CSG Systems International, Inc. (CSGS)

Updated February 5th, 2025, by Kody Kester

Key Metrics

Current Price:	$65	**5 Year CAGR Estimate:**	10.6%	**Market Cap:**	$1.9B
Fair Value Price:	$71	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	03/19/25
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	04/02/25
Dividend Yield:	2.0%	**5 Year Price Target**	$100	**Years Of Dividend Growth:**	12
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 in 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 February 5th, CSGS shared its fourth-quarter earnings report for the period ended December 31st. The company's net revenue surged 6.5% higher over the year-ago period to $316.7 million during the quarter. Momentum in SaaS and related solutions revenue continued to be the growth driver for CSGS. The company's non-GAAP EPS soared 79.3% year-over-year to $1.65 in the quarter. That was a whopping $0.44 better than the analyst consensus for the quarter. This was due to a 590-basis point expansion in the non-GAAP net profit margin to 14.9% and a lower share count from share repurchases during the quarter. On a separate note, CSGS also upped its quarterly dividend per share by 6.7% to $0.32 with the release of its Q4 earnings.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.62	$2.79	$2.51	$3.06	$3.53	$3.12	$3.35	$3.61	$3.69	$4.72	***$4.80***	***$6.73***
DPS	$0.70	$0.74	$0.79	$0.84	$0.89	$0.94	$1.00	$1.06	$1.12	$1.20	***$1.28***	***$1.75***
Shares[1]	32.6	32.3	33.5	33.2	32.9	32.7	32.5	31.3	29.5	28.9	***28.9***	***26.1***

CSGS' focus on diversifying its revenue stream into higher growth verticals is still paying off. Organic revenue growth in 2025 is expected to be between 2% and 4%. That's better than the pace of 1.8% logged from 2016 to 2020. Beyond just 2025, CSGS continues to target 2% to 6% annual organic revenue growth in the long term. Greater automation has the company targeting an 18% to 20% non-GAAP adjusted operating margin in the years ahead. Topline growth, margin expansion, and share buybacks are why we're extending our forecast of 7% annual non-GAAP EPS growth through 2030 off a projected 2025 base of $4.80. In our view, that should lead to a similar dividend growth rate for the foreseeable future.

[1] Share count is in millions.

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Avg. P/E	13.7	17.4	17.5	10.3	14.8	14.4	17.2	15.9	14.4	11.9	***13.5***	***14.8***
Avg. Yld.	1.9%	1.5%	1.8%	2.7%	1.7%	2.1%	1.7%	1.9%	2.1%	2.3%	***2.0%***	***1.8%***

Since 2015, CSGS' P/E ratio has ranged from the low double-digits to high teens. This correlates to an average P/E ratio of 14.8. 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. Even after rallying more than 25% since our last update, CSGS stock's multiple of 13.5 is below our fair value P/E ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	27%	27%	31%	27%	25%	30%	30%	29%	30%	25%	***27%***	***26%***

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.

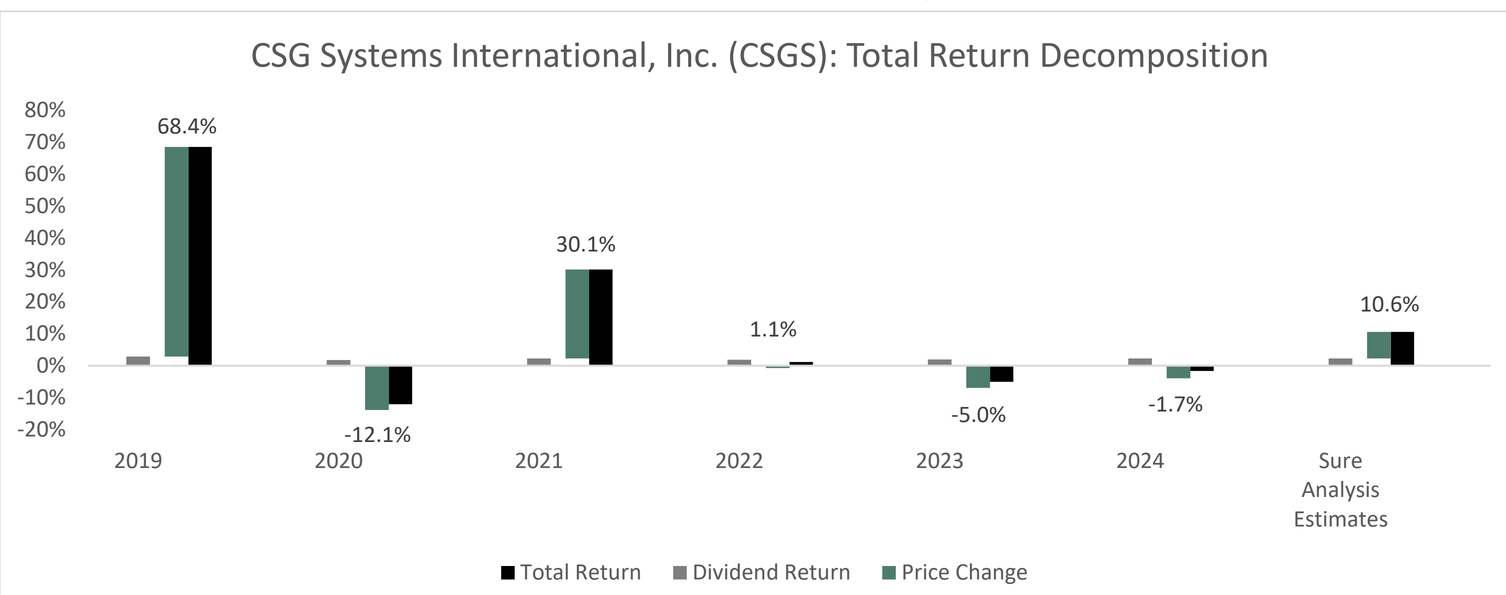
CSGS remains dependent on its two biggest customers for a plurality of its business. Charter Communications and Comcast accounted for 39% of revenue (20% and 19%), respectively. The company compensates for this concentrated revenue via decent financial positioning. CSGS' interest coverage ratio was 4.3x in 2024. 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 2025. 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' 2.0% dividend yield, 7.0% annual non-GAAP EPS growth potential, and 1.9% annual valuation multiple upside could generate 10.6% annual total returns over the medium term. Thus, we're maintaining our buy rating.

Total Return Breakdown by Year



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	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.