

Amdocs Limited (DOX)

\$62.05 (As of 08/04/20)

Price Target (6-12 Months): **\$65.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Amdocs is benefiting from new customer gains, strong traction in managed services and solid growth across all regions. Continued addition of new customers and strong project execution are also boosting revenues. The company continues to aid digital, media and network transformations of its clients, which is improving the revenue growth rate. Its cloud native digital solutions platform DigitalONE is expected to be a key growth driver. The acquisition of Openet will rapidly expand Amdocs footprint in 5G. However, the consolidation trend in the U.S. telecom industry may significantly affect the company. Continued drag in the directory systems market remains a headwind. Furthermore, disruptions caused by the coronavirus, stiff competition and unfavorable forex remain major concerns. Amdocs shares have underperformed the industry year to date.

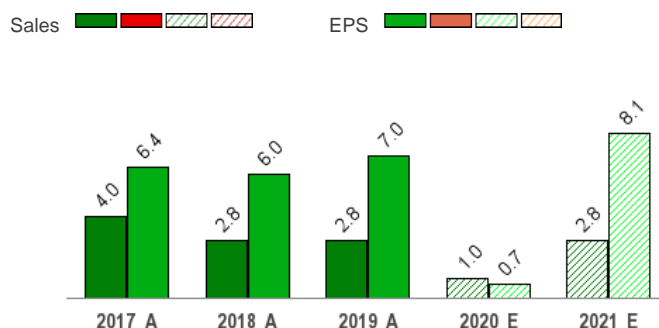
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.29 - \$44.05
20 Day Average Volume (sh)	740,572
Market Cap	\$8.4 B
YTD Price Change	-14.1%
Beta	0.67
Dividend / Div Yld	\$1.31 / 2.1%
Industry	Computers - IT Services
Zacks Industry Rank	Bottom 28% (184 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	14.1
P/E F1	14.3
PEG F1	1.7
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,050 E	1,065 E	1,080 E	1,105 E	4,242 E
2020	1,042 A	1,048 A	1,010 E	1,025 E	4,126 E
2019	1,012 A	1,020 A	1,025 A	1,030 A	4,087 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.13 E	\$1.15 E	\$1.18 E	\$1.21 E	\$4.69 E
2020	\$1.06 A	\$1.08 A	\$1.05 E	\$1.16 E	\$4.34 E
2019	\$0.98 A	\$1.06 A	\$1.19 A	\$1.08 A	\$4.31 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

Founded in 1988 and headquartered in Chesterfield, MO, Amdocs Limited (DOX) is one of the leading providers of customer care, billing and order management systems for communications and Internet services.

The company offers amdocsONE, a line of services designed for various stages of a service provider's lifecycle. Moreover, it provides advertising and media services for media publishers, TV networks, video streaming providers, advertising agencies and service providers.

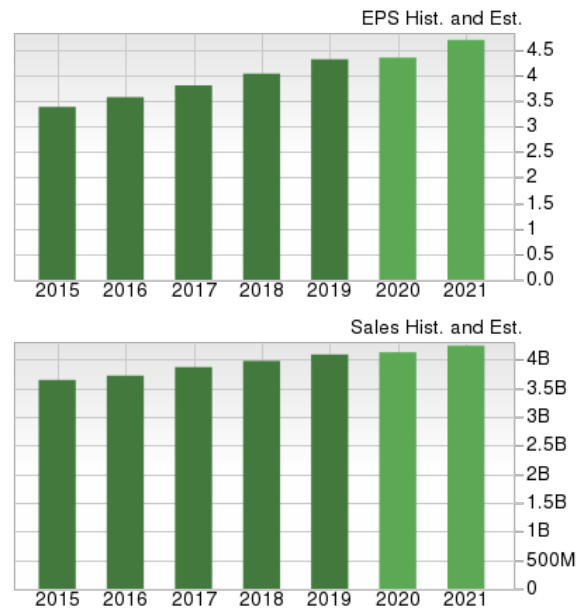
It also provides managed, quality engineering, data and intelligence, cloud enablement, digital business operation, autonomous network service assurance and advisory services. Additionally, Amdocs offers mobile financial services to service providers and financial institutions; and the BriteBill — a multi-channel bill presentment platform — focused on contextual and personalized customer engagements.

The company's technology is built on the following principles:

Design-led, API-enabled, Cloud flexibility, Microservices, Scalability, Reliability, Modularity, Upgradability and Backwards Compatibility, Virtualization, and Open Source software.

In fiscal 2019, the company generated revenues of \$3.97 billion. Region wise, the company generated 64.2% of revenues from North America, 14.4% from Europe and 21.4% from Rest of the World.

The company faces competition from BSS/OSS systems providers like Oracle, Salesforce and SAP; system integrators and providers of IT services, such as Accenture, Cognizant, HPE, IBM Global Services, Infosys, Tata Consultancy Services, Tech Mahindra and Wipro. Network equipment providers such as Cisco, Ericsson, Huawei and Nokia Networks, among others, also pose significant threat.



Reasons To Buy:

- ▲ Amdocs is benefiting from well-timed acquisitions which complement its original business line. Most importantly, successful combination of its core billing and rating technology with Clarify's customer relationship management software helped it emerge as a leader in the market of business support systems. In the last reported quarter, the company revealed that its recent acquisition of Vubiquity has proven to be successful among media clients. It is also encouraging to see that communications giant Verizon has selected Vubiquity's services and technology to handle the processing and packaging of Verizon's vast video on-demand and pay-TV pay-per-view portfolio. These acquisitions are expected to aid Amdocs' long-term growth.
- ▲ Amdocs continues to expand its global client base by signing long-term contracts and collaborating with major telecom industry players worldwide. In fiscal 2019, Amdocs reported record high 12 months backlog of \$3.5 billion, which includes key transformations project with global service providers such as Comcast, T-Mobile, Altice and DISH in North America; Vodafone British Telecom, Orange in Europe; América Móvil, Airtel, Telefónica, Telstra, SingTel and Globe in the rest of the world. During third-quarter fiscal 2018, it rolled out automated operation capabilities for Vodafone India. The company also partnered with Telstra in Australia over next generation OSS platform for its B2B line of business. Such deals are expected to boost the company's top line.
- ▲ The company's Network Function Virtualization (NFV) area is also witnessing positive developments which will ultimately aid the company's growth. The company recently signed a deal with Comcast on the latter's SD-WAN offering, which will leverage Amdocs' leading energy portfolio, bringing orchestration, fulfilment and automation capabilities to service providers. This deal is expected lead to a delivery of significant value to our customers. The number of global service providers that are evaluating NFV are also on the rise. Amdocs' constant efforts to enhance its capabilities in this front is likely to help it cash in on this opportunity.
- ▲ Amdocs continues to boost shareholders' value by continuously repurchasing shares and paying regular dividends to its shareholders. During the last reported quarter, the company repurchased shares worth \$89 million.
- ▲ Amdocs has a strong balance sheet with ample liquidity position and less debt obligations. As of Mar 31, 2020, the company had cash and marketable securities of \$763 million. Moreover, long-term debt at the end of its fiscal second-quarter 2020 was approximately \$568 million. Also, its total debt-to-capital level of 0.14 is much lower than the industry average of 0.48.
- ▲ Amdocs continues to win important deals. Growth areas within AT&T Mobile, such as Cricket prepaid in Mexico, saw significant value addition by Amdocs recently. Deal wins, including the one with Veon and a Tier 1 service provider in Spain, are driving revenue growth. Extension of managed services agreements with several customers, including Vodafone Hungary, and partnerships with Capita plc to provide digital business systems are tailwinds.

Amdocs is collaborating with major telecom players across the globe to strengthen its position in the market, while improving its operating portfolio with innovative products.

Reasons To Sell:

- ▼ Amdocs is highly exposed to foreign currency exchange rate risk. Economic and political uncertainty is an overhang on the company's financials. For fiscal 2020, the company expects a 0.5% year-over-year negative impact of foreign exchange fluctuations on revenues on a constant currency basis.
- ▼ Amdocs is investing heavily in the emerging markets in order to boost sales, which may lead to a drop in margins. Even in the developed markets, management has decided to undertake a series of programs including training, knowledge transfer, and productivity enhancement to cope with recessionary situations. All these activities will result in bottom-line shrinkage.
- ▼ Continued drag in the directory systems market remains a headwind. This downtrend, which has been persistent for the past couple of years, is expected to continue.
- ▼ Amdocs is experiencing high customer concentration. AT&T, the company's largest client, accounts for a sizable chunk of revenues. However, revenues from AT&T dropped significantly in fiscal 2019. Approximately 65% of Amdocs' total revenues in fiscal 2019 came from the top 10 clients. Loss of any of these customers will result in significant erosion of the top line.
- ▼ Amdocs is a relatively minor supplier of billing systems for the cable industry. The company's entry into other business segments, such as financial services outsourcing and non-telecom customer relationship management software, may not be as successful as anticipated. Moreover, the consolidation trend in the U.S. telecom industry may significantly affect the company going forward.

High concentration risks, significant consolidation in the U.S. telecom industry, adverse currency exchange risks and heavy investments in emerging markets remain headwinds for Amdocs.

Last Earnings Report

Amdocs Q2 Earnings & Revenues Top Estimates, View Cut

Amdocs Limited reported second-quarter fiscal 2020 results, wherein both top and bottom lines beat estimates.

Quarterly non-GAAP earnings per share came in at \$1.08, up from \$1.02 in the year-ago quarter. The bottom line also beat the Zacks Consensus Estimate by 1.89%. The figure came within the company's guided range of \$1.03-\$1.09.

Revenues for the quarter came in at \$1.05 billion, improving 2.9% year over year. The top line also came within the company's guided range of \$1.035-\$1.075 billion and beat the consensus mark of \$1.04 billion.

Sequential growth in demand from North America and solid growth in the Rest of the World and Europe drove the results. Moreover, continued addition of new customers and strong project execution boosted revenues.

However, a negative sequential impact of nearly \$8 million from foreign currency movements was a headwind.

The company also reduced its fiscal 2020 guidance due to the uncertainties related to the coronavirus pandemic.

Quarter Details

Region-wise, revenues from North America (63.5% of total revenues) were \$662.1 million, up 0.2% from the year-ago quarter.

Europe (14.8%) recorded revenues of \$154.7 million, up 5.9%. Rest of the World (21.6%) generated revenues of \$225.2 million, up 9.6%.

Managed services revenues of \$579.7 million grew 10.3%.

The twelve-month backlog, which includes anticipated revenues related to contracts, estimated revenues from managed service contracts, letters of intent, maintenance and estimated on-going support activities, came in at \$3.46 billion during the quarter, down \$60 million from the prior quarter.

The company incurred non-GAAP operating expenses of \$867.4 million, up 3% from the year-ago quarter.

Non-GAAP operating income increased 1.8% to \$181 million.

Balance Sheet & Cash Flow

Cash and cash equivalents as of Mar 31, 2020, were \$763 million, up from \$485.9 million in the previous quarter.

Cash flow from operating activities was \$103 million, down from \$163.9 million recorded in the previous quarter. Free cash flow was \$57 million.

During the fiscal second quarter, the company repurchased shares worth \$120 million. Also, its board of directors recently approved the payment of a quarterly dividend of \$0.3275 per share. The dividend will be paid out on Jul 24.

Outlook

For third-quarter fiscal 2020, Amdocs expects revenues between \$990 million and \$1.04 billion, assuming approximately an \$8-million sequential negative impact from foreign currency fluctuations.

Non-GAAP earnings per share of \$1.00-\$1.08 are expected for the fiscal third quarter.

For fiscal 2020, the company now expects revenues to be down 0.5% to up 2.5% year over year compared to its earlier projection of growth between 2.5% and 5.5%, with TTS contributing a little more than 1%.

Amdocs expects non-GAAP earnings to be flat to up 4% year over year compared with its previous expectation of 3-7% growth year over year.

Quarter Ending 03/2020

Report Date	May 07, 2020
Sales Surprise	0.65%
EPS Surprise	1.89%
Quarterly EPS	1.08
Annual EPS (TTM)	4.41

Recent News

On Jul 27, Amdocs and Vodafone Idea Ltd. (VIL), a leading telecommunications services provider, announced the successful migration of Idea postpaid customers to the former's digital monetization system.

On Jul 23, Amdocs announced that it has inked a definitive agreement to take over 5G charging, policy and cloud technologies provider — Openet. The integration of Openet would facilitate Amdocs' service provider clients to accelerate their technological transition in a 5G environment. The deal is valued at \$180 million and is expected to be closed by the end of fiscal 2020.

On Jul 7, Amdocs announced that it has expanded its agreement with Bell Canada to incorporate an extended set of Amdocs' real-time micro services which leverage the Amdocs Microservices360 framework.

On Jul 7, Amdocs announced that it has expanded its agreement with Philippines' Globe Telecom to include the deployment of a customer flow management system at retail stores, enabling safe and expedited customer interactions.

On Jun 30, Amdocs revealed signing a multi-year managed services deal with CK Hutchison Holdings to enable Three UK to enhance the experience for enterprise customers with new services that can be rolled out and scaled as needed, enabling faster time-to-market.

On Jun 17, Amdocs announced the pricing of senior notes offering worth \$650 million. The notes maturing in 2030 carries an interest rate of 2.538%, payable semi-annually on Jun 15 and Dec 15 of every year.

On May 8, Amdocs' media division, Vubiquity announced an expanded partnership with Partner TV.

Valuation

Amdocs shares are down 14.6% in the year-to-date (YTD) period but up 0.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 19.7% and 20.2%, respectively, YTD. Over the past year, the Zacks sub-industry and the sector have gained 22.7% and 37.3%, respectively.

The S&P 500 Index is up 2.6% YTD while has gained 15% in the past year.

The stock is currently trading at 13.38X forward 12-month earnings, which compares to 31.38X for the Zacks sub-industry, 26.41X for the Zacks sector and 22.58X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.44X and as low as 10.72X, with a 5-year median of 16.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$65 price target reflects 14.05X forward 12-month earnings.

The table below shows summary valuation data for DOX

Valuation Multiples - DOX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.38	31.38	26.41	22.58
	5-Year High	18.44	32.37	26.41	22.58
	5-Year Low	10.72	15.46	16.72	15.25
	5-Year Median	16.61	22.30	19.47	17.55
P/S F12M	Current	1.98	5.85	4.07	3.6
	5-Year High	2.53	10.11	4.07	3.6
	5-Year Low	1.45	3.91	2.32	2.53
	5-Year Median	2.27	7	3.14	3.04
EV/Sales TTM	Current	1.83	5.87	4.78	3.27
	5-Year High	2.40	8.12	4.78	3.43
	5-Year Low	1.4	3.6	2.59	2.10
	5-Year Median	2.08	5.76	3.62	2.82

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (184 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Amadeus IT Group SA (AMADY)	Neutral	3
ASGN Incorporated (ASGN)	Neutral	3
EPAM Systems, Inc. (EPAM)	Neutral	2
ServiceNow, Inc. (NOW)	Neutral	3
PERSPECTA INC (PRSP)	Neutral	4
Science Applications International Corporation (SAIC)	Neutral	3
CDK Global, Inc. (CDK)	Underperform	4
CDW Corporation (CDW)	Underperform	4

Industry Comparison Industry: Computers - It Services				Industry Peers		
	DOX	X Industry	S&P 500	ASGN	PRSP	SAIC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	A	A	A
Market Cap	8.36 B	2.92 B	22.75 B	3.58 B	3.47 B	4.70 B
# of Analysts	5	5	14	5	4	7
Dividend Yield	2.11%	0.00%	1.76%	0.00%	1.29%	1.83%
Value Score	A	-	-	A	B	A
Cash/Price	0.09	0.07	0.07	0.06	0.04	0.06
EV/EBITDA	10.08	9.96	13.09	11.56	-26.24	14.06
PEG Ratio	1.67	2.34	2.95	2.71	NA	NA
Price/Book (P/B)	2.34	5.70	3.16	2.46	2.57	3.34
Price/Cash Flow (P/CF)	10.89	12.99	12.32	10.66	4.93	9.89
P/E (F1)	14.23	37.74	21.81	15.66	10.91	13.40
Price/Sales (P/S)	2.02	2.49	2.46	0.90	0.77	0.72
Earnings Yield	6.99%	2.06%	4.40%	6.38%	9.15%	7.47%
Debt/Equity	0.06	0.23	0.76	0.71	1.78	1.99
Cash Flow (\$/share)	5.70	1.07	6.94	6.39	4.38	8.18
Growth Score	B	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	6.65%	18.99%	10.46%	22.17%	NA	17.71%
Proj. EPS Growth (F1/F0)	0.79%	-5.58%	-7.16%	-5.60%	-8.22%	6.69%
Curr. Cash Flow Growth	2.45%	15.98%	5.47%	3.13%	8.73%	74.09%
Hist. Cash Flow Growth (3-5 yrs)	3.85%	16.03%	8.55%	16.83%	NA	23.85%
Current Ratio	1.25	1.44	1.32	2.39	0.84	1.05
Debt/Capital	5.75%	32.71%	44.36%	41.48%	64.06%	66.55%
Net Margin	11.98%	3.17%	10.25%	4.79%	-15.01%	3.17%
Return on Equity	16.03%	9.11%	14.67%	18.50%	16.79%	25.32%
Sales/Assets	0.76	0.76	0.51	1.33	0.75	1.30
Proj. Sales Growth (F1/F0)	0.95%	0.17%	-1.71%	-2.86%	-4.35%	13.40%
Momentum Score	B	-	-	A	A	C
Daily Price Chg	-0.85%	0.24%	0.42%	-0.63%	-1.32%	-0.49%
1 Week Price Chg	2.61%	3.29%	0.14%	0.09%	-0.93%	4.75%
4 Week Price Chg	6.60%	6.96%	4.97%	7.05%	-1.41%	11.68%
12 Week Price Chg	-0.16%	20.81%	15.30%	30.68%	-1.19%	-1.05%
52 Week Price Chg	0.93%	11.72%	2.34%	13.11%	-0.87%	0.52%
20 Day Average Volume	740,572	464,851	2,082,836	279,948	883,401	512,436
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	12.63%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.93%	12.75%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.92%	-1.92%	0.78%	12.75%	-6.50%	-0.96%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.17%	28.78%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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