

Amdocs Limited (DOX)

\$73.59 (As of 02/12/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

Summary

Amdocs' fiscal first-quarter results reflect new customer gains, strong traction in managed services and solid growth across all regions. Moreover, continued addition of new customers and strong project execution boosted 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. Shares have outperformed the industry in the past six months. However, delayed merger of T-Mobile and Sprint is a dampener. Moreover, the consolidation trend in the U.S. telecom industry may significantly affect the company, going forward. Continued drag in the directory systems market remains a headwind.

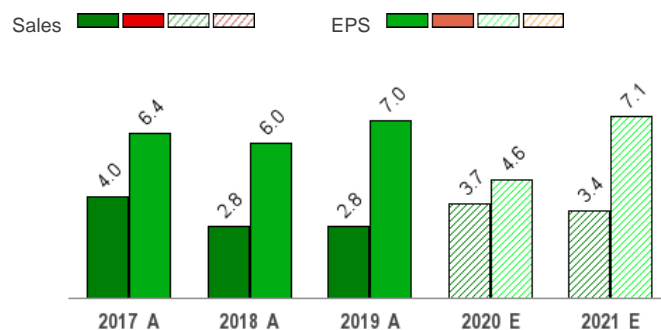
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.29 - \$52.99
20 Day Average Volume (sh)	821,433
Market Cap	\$9.9 B
YTD Price Change	1.9%
Beta	0.43
Dividend / Div Yld	\$1.31 / 1.5%
Industry	Computers - IT Services
Zacks Industry Rank	Top 38% (97 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	05/12/2020
Earnings ESP	0.0%
P/E TTM	16.8
P/E F1	16.3
PEG F1	1.9
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,080 E	1,090 E	1,100 E	1,110 E	4,382 E
2020	1,042 A	1,053 E	1,066 E	1,078 E	4,239 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	\$1.15 E	\$1.18 E	\$1.21 E	\$1.23 E	\$4.83 E
2020	\$1.06 A	\$1.07 E	\$1.18 E	\$1.20 E	\$4.51 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 02/12/2020. The reports text is as of 02/13/2020.

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.

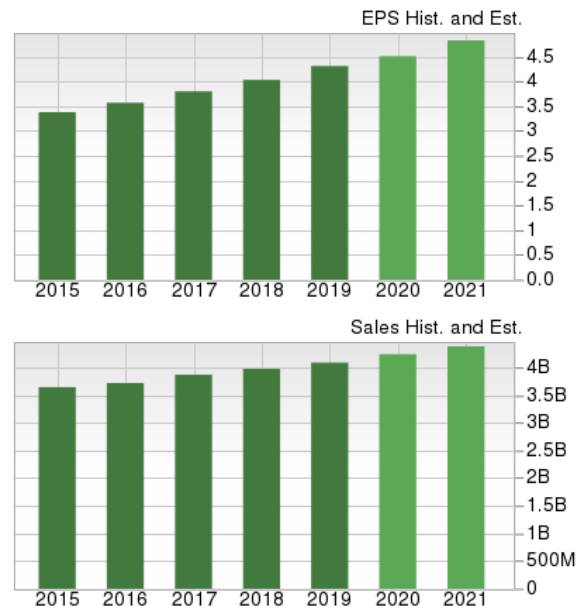
It also provides managed, quality engineering, data and intelligence, cloud enablement, digital business operation, autonomous network service assurance and advisory services. Additionally, Amdocs offers mobile financial services to service providers and financial institutions; and the BriteBill — a 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 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 Earnings & Revenues Surpass Estimates in Q1

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

Quarterly non-GAAP earnings per share came in at \$1.06, up from 98 cents in the year-ago quarter. The bottom line also beat the Zacks Consensus Estimate by 1%. The figure came within the company's guided range of \$1.02-\$1.08.

Revenues for the quarter came in at \$1.04 billion, improving 3% year over year. The top line also came within the company's guided range of \$1.015-\$1.055 billion and beat the consensus mark by 1%.

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. Also, a positive impact of nearly \$3 million sequentially from foreign currency movements was a tailwind.

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. Notably, Amdocs signed a multi-year deal with television studio MGM. However, the delayed merger of T-Mobile and Sprint was a dampener.

Performance in North America was driven by stable activity trends at AT&T and healthy activity levels of many customers in the border region.

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%.

Twelve-month backlog, which includes anticipated revenues related to contracts, estimated revenues from managed services contracts, letters of intent, maintenance and estimated on-going support activities, came in at \$3.52 billion during the quarter, up \$30 million from the prior quarter.

Operating Metrics

The company incurred non-GAAP operating expenses of \$864 million, up 3.2% from the year-ago quarter.

Non-GAAP operating income increased 1.8% to \$177.9 million.

Balance Sheet & Cash Flow

Cash and cash equivalents as of Dec 31, 2019, were \$485.9 million, up from \$471.6 million in the previous quarter.

Cash flow from operating activities was \$163.9 million.

During the fiscal first quarter, the company repurchased shares worth \$90 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 Apr 24, 2020.

Outlook

For second-quarter fiscal 2020, Amdocs expects revenues of \$1.035-\$1.075 billion, assuming approximately a \$2-million sequential positive impact from foreign currency fluctuations.

Non-GAAP earnings per share of \$1.03-\$1.09 are expected for the fiscal second quarter.

For fiscal 2020, the company expects revenues to grow 2.5-5.5% year over year, with TTS contributing a little more than 1%.

Amdocs expects non-GAAP earnings per share growth of 3-7% year over year.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	0.90%
EPS Surprise	0.95%
Quarterly EPS	1.06
Annual EPS (TTM)	4.39

Recent News

On Feb 12, 2020, Amdocs announced the availability of the 5G Slice Manager solution, which is designed to help service providers expedite their 5G transformation.

On Feb 4, 2020, Amdocs announced a multi-year managed services contract with A1 Bulgaria, a subsidiary of the A1 Telekom Austria Group, to support the latter to extend its digital services to all lines of business, simplify its digital sales channels and modernize its core systems.

On the same day, Amdocs announced that it has completed a revenue assurance implementation at Kenyan mobile network operator Safaricom, providing the latter with more comprehensive and adaptive revenue safeguards for the complete lifecycle of new services across its business.

Again, on the same day, Amdocs announced that its digital portfolio was selected by Orange Spain to provide new services and revenue opportunities in the digital economy.

On Nov 12, 2019, Amdocs entered into a partnership with AT&T to modernize and upgrade the latter's digital business support system.

On Oct 14, 2019, Amdocs entered into an NFV (Network Function Virtualization) partnership with Dutch communication and entertainment provider VodafoneZiggo. Reportedly, Amdocs will provide NFV solution to help VodafoneZiggo's enterprise customers design, deploy and monitor virtual cloud networks on demand.

Valuation

Amdocs shares are up 16.4% in the six months period and 32.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have rallied 17.7% and 24.9% in the past six months, respectively. Over the past year, while the Zacks sub-industry has increased 17.3%, the sector gained 29%.

The S&P 500 Index has risen 18.8% in the past six months and 21.4% in the past year.

The stock is currently trading at 15.91X forward 12-month earnings, which compares to 24.8X for the Zacks sub-industry, 23.33X for the Zacks sector and 19.41X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.44X and as low as 13.03X, with a 5-year median of 16.73X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$77 price target reflects 16.7X 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	15.91	24.8	23.33	19.41
	5-Year High	18.44	32.37	23.33	19.41
	5-Year Low	13.03	15.6	16.87	15.18
	5-Year Median	16.73	22.29	19.32	17.47
P/S F12M	Current	2.04	4.86	3.31	3.28
	5-Year High	2.53	10.2	3.44	3.41
	5-Year Low	1.79	4.59	2.29	2.55
	5-Year Median	2.26	7.51	2.96	2.99
EV/Sales TTM	Current	1.99	5.84	4.52	3.11
	5-Year High	2.4	8.25	4.52	3.27
	5-Year Low	1.58	4.11	2.56	2.15
	5-Year Median	2.05	6.15	3.46	2.77

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 254)



Top Peers

SAP SE (SAP)	Outperform
Accenture PLC (ACN)	Neutral
salesforce.com, inc. (CRM)	Neutral
Cisco Systems, Inc. (CSCO)	Neutral
Ericsson (ERIC)	Neutral
International Business Machines Corporation (IBM)	Neutral
Oracle Corporation (ORCL)	Neutral
Hewlett Packard Enterprise Company (HPE)	Underperform

Industry Comparison Industry: Computers - It Services				Industry Peers		
	DOX Neutral	X Industry	S&P 500	CRM Neutral	ORCL Neutral	SAP Outperform
VGM Score	C	-	-	F	C	F
Market Cap	9.92 B	3.50 B	24.53 B	168.05 B	178.76 B	164.91 B
# of Analysts	5	5	13	16	13	5
Dividend Yield	1.55%	0.00%	1.75%	0.00%	1.72%	0.87%
Value Score	C	-	-	F	B	D
Cash/Price	0.05	0.06	0.04	0.04	0.16	0.04
EV/EBITDA	12.45	12.45	13.98	58.43	11.70	21.83
PEG Ratio	1.92	2.02	2.09	3.26	1.47	2.33
Price/Book (P/B)	2.77	5.55	3.29	5.05	11.05	4.77
Price/Cash Flow (P/CF)	12.92	15.06	13.69	50.95	12.64	23.91
P/E (F1)	16.28	22.68	19.19	61.07	14.33	22.44
Price/Sales (P/S)	2.41	1.61	2.68	10.60	4.52	5.35
Earnings Yield	6.13%	2.72%	5.21%	1.64%	6.98%	4.46%
Debt/Equity	0.06	0.23	0.71	0.16	3.13	0.42
Cash Flow (\$/share)	5.70	1.39	6.92	3.72	4.41	5.78
Growth Score	B	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	6.47%	18.65%	10.85%	141.24%	6.17%	6.28%
Proj. EPS Growth (F1/F0)	4.59%	7.45%	7.30%	7.26%	10.47%	7.62%
Curr. Cash Flow Growth	2.45%	10.90%	8.56%	66.28%	-0.35%	-1.75%
Hist. Cash Flow Growth (3-5 yrs)	3.85%	18.94%	8.36%	41.18%	-1.03%	3.01%
Current Ratio	1.35	1.33	1.23	1.05	2.37	1.05
Debt/Capital	5.88%	33.63%	42.91%	13.87%	75.79%	29.53%
Net Margin	11.99%	2.36%	11.81%	4.64%	27.62%	12.07%
Return on Equity	16.13%	11.38%	16.92%	5.37%	56.86%	15.41%
Sales/Assets	0.77	0.81	0.54	0.43	0.37	0.46
Proj. Sales Growth (F1/F0)	3.72%	8.24%	3.96%	22.98%	1.07%	5.90%
Momentum Score	D	-	-	D	D	B
Daily Price Chg	-0.57%	0.35%	0.64%	0.19%	1.05%	1.18%
1 Week Price Chg	2.57%	2.30%	2.47%	1.87%	4.33%	3.28%
4 Week Price Chg	0.85%	-1.28%	1.87%	4.64%	1.77%	1.29%
12 Week Price Chg	7.53%	10.72%	6.69%	15.38%	-0.91%	2.34%
52 Week Price Chg	31.06%	0.66%	16.42%	18.12%	8.38%	31.26%
20 Day Average Volume	821,433	338,947	2,019,212	4,098,898	7,832,316	763,452
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.02%	0.00%	-0.06%	0.11%	0.00%	6.43%
(F1) EPS Est 12 week change	-1.02%	-0.34%	-0.19%	-3.86%	0.49%	6.43%
(Q1) EPS Est Mthly Chg	-5.40%	0.00%	-0.16%	-3.82%	0.00%	-3.09%

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	C
Growth Score	B
Momentum Score	D
VGM Score	C

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.

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