



# Computer Services (CSVI)

Updated October 4<sup>th</sup>, 2022 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$56	<b>5 Year CAGR Estimate:</b>	3.2%	<b>Market Cap:</b>	\$1.5 B
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	11/29/22 <sup>1</sup>
<b>% Fair Value:</b>	136%	<b>5 Year Valuation Multiple Estimate:</b>	-5.9%	<b>Dividend Payment Date:</b>	12/26/22
<b>Dividend Yield:</b>	2.1%	<b>5 Year Price Target</b>	\$58	<b>Years Of Dividend Growth:</b>	51
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<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 \$1.5 billion.

On August 22<sup>nd</sup>, 2022, Computer Services announced that it has agreed to be acquired by Centerbridge Partners and Bridgeport Partners for \$58 per share in cash. The transaction has been approved unanimously by the board of directors of Computer Services and is expected to close in the fourth quarter.

In early October, Computer Services reported (10/3/2022) financial results for the second quarter of fiscal 2023. The company grew its revenue by 9%, to a new all-time high, and its adjusted earnings-per-share by 8%, from \$0.53 to \$0.57, thanks to growth in digital banking, payments processing, managed cybersecurity, and document delivery revenues. 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% in July, marking the 51<sup>st</sup> consecutive year of dividend growth.

In our last research report, in August, we stated that we viewed the plunge of Computer Services due to inflation as exaggerated and expected the high-quality fintech stock to highly reward investors in the long run. Since that report, the stock has jumped 51% thanks to the aforementioned pending acquisition. This sometimes happens with high-quality stocks; they reach their target price much earlier than expected. Given the high quality and promising growth prospects of Computer Services as well as the approval of the deal by its board of directors, we expect the acquisition to materialize in the fourth quarter.

## 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>\$1.16</b>	<b>\$1.88</b>
<b>Shares<sup>2</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 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
<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>22.4</b>	<b>16.5</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>2.1%</b>	<b>3.2%</b>

<sup>1</sup> Estimated date of next dividend if the acquisition of Computer Services has not been completed.

<sup>2</sup> 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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Computer Services is currently trading at a price-to-earnings ratio of 22.4. As the company has agreed to be acquired for \$58 per share in cash, we have assumed a future price-to-earnings ratio of 16.5. If the company is not acquired and its stock trades at this valuation level in five years, it will incur a -5.9% annualized drag in its returns.

## 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%	<b>46.4%</b>	<b>53.5%</b>

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.

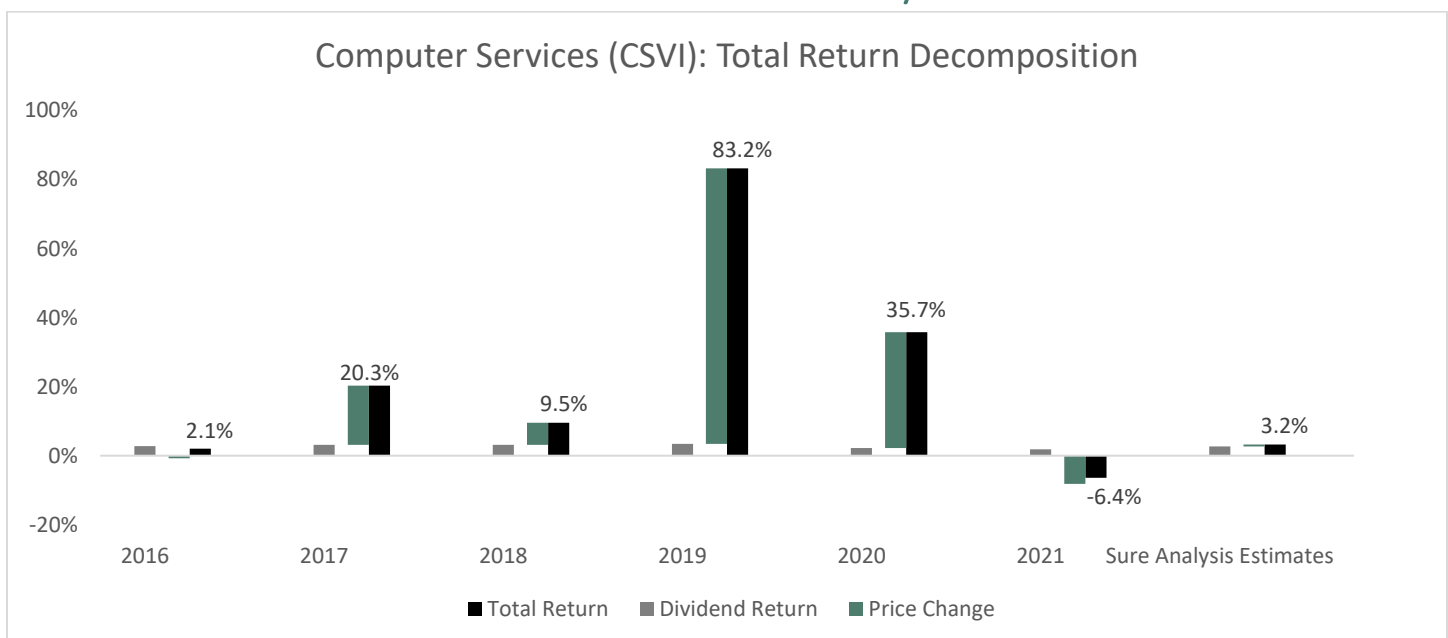
Computer Services carries a negligible amount of net debt of \$73 million. Thanks to its strong balance sheet and its healthy payout ratio of 46%, the company can easily keep growing its dividend at a meaningful pace.

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.

## Final Thoughts & Recommendation

Computer Services has jumped 51% since our last research report, in August, thanks to its upcoming takeover. We expect the deal to materialize in the fourth quarter, as per the guidance of the company. As a result, the stock can still offer a 3.6% return (from \$56 to \$58) in 2-3 months. If the stock also pays its quarterly 0.5% dividend before the acquisition closes, it will offer a total return of 4.1% in about three months. Therefore, we maintain our 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
<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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