Amdocs Limited (DOX)

Updated February 8th, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	$95	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$11.5 B
Fair Value Price:	$91	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	03/30/23
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-0.9%	**Dividend Payment Date:**	04/29/23
Dividend Yield:	1.8%	**5 Year Price Target**	$134	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**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 18.6% in 2013 to 21.0% in 2022. 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.

On January 31st, 2023, Amdocs Limited reported first quarter 2023 results for the period ending December 31st, 2022. The company earned $1.32 in adjusted earnings-per-share for the quarter, up 20.8% year-over-year, which is ahead of management's guidance range of $1.29 to $1.35. Amdocs reported record revenues of $1.19 billion, which is an increase of 7.3% compared with the year-ago quarter. Amdocs' top-line performance was primarily driven by continued strength in North America and strong activity levels among top consumers in Europe. Based on the strong first quarter management increase its guidance for the full fiscal year 2023 to 5% to 9% year-over-year revenue growth, and 9% to 13% year-over-year adjusted earnings-per-share growth.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.53	$2.62	$2.95	$2.71	$2.96	$2.47	$3.47	$3.71	$3.82	$4.45	***$5.05***	***$7.42***
DPS	$0.52	$0.60	$0.67	$0.76	$0.86	$0.97	$1.11	$1.27	$1.41	$1.58	***$1.74***	***$2.33***
Shares	160	157	151	147	144	140	135	132	125	122	***121***	***120***

Over the past 9 years, Amdocs has seen earnings-per-share grow at an average annualized rate of 6.4%, and over the past 5 years, the business has seen earnings-per-share grow at 15.4% annually. Management guided for 9% to 13% year-over-year adjusted earnings-per-share growth for 2023, which helped to guide our 2023 earnings-per-share forecast of $5.05. We conservatively forecast that over the intermediate term, the business will grow earnings-per-share at 8.0% annually, which guided our 2028 earnings-per-share estimate of $7.42.

Over the past 9 years, the business has grown dividends at 13.1% annually, and over the past 5 years, the business has grown dividends at 12.4% annually. Over the next 5 years, we forecast dividend growth of about 6% annually, because we expect dividend growth to be a little slower than earnings-per-share growth. The company has been able to increase its yearly dividend payout for 11 consecutive years. In February 2023, the quarterly dividend increased by 10.1% from $0.395 to $0.435 per share.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.1	16.9	17.7	21.2	20.8	26.9	17.4	17.3	19.2	16.8	***18.8***	***18.0***
Avg. Yld.	1.9%	1.3%	1.3%	1.3%	1.4%	1.5%	1.8%	2.0%	1.9%	1.9%	***1.8%***	***1.7%***

Over the past 9 years, Amdocs has averaged a P/E ratio of 18.8, and over the past 5 years, the business has averaged a P/E ratio of 19.5. 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 1.8% dividend yield, which isn't ideal for investors seeking dividend income. 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

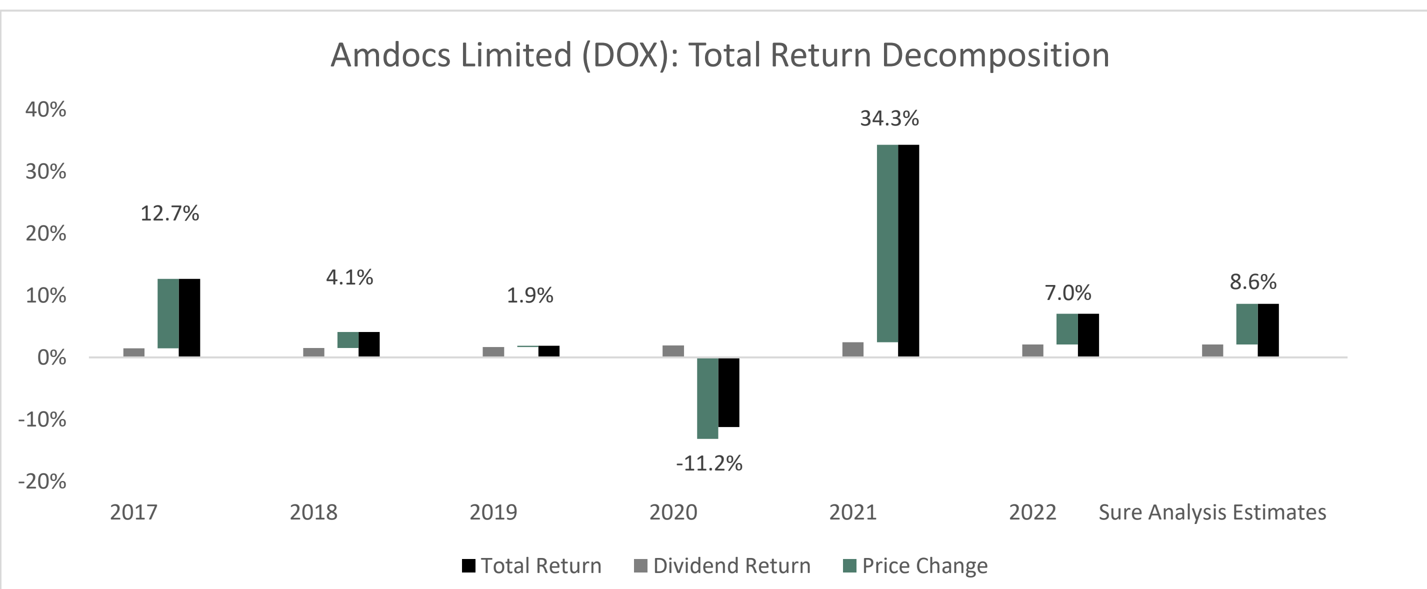
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	21%	23%	23%	28%	29%	39%	32%	34%	37%	36%	***34%***	***31%***

The business has averaged a payout ratio of 30.1% over the past 9 years, and 35.6% 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 increase every year for the past 10 years. This business may have a competitive advantage because of its niche offering it provides to CSPs.

Final Thoughts & Recommendation

Amdocs Limited has a recurring revenue business model 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 8.6% annually over the next five years driven by a 1.8% dividend yield, an estimated 8.0% annual earnings-per-share growth over the intermediate term, and a small valuation headwind.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,346	3,564	3,644	3,718	3,867	3,975	4,087	4,169	4,289	4,577
Gross Profit	1,179	1,257	1,294	1,310	1,359	1,380	1,433	1,413	1,478	1,619
Gross Margin	35.2%	35.3%	35.5%	35.2%	35.2%	34.7%	35.1%	33.9%	34.5%	35.4%
SG&A Exp.	419	445	440	465	473	481	492	459	487	529
D&A Exp.	141	163	175	212	215	211	206	198	209	225
Operating Profit	482	496	529	483	517	513	570	595	599	665
Op. Margin	14.4%	13.9%	14.5%	13.0%	13.4%	12.9%	13.9%	14.3%	14.0%	14.5%
Net Profit	412	422	446	409	437	354	479	498	688	550
Net Margin	12.3%	11.8%	12.2%	11.0%	11.3%	8.9%	11.7%	11.9%	16.1%	12.0%
Free Cash Flow	564	598	652	490	503	326	528	453	715	530
Income Tax	63	67	67	75	76	67	88	85	126	99

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,926	5,185	5,325	5,331	5,279	5,348	5,293	6,342	6,512	6,390
Cash & Equivalents	1,014	1,103	1,036	769	650	419	472	983	709	573
Acc. Receivable	568	581	635	684	635	708	761	685	705	947
Goodwill & Int.	1,975	2,106	2,302	2,493	2,399	2,710	2,668	2,875	2,882	2,841
Total Liabilities	1,651	1,789	1,918	1,878	1,705	1,856	1,750	2,676	2,877	2,830
Accounts Payable	133	143	112	137	126	195	177	110	121	-
Long-Term Debt	200	210	220	200	-	-	-	744	645	645
Total Equity	3,275	3,396	3,407	3,454	3,574	3,449	3,500	3,623	3,593	3,518
LTD/E Ratio	0.06	0.06	0.06	0.06	-	-	-	0.21	0.18	0.18

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.6%	8.3%	8.5%	7.7%	8.2%	6.7%	9.0%	8.6%	10.7%	8.5%
Return on Equity	13.1%	12.7%	13.1%	11.9%	12.4%	10.1%	13.8%	14.0%	19.1%	15.5%
ROIC	12.3%	11.9%	12.3%	11.2%	12.1%	10.0%	13.6%	12.5%	15.8%	13.0%
Shares Out.	160	157	151	147	144	140	135	132	125	124
Revenue/Share	20.51	22.34	23.47	24.81	26.44	27.87	29.79	31.29	33.51	37.01
FCF/Share	3.46	3.75	4.20	3.27	3.44	2.29	3.85	3.40	5.59	4.28

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