CSG Systems International, Inc. (CSGS)

Updated November 6th, 2024, by Kody Kester

Key Metrics

Current Price:	$51	**5 Year CAGR Estimate:**	13.0%	**Market Cap:**	$1.5B
Fair Value Price:	$62	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	12/13/24
% Fair Value:	83%	**5 Year Valuation Multiple Estimate:**	4.0%	**Dividend Payment Date:**	12/23/24
Dividend Yield:	2.4%	**5 Year Price Target**	$87	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Formed in 1994, CSG Systems International, Inc. is a software as a service (SaaS) platform company. The company provides revenue management and digital monetization, customer experience, and payment solutions across a variety of industries. These software products include a variety of formats, including business-to-business, business-to-consumer, and business-to-business-to-consumer. Simply put, CSGS' products make it easier for a company's customers to do business with them in their preferred channel of choice.

In recent years, CSGS has done an excellent job diversifying its revenue base. A majority of CSGS' revenue as of Q3 2024 (52%) was derived from the cable/pay-TV industry. Another 18% consisted of telecom industry customers. The remaining portion of CSGS' revenue is spread across other industries. That may seem like a relatively concentrated revenue base. However, it's a major step forward from the 70% of 2017 revenue that came from cable/pay TV customers and 23% of revenue from telecom industry customers, respectively. The company's other verticals category which includes retail, healthcare, and financial services, has more than quadrupled in this time from just 7% to 30%.

On November 6th, CSGS released its financial results for the third quarter ended September 30th. The company's revenue increased by 2.9% year-over-year to $295.1 million in the quarter. Continued growth in SaaS and related solutions revenue made up for lower software and services revenue during the quarter. The company's non-GAAP EPS climbed 15.2% over the year-ago period to $1.06 for the quarter. This matched the analyst consensus in the quarter. CSGS' bottom-line growth was powered by a 140 basis point improvement in the non-GAAP adjusted operating income margin to 18.4% during the quarter. Combined with significant share repurchases, this is how non-GAAP EPS growth outpaced revenue growth for the quarter. Also of note, CSGS recently announced an expanded contract with Comcast on a six-year term through 2030.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.12	$2.62	$2.79	$2.51	$3.06	$3.53	$3.12	$3.35	$3.61	$3.69	***$4.21***	***$5.90***
DPS	$0.62	$0.70	$0.74	$0.79	$0.84	$0.89	$0.94	$1.00	$1.06	$1.12	***$1.20***	***$1.68***
Shares[2]	33.9	32.6	32.3	33.5	33.2	32.9	32.7	32.5	31.3	29.5	***28.5***	***25.6***

CSGS' focus on diversifying its revenue stream into higher growth verticals is still paying off. Revenue diversification has led the company's average organic revenue growth rate to accelerate from an average of 1.8% from 2016 through 2020 to 5.1% from 2021 through 2023. Moving forward, CSGS continues to target 2% to 6% annual organic revenue growth. In our view, that remains attainable. Greater automation and improved tooling lead management to maintain that its adjusted operating income margin can reach between 18% and 20% in the years ahead. Topline growth, margin expansion, and share buybacks are why we're reaffirming our 7% annual non-GAAP EPS growth prediction over the medium term. In our view, that should also translate into similar dividend growth in the years ahead.

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[1] Estimate

[2] 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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/E	11.5	13.7	17.4	17.5	10.3	14.8	14.4	17.2	15.9	14.4	***12.1***	***14.7***
Avg. Yld.	2.5%	1.9%	1.5%	1.8%	2.7%	1.7%	2.1%	1.7%	1.9%	2.1%	***2.4%***	***1.9%***

Since 2014, CSGS' P/E ratio has varied from the low double-digits to the high teens. This correlates to an average P/E ratio of 14.7. CSGS' annual non-GAAP EPS growth prospects are about the same as in recent years. The company's successful diversification and margin expansion efforts continue to arguably back up a reversion to this valuation. Relative to the P/E ratio of 12.1, CSGS shares are trading well under fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	29%	27%	27%	31%	27%	25%	30%	30%	29%	30%	***29%***	***28%***

CSGS' competitive advantage lies in its solutions. These solutions help companies to harness customer data more cost-effectively. That allows these companies to launch new services and bill and collect revenue more efficiently. This leads to high retention rates for CSGS.

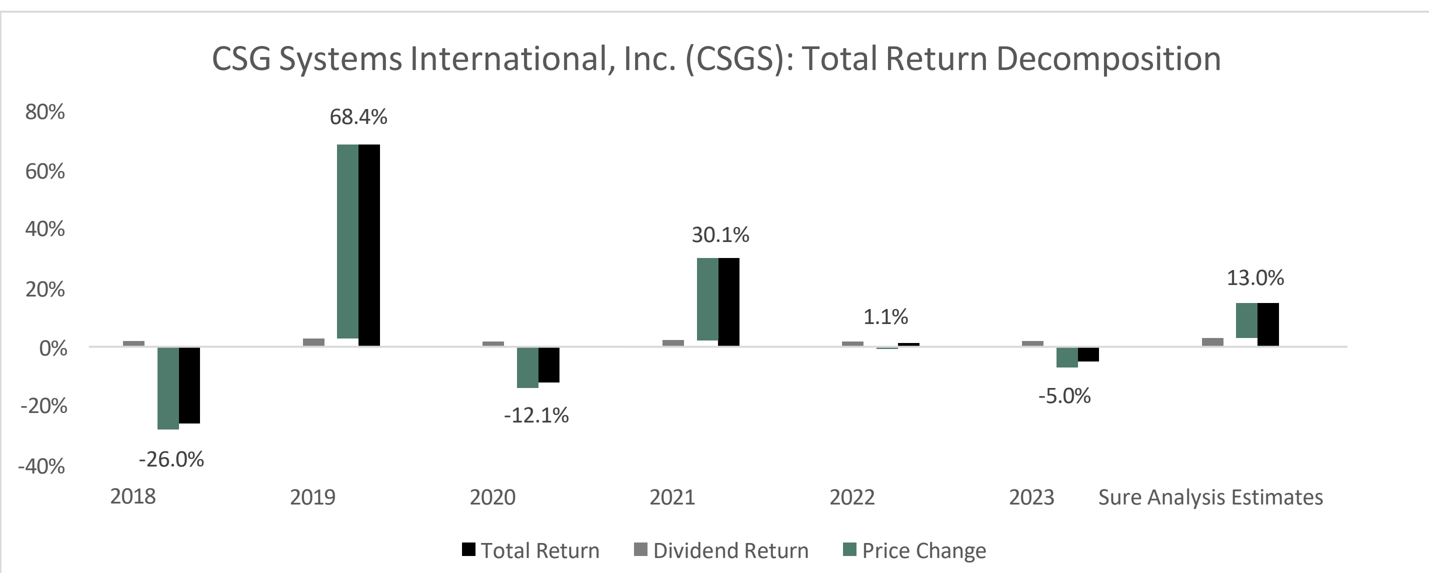
CSGS remains dependent on its two biggest customers for a plurality of its business. Charter Communications and Comcast accounted for 40% of revenue (21% and 19%), respectively. The company compensates for this concentrated revenue via decent financial positioning. CSGS' interest coverage ratio through the first nine months of 2024 was 5.4. This suggests that the company could withstand a downturn in its business and remain solvent.

CSGS' dividend also looks to be sustainable for its industry. The payout is still expected to be in the high 20% range for 2024. This is about where it has been for the past decade. That is arguably a sufficient cushion for the dividend to be maintained or slightly grown in a year of earnings decline.

Final Thoughts & Recommendation

CSGS' 2.4% dividend yield, 7.0% annual non-GAAP EPS growth potential, and 4.0% annual valuation multiple expansion could generate 13.0% annual total returns over the medium term. This is sufficient for us to reiterate our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	751	753	761	790	875	997	991	1,046	1,090	1,169
Gross Profit	362	373	386	395	425	472	455	503	525	554
Gross Margin	48.2%	49.5%	50.7%	50.0%	48.6%	47.3%	45.9%	48.1%	48.1%	47.4%
SG&A Exp.	153	140	140	154	169	191	198	215	238	248
D&A Exp.	48	44	41	43	63	67	67	73	77	71
Operating Profit	90	116	133	114	114	131	111	129	125	140
Operating Margin	11.9%	15.4%	17.5%	14.5%	13.0%	13.1%	11.2%	12.3%	11.5%	12.0%
Net Profit	36	63	63	61	66	83	59	72	44	66
Net Margin	4.8%	8.3%	8.3%	7.8%	7.6%	8.3%	5.9%	6.9%	4.0%	5.7%
Free Cash Flow	52	110	62	86	86	114	144	114	27	104
Income Tax	26	34	37	26	21	23	27	29	17	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	855	863	892	905	1,114	1,283	1,332	1,387	1,349	1,443
Cash & Equivalents	82	133	126	122	139	157	189	206	150	186
Accounts Receivable	184	179	209	220	236	244	227	244	274	268
Goodwill & Int. Ass.	317	295	272	281	395	398	394	455	427	413
Total Liabilities	496	517	641	562	753	886	910	947	993	1,170
Accounts Payable	37	43	35	38	45	33	30	35	48	46
Long-Term Debt	256	279	376	332	360	357	351	375	413	542
Shareholder's Equity	359	346	251	343	361	397	422	437	355	273
LTD/E Ratio	0.71	0.81	1.50	0.97	1.00	0.90	0.83	0.86	1.16	1.98

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.1%	7.3%	7.2%	6.8%	6.6%	6.9%	4.5%	5.3%	3.2%	4.7%
Return on Equity	9.9%	17.8%	21.1%	20.7%	18.8%	21.8%	14.3%	16.8%	11.1%	21.1%
ROIC	5.7%	10.1%	10.0%	9.4%	9.5%	11.2%	7.7%	9.1%	5.6%	8.4%
Shares Out.	33.9	32.6	32.3	33.5	33.2	32.9	32.7	32.5	31.3	29.5
Revenue/Share	22.27	22.50	23.05	24.03	26.63	30.70	30.69	32.69	34.82	38.83
FCF/Share	1.54	3.29	1.89	2.62	2.62	3.50	4.45	3.55	0.85	3.45

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