4	28.8	28.4	28.2	28.0	28.0	27.8	27.7	27.5	<b>27.4</b>	<b>26.5</b>

Computer Services has grown its sales, earnings, and its dividend for 22, 25 and 50 consecutive years, respectively. Thanks to strong business momentum, the company is likely to post new all-time highs in the above metrics this year.

Computer Services has grown its earnings-per-share at an 11.3% 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 and no signs of fatigue, we expect it to grow its earnings-per-share by 7.0% per year over the next five years.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	12.6	16.6	19.1	16.9	18.0	20.6	17.4	20.4	22.0	25.6	<b>16.4</b>	<b>17.4</b>
<b>Avg. Yld.</b>	2.1%	1.8%	1.7%	2.3%	2.5%	2.3%	2.8%	2.1%	2.0%	1.9%	<b>2.6%</b>	<b>2.9%</b>

Computer Services is currently trading at a price-to-earnings ratio of 16.4, which is an 8-year low and lower than its 10-year average of 17.4. We have excluded the last two years from the calculation of the 10-year average due to the rich valuation of the stock in the last two years. If the stock trades at its average valuation level in five years, it will enjoy a 1.2% annualized gain in its returns.

<sup>1</sup> Share count is in millions.

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## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32.6%	36.4%	47.3%	51.0%	54.4%	56.4%	51.8%	49.7%	52.4%	48.0%	43.2%	50.1%

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.

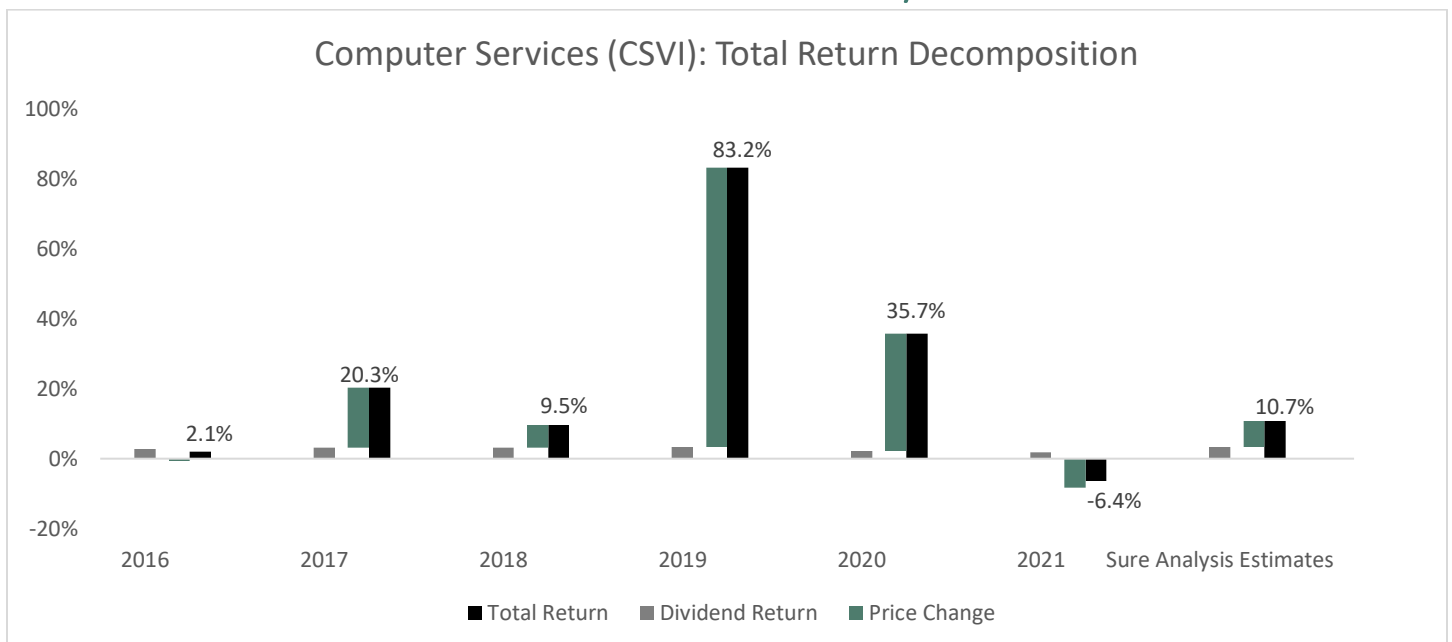
Computer Services carries a negligible amount of net debt of \$53 million. Thanks to its strong balance sheet and its healthy payout ratio of 43%, the company can easily keep growing its dividend at a meaningful pace.

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 proved resilient once gain in the coronavirus crisis, as it 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

Computer Services has fallen -31% in the last 12 months, due to the impact of inflation on the valuation of high-growth stocks and fears of an upcoming recession. As a result, the stock is trading at an 8-year low valuation level. We view the correction of the stock as a great opportunity. Computer Services has an exceptional growth record and continues to grow without any signs of fatigue. It could thus offer a 10.7% average annual return over the next five years and hence this high-quality stock earns a buy rating for the first time after years of rich valuation.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	198	213	221	225	235	250	263	284	291	317
<b>D&amp;A Exp.</b>	15	16	15	15	15	16	19	23	26	25
<b>Operating Profit</b>	42	44	46	48	50	48	55	65	73	79
<b>Operating Margin</b>	21.1%	20.7%	20.7%	21.4%	21.3%	19.3%	21.0%	23.0%	24.9%	25.1%
<b>Net Profit</b>	26	27	28	29	31	39	47	53	55	62
<b>Net Margin</b>	13.0%	12.5%	12.6%	13.0%	13.2%	15.7%	17.9%	18.6%	19.0%	19.5%
<b>Free Cash Flow</b>	20	23	27	25	36	26	37	39	37	54
<b>Income Tax</b>	16	17	18	19	19	9	13	14	18	18

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	162	175	189	203	225	247	310	372	384	435
<b>Cash &amp; Equivalents</b>	0	1	12	17	35	41	57	70	45	61
<b>Accounts Receivable</b>	22	26	26	28	28	31	39	38	42	53
<b>Goodwill &amp; Int. Ass.</b>	88	86	85	88	86	89	90	88	93	89
<b>Total Liabilities</b>	37	44	45	47	55	61	88	121	140	164
<b>Accounts Payable</b>	13	19	19	7	8	8	8	10	20	25
<b>Long-Term Debt</b>	---	---	---	---	---	---	---	---	---	---
<b>Shareholder's Equity</b>	125	131	144	156	170	186	223	250	245	271
<b>D/E Ratio</b>	---	---	---	---	---	---	---	---	---	---

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	15.8%	15.8%	15.3%	14.9%	14.4%	16.6%	16.9%	15.5%	14.7%	15.1%
<b>Return on Equity</b>	20.6%	20.8%	20.2%	19.4%	19.0%	22.0%	23.0%	22.3%	22.4%	24.0%
<b>ROIC</b>	20.5%	20.8%	20.2%	19.4%	19.0%	22.0%	23.0%	22.3%	22.4%	24.0%
<b>Shares Out.</b>	29.6	29.4	28.8	28.4	28.2	28.0	28.0	27.8	27.7	27.5
<b>Revenue/Share</b>	6.78	7.37	7.82	7.97	8.39	8.94	9.47	10.27	10.55	11.52
<b>FCF/Share</b>	0.69	0.80	0.94	0.89	1.27	0.93	1.34	1.39	1.34	1.96

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

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