



Computer Services (CSVI)

Updated August 19th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	13.2%	Market Cap:	\$1.0 B
Fair Value Price:	\$44	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	8/31/22
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	9/26/22
Dividend Yield:	3.1%	5 Year Price Target	\$61	Years Of Dividend Growth:	51
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	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 \$1.0 billion.

In mid-July, Computer Services reported (7/11/2022) financial results for the first quarter of fiscal 2023. The company grew its revenue by 6%, from \$76.7 million to an all-time high of \$81.0 million, and its earnings-per-share by 4%, from \$0.52 to \$0.54, thanks to growth in digital banking, payments processing, managed cybersecurity and document delivery revenues. Computer Services achieved high contract renewals and higher product sales to existing customers. Thanks to positive business trends, management expects continued growth in revenues and earnings in the upcoming quarters. It also raised the dividend by 7.4%, which marked the 51st consecutive year of dividend growth.

The stock has shed -24% this year, mostly due to the double impact of inflation on growth stocks; it reduces the present value of their future cash flows and it exerts pressure on their margins. We view high inflation as a temporary headwind and remain confident in the long-term prospects of this high-quality fintech company. 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
EPS	\$0.86	\$0.88	\$0.93	\$0.98	\$1.03	\$1.10	\$1.39	\$1.69	\$1.91	\$2.25	\$2.50	\$3.51
DPS	\$0.28	\$0.32	\$0.44	\$0.50	\$0.56	\$0.62	\$0.72	\$0.84	\$1.00	\$1.08	\$1.16	\$1.88
Shares¹	29.6	29.4	28.8	28.4	28.2	28.0	28.0	27.8	27.7	27.5	27.4	26.5

Computer Services has grown its sales, earnings, and its dividend for 22, 25 and 51 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
Avg. P/E	12.6	16.6	19.1	16.9	18.0	20.6	17.4	20.4	22.0	25.6	14.8	17.4
Avg. Yld.	2.1%	1.8%	1.7%	2.3%	2.5%	2.3%	2.8%	2.1%	2.0%	1.9%	3.1%	3.1%

Due to the impact of inflation on its valuation, Computer Services is currently trading at a price-to-earnings ratio of 14.8, which is a 9-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 3.3% annualized gain in its returns.

¹ Share count is in millions.

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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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%	46.4%	53.5%

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.

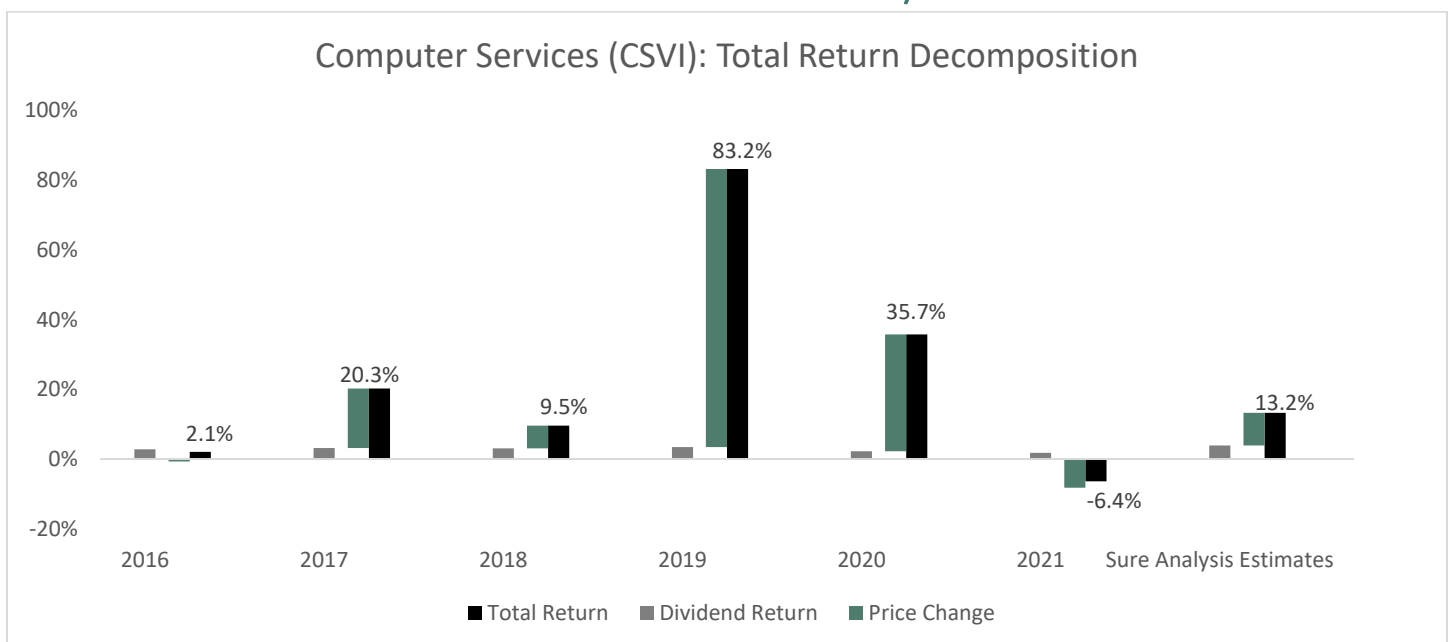
Computer Services carries a negligible amount of net debt of \$53 million. Thanks to its strong balance sheet and its healthy payout ratio of 46%, the company can easily keep growing its dividend at a meaningful pace.

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 -38% 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 a 9-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 13.2% average annual return over the next five years thanks to 7.0% earnings growth, its 3.1% dividend and a 3.3% valuation tailwind. This high-quality stock earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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