Amdocs Limited (DOX)

Updated May 12th, 2024, by Patrick Neuwirth

Key Metrics

Current Price:	$83	**5 Year CAGR Estimate:**	17.9%	**Market Cap:**	$9.7 B
Fair Value Price:	$110	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	06/28/24
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.7%	**Dividend Payment Date[1]:**	07/26/24
Dividend Yield:	2.3%	**5 Year Price Target**	$177	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 to 17.8% in 2023. 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 May 8th, 2024, Amdocs Limited reported second quarter fiscal year 2024 results for the period ending March 31st, 2024. The company earned $1.01 in GAAP diluted earnings per share for the quarter, impacted by a restructuring charge of 24 cents per share. Without this charge, GAAP diluted EPS would have been at the midpoint of management's guidance range of $1.21 to $1.29. Amdocs reported record revenues of $1.25 billion, up 1.8% year-over-year as reported and 2.0% in constant currency, compared with the year-ago quarter.

Amdocs' revenue growth was primarily driven by continued expansion in North America and significant project wins in Europe and Asia. The North America region reported revenues of $823.2 million (66% of total revenues), which is a slight decrease year-over-year. Europe revenues of $184.8 million (15% of total revenues) showed an increase, while Rest of the World revenues climbed to $237.8 million (19% of total revenues). Managed services revenue, making up about 58% of total revenue, remained strong at $720 million. The company also highlighted continued market leadership in areas such as cloud migration, 5G monetization, digital modernization, and network automation. For fiscal 2024, Amdocs now anticipates revenue growth of 1.6% to 3.6% on a reported basis. EPS growth is expected in the range of 7.0% to 13.0% on a GAAP basis and 7.0% to 11.0% on a non-GAAP basis. For the third quarter of fiscal 2024, the company projects revenues between $1,235 million and $1,275 million and adjusted earnings in the range of $1.57 to $1.63 per share.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS[2]	$2.62	$2.95	$2.71	$2.96	$2.47	$3.47	$3.71	$3.82	$4.44	$5.91	***$6.45***	***$10.39***
DPS	$0.60	$0.67	$0.76	$0.86	$0.97	$1.11	$1.27	$1.41	$1.58	$1.74	***$1.92***	***$2.82***
Shares	157	151	147	144	140	135	132	125	121	121	***118***	***118***

[1] Estimated date

[2] GAAP diluted EPS

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Over the past decade, Amdocs has seen earnings-per-share grow at an average annualized rate of 9.5%, and over the past 5 years, the business has seen earnings-per-share grow at 13.2% annually. Management guided for 7% to 13% year-over-year adjusted earnings-per-share growth for 2024. We conservatively forecast that over the intermediate term, the business will grow earnings-per-share at 10.0% annually, which guided our 2029 earnings-per-share estimate of ~$10.4. Over the past decade, the business has grown dividends at 12.6% annually, and over the past 5 years, the business has grown dividends at 9.4% annually. The company has been able to increase its yearly dividend payout for 11 consecutive years. In February 2024, the quarterly dividend increased by 10.1% from $0.435 to $0.479 per share.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.9	17.7	21.2	20.8	26.9	17.4	17.3	19.2	18.0	14.0	***12.9***	***17.0***
Avg. Yld.	1.9%	1.3%	1.3%	1.4%	1.5%	1.8%	2.0%	1.9%	2.0%	2.0%	***2.3%***	***1.6%***

Over the past decade, Amdocs has averaged a P/E of 18.9, and over the past 5 years, the business has averaged a P/E of 12.9. We estimate that over the intermediate term, the business will trade for a P/E ratio of around 17, in line with historic P/E valuation multiples. Today, the stock offers a 2.3% dividend yield, which might not be ideal for investors seeking 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, AI, cloud, and digitalization.

Safety, Quality, Competitive Advantage, & Recession Resiliency

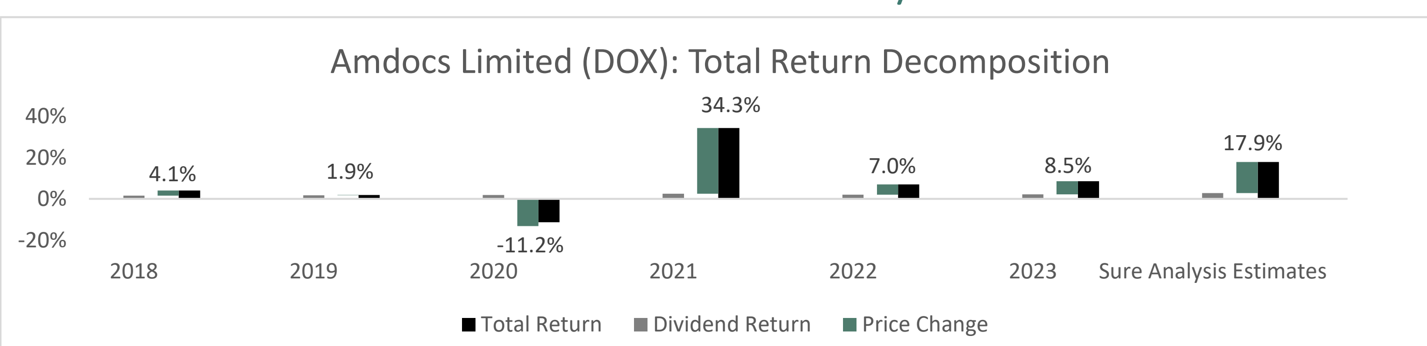
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	23%	23%	28%	29%	39%	32%	34%	37%	36%	29%	***30%***	***27%***

The company has averaged a payout ratio of 31.0% over the past 10 years, and 33.6% over the past 5 years. With a low payout ratio, 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 business for communications service providers. Management expects the company to benefit from megatrends like 5G, the cloud, AI, and digitalization. At today's price, we rate the stock as a buy because total return prospects come in at 17.9% annually over the next five years driven by a 2.3% dividend yield, an estimated 10.0% annual earnings-per-share growth rate over the intermediate-term, and a valuation tailwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,564	3,644	3,718	3,867	3,975	4,087	4,169	4,289	4,577	4,888
Gross Profit	1,257	1,294	1,310	1,359	1,380	1,433	1,413	1,478	1,619	1,728
Gross Margin	35.3%	35.5%	35.2%	35.2%	34.7%	35.1%	33.9%	34.5%	35.4%	35.4%
SG&A Exp.	445	440	465	473	481	492	459	487	529	571
D&A Exp.	163	175	212	215	211	206	198	209	225	196
Operating Profit	496	529	483	517	513	570	595	599	665	725
Op. Margin	13.9%	14.5%	13.0%	13.4%	12.9%	13.9%	14.3%	14.0%	14.5%	14.8%
Net Profit	422	446	409	437	354	479	498	688	550	541
Net Margin	11.8%	12.2%	11.0%	11.3%	8.9%	11.7%	11.9%	16.1%	12.0%	11.1%
Free Cash Flow	598	652	490	503	326	528	453	715	530	698
Income Tax	67	67	75	76	67	88	85	126	99	93

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,185	5,325	5,331	5,279	5,348	5,293	6,342	6,512	6,390	6,426
Cash & Equivalents	1,103	1,036	769	650	419	472	983	709	573	520
Acc. Receivable	581	635	684	635	708	761	685	705	947	733
Goodwill & Int.	2,106	2,302	2,493	2,399	2,710	2,668	2,875	2,882	2,841	2,931
Total Liabilities	1,789	1,918	1,878	1,705	1,856	1,750	2,676	2,877	2,830	2,859
Accounts Payable	143	112	137	126	195	177	110	121	-	293
Long-Term Debt	210	220	200	-	-	-	744	645	645	646
Total Equity	3,396	3,407	3,454	3,574	3,449	3,500	3,623	3,593	3,518	3,524
LTD/E Ratio	0.06	0.06	0.06	-	-	-	0.21	0.18	0.18	0.18

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.3%	8.5%	7.7%	8.2%	6.7%	9.0%	8.6%	10.7%	8.5%	8.4%
Return on Equity	12.7%	13.1%	11.9%	12.4%	10.1%	13.8%	14.0%	19.1%	15.5%	15.2%
ROIC	11.9%	12.3%	11.2%	12.1%	10.0%	13.6%	12.5%	15.8%	13.0%	12.9%
Shares Out.	157	151	147	144	140	135	132	125	124	118
Revenue/Share	22.34	23.47	24.81	26.44	27.87	29.79	31.29	33.51	37.01	41.25
FCF/Share	3.75	4.20	3.27	3.44	2.29	3.85	3.40	5.59	4.28	5.89

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