Amdocs Limited (DOX)

Updated June 15th, 2022, by Thomas Richmond

Key Metrics

Current Price:	$79	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$9.7 B
Fair Value Price:	$82	**5 Year Growth Estimate:**	3.5%	**Ex-Dividend Date:**	06/29/22
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.7%	**Dividend Payment Date:**	07/29/22
Dividend Yield:	2.0%	**5 Year Price Target**	$97	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Amdocs Limited (DOX) is a B2B software company that serves communications service providers (CSPs). The business has software solutions that help CSPs to transition from working in the traditional data center environment to operating effectively in the cloud. The business has developed strong offerings around the cloud microservices architecture, which allows the large and cumbersome applications used by telecom companies to be divided into separate, simple components that can all be managed independently. Amdocs is set to capitalize on megatrends in 5G, Cloud, and digitalization, and management expects that these megatrends will help their serviceable addressable market continue to expand. The business serves communications service providers across the world with its 29,000 employees and has ~75% recurring revenue. The business's strong resiliency from its recurring revenue business model and strong operations have led to extremely stable operating margins over the past 10 years, where margins have steadily increased from 17.0% in 2012 to 17.5% in 2021. Management sees room for long term growth in the business by retaining and building new platforms for the current customer base, expanding the footprint within underpenetrated Tier 1 customers, like Verizon and Charter Communications, and adding new businesses to the current services. Management expects to deliver double-digit shareholder returns in 2022 for the second consecutive year.

On May 11th, 2022, Amdocs Limited reported Q2 2022 results for the period ending March 31st, 2022. The business earned $1.28 in diluted GAAP earnings-per-share for the quarter, up 40.7% year-over-year, and revenue increased 9.5% year-over-year to $1.15 billion. The business saw normalized free cash flow of $160 million, Non-GAAP operating margins increase by 10 basis points sequentially to 17.6%, and GAAP operating income of $164 million. Additionally, Amdocs has a record backlog this quarter of $3.89 billion, which grew over 10% year-over-year and over $60 million quarter-over-quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.32	$2.53	$2.62	$2.95	$2.71	$2.96	$2.47	$3.47	$3.71	$3.82	***$4.55***	***$5.40***
DPS	$0.13	$0.52	$0.60	$0.67	$0.76	$0.86	$0.97	$1.11	$1.27	$1.41	***$1.58***	***$1.83***
Shares	162	160	157	151	147	144	140	135	132	125	***123***	***120***

Over the past 9 years, Amdocs has seen earnings-per-share grow at an average annualized rate of 5.7%, and over the past 5 years, the business has seen earnings-per-share grow at 9.0% annually. For fiscal year 2022, management reiterated in the most recent earnings report their revenue guidance of 6-10% annual revenue growth from 2022 to 2024, and they expect 9-12% non-GAAP earnings-per-share growth. Management also guided for $0.97-$1.05 in GAAP earnings-per-share in the third quarter of 2022, which helped to guide our 2022 GAAP earnings-per-share forecast of $4.55. We conservatively forecast that over the intermediate term, the business will grow earnings-per-share at 3.5% annually, which guides our 2027 earnings-per-share estimate of ~$5.40.

Over the past 5 years, the business has grown dividends at 12.9% annually. Over the next 5 years, we forecast dividend growth of about 3% annually, because we expect dividend growth to eventually slow down to be on pace with earnings-per-share.

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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.0	14.1	16.9	17.7	21.2	20.8	26.9	17.4	17.3	19.2	***17.4***	***18.0***
Avg. Yld.	0.4%	1.5%	1.3%	1.3%	1.3%	1.4%	1.5%	1.8%	2.0%	1.9%	***2.0%***	***1.9%***

Over the past 9 years, Amdocs has averaged a P/E ratio of 18.5, and over the past 5 years, the business has averaged a P/E ratio of 20.3. We estimate that over the intermediate term, the business will trade for a P/E ratio of around 18, in line with historic P/E valuation multiples. Today, the stock offers a low 2.0% dividend yield, which isn't ideal for investors seeking dividend income, but investors may find this business attractive because of the company's recurring revenue business model, and the fact that the company is poised to benefit from megatrends like 5G, cloud and digitalization.

Safety, Quality, Competitive Advantage, & Recession Resiliency

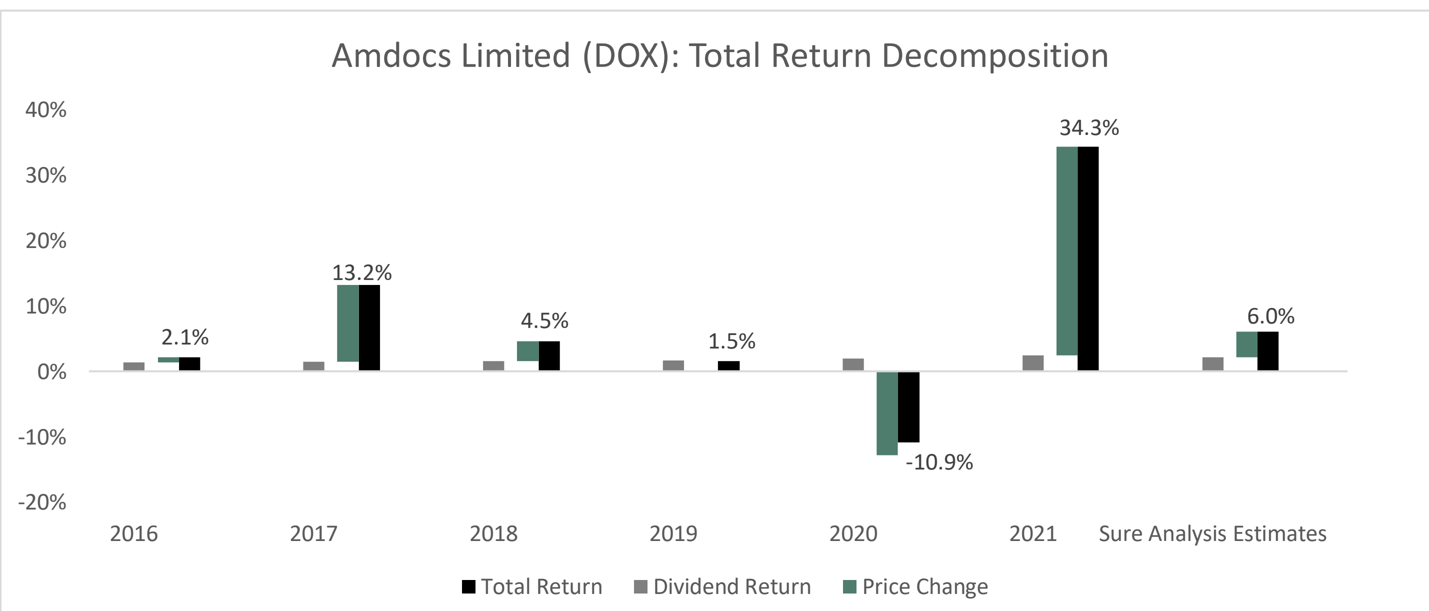
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	6%	21%	23%	23%	28%	29%	39%	32%	34%	37%	***35%***	***34%***

The business has averaged a payout ratio of 27.1% over the past 9 years, and 34.3% over the past 5 years. With a low payout ratio below 40%, we expect that the dividend is safe from any cuts or decreases because it is well-covered by earnings. The business has a strong balance sheet, with almost enough cash on hand to cover all debt. As a recurring revenue business, this company has strong recession resiliency, and has seen revenue and operating margins increase every year for the past 10 years.

Final Thoughts & Recommendation

Amdocs Limited offers investors an opportunity to invest in a recurring revenue business that is helping to digitize communications service providers. Management expects the company to benefit from megatrends like 5G, the cloud, and digitalization. At today's price, we rate the stock as a Hold because total return prospects come in at 6.0% annually over the next five years. Still, investors might be interested in this company if they are interested in investing in a recurring revenue business that's benefiting from digitalization trends.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,247	3,346	3,564	3,644	3,718	3,867	3,975	4,087	4,169	4,289
Gross Profit	1,161	1,179	1,257	1,294	1,310	1,359	1,380	1,433	1,413	1,478
Gross Margin	35.8%	35.2%	35.3%	35.5%	35.2%	35.2%	34.7%	35.1%	33.9%	34.5%
SG&A Exp.	425	419	445	440	465	473	481	492	459	487
D&A Exp.	160	141	163	175	212	215	211	206	198	209
Operating Profit	442	482	496	529	483	517	513	570	595	599
Op. Margin	13.6%	14.4%	13.9%	14.5%	13.0%	13.4%	12.9%	13.9%	14.3%	14.0%
Net Profit	391	412	422	446	409	437	354	479	498	688
Net Margin	12.1%	12.3%	11.8%	12.2%	11.0%	11.3%	8.9%	11.7%	11.9%	16.1%
Free Cash Flow	392	564	598	652	490	503	326	528	453	715
Income Tax	50	63	67	67	75	76	67	88	85	126

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,645	4,926	5,185	5,325	5,331	5,279	5,348	5,293	6,342	6,512
Cash & Equivalents	879	1,014	1,103	1,036	769	650	419	472	983	709
Acc. Receivable	557	568	581	635	684	635	708	761	685	705
Goodwill & Int.	1,883	1,975	2,106	2,302	2,493	2,399	2,710	2,668	2,875	2,882
Total Liabilities	1,612	1,651	1,789	1,918	1,878	1,705	1,856	1,750	2,676	2,877
Accounts Payable	168	133	143	112	137	126	195	177	110	121
Long-Term Debt	200	200	210	220	200	-	-	-	744	645
Total Equity	3,033	3,275	3,396	3,407	3,454	3,574	3,449	3,500	3,623	3,593
LTD/E Ratio	0.07	0.06	0.06	0.06	0.06	-	-	-	0.21	0.18

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.4%	8.6%	8.3%	8.5%	7.7%	8.2%	6.7%	9.0%	8.6%	10.7%
Return on Equity	12.9%	13.1%	12.7%	13.1%	11.9%	12.4%	10.1%	13.8%	14.0%	19.1%
ROIC	12.0%	12.3%	11.9%	12.3%	11.2%	12.1%	10.0%	13.6%	12.5%	15.8%
Shares Out.	162	160	157	151	147	144	140	135	132	125
Revenue/Share	19.16	20.51	22.34	23.47	24.81	26.44	27.87	29.79	31.29	33.51
FCF/Share	2.31	3.46	3.75	4.20	3.27	3.44	2.29	3.85	3.40	5.59

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