

Amdocs Limited (DOX)

\$74.37 (As of 01/20/20)

Price Target (6-12 Months): **\$78.00**

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:B

Value: C

Growth: B

Momentum: D

Summary

Amdocs is gaining from new customer gains, strong traction in managed services and solid growth across all regions. The company is also gaining from partnerships with key companies. It continues to aid digital, media and network transformations of its clients, which is improving its revenue growth rate. Its cloud native digital solutions platform DigitalONE is expected to be a key growth driver. Estimates have been stable ahead of its Q1 earnings release. 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. This downtrend, which has been persistent for the past couple of years, is expected to continue.

Data Overview

52 Week High-Low	\$74.73 - \$52.60
20 Day Average Volume (sh)	652,990
Market Cap	\$10.0 B
YTD Price Change	3.0%
Beta	0.40
Dividend / Div Yld	\$1.14 / 1.5%
Industry	Computers - IT Services
Zacks Industry Rank	Top 43% (108 out of 254)

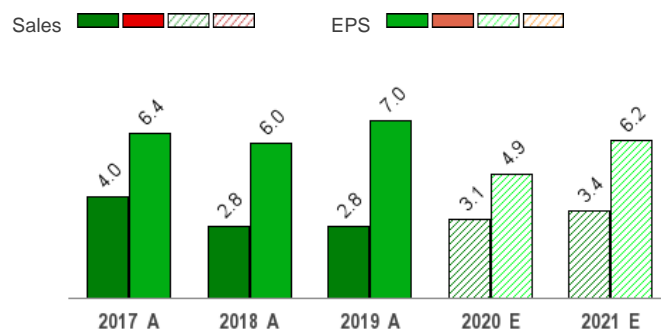
Last EPS Surprise	0.9%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%

P/E TTM	17.3
P/E F1	16.5
PEG F1	1.9
P/S TTM	2.5

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,070 E	1,080 E	1,090 E	1,100 E	4,360 E
2020	1,033 E	1,047 E	1,063 E	1,072 E	4,215 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	\$1.17 E	\$1.19 E	\$1.22 E	\$1.25 E	\$4.80 E
2020	\$1.05 E	\$1.11 E	\$1.16 E	\$1.18 E	\$4.52 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 01/20/2020. The reports text is as of 01/21/2020.

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.

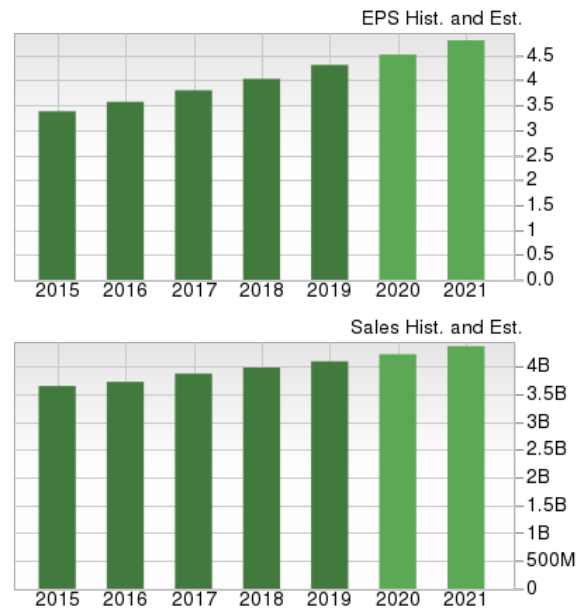
It also provides managed, quality engineering, data and intelligence, cloud enablement, digital business operation, autonomous network service assurance and advisory services. Additionally, Amdocs offers mobile financial services to service providers and financial institutions; and the BriteBill — a 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 2018, Amdocs reported record high 12 months backlog of \$3.34 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. The company reported a 15% decline in fiscal 2018. Approximately 66% of Amdocs' total revenues in fiscal 2018 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 Q4 Revenues Meet, Earnings Beat Estimates

Amdocs Limited reported decent fourth-quarter fiscal 2019 results, wherein the bottom line beat estimates and the top line matched the same.

Quarterly non-GAAP earnings per share came in at \$1.08, up from 99 cents in the year-ago quarter. The bottom line also beat the Zacks Consensus Estimate of \$1.07. The figure came within the company's guided range of \$1.04 to \$1.10.

Revenues for the quarter came in at \$1.03 billion, improving 2.8% year over year. The top line also came within the company's guided range of \$1.015 billion to \$1.055 billion.

Stability in demand from North America and solid growth in Rest of the World and Europe drove the results. Moreover, continued flow of new customers, strong project execution and solid growth in managed services boosted revenues. However, a negative impact of nearly \$3 million year over year in foreign currency movements was a headwind.

Quarter Details

Region wise, revenues from North America (62.5% of total revenues) were \$644.2 million, up 0.9% from the year-ago quarter driven by digital modernization requirements of many of Amdocs' communications, Pay TV and media customers. However, delayed merger of T-Mobile and Sprint was a dampener.

Performance in North America region was driven by stable activity trends at AT&T and healthy activity levels at many customers in the border region. The company extended its managed services agreement with U.S. Cellular for five years.

Europe (15.2%) recorded revenues of \$156.1 million, up 3.7%. Rest of the World (22.3%) generated revenues of \$230 million, up 7.6%.

Managed services continued to grow, driven by the managed transformation activities with new customers and multi-year extension of several pre-existing partnerships.

Moreover, strong traction was seen at Amdocs Media. Also, a new agreement with AT&T, T-Mobile's Metro pre-paid and Telkom South Africa were highlights of the quarter.

Operating Metrics

The company incurred non-GAAP operating expenses of \$852.3 million, up 2.7% from the year-ago quarter.

Non-GAAP operating income increased 3.1% to \$178 million.

Balance Sheet & Cash Flow

During the fiscal fourth 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 in April 2020.

Full Fiscal-Year Highlights

Revenues for full fiscal 2019 came at \$4.1 billion, 2.8% higher year over year driven by strong growth across each of its geographical regions. Moreover, strength in managed services, driven by the continued ramp up of managed transformation activities, was an upside.

However, a revenue decline of 12% at AT&T was a dampener.

Non-GAAP earnings grew 6.9% to \$4.31.

Outlook

For first-quarter fiscal 2020, Amdocs expects revenues in the range of \$1.015-\$1.055 billion, assuming approximately \$1 million sequential positive impact from foreign currency fluctuations, and a full-quarter revenue contribution from the TTS Wireless buyout.

Non-GAAP earnings per share in the band of \$1.02 to \$1.08 are expected for the fiscal first quarter. No impact of the acquisition of TTS Wireless on Amdocs' non-GAAP earnings is expected.

For fiscal 2020, the company expects revenues to grow 1.5-5.5% year over year, with TTS contributing a little more than 1%. This guidance takes into account 0.5% year-over-year negative impact of foreign exchange fluctuations.

Amdocs expects non-GAAP earnings per share growth of 3-7% year over year, considering neutral contribution from TTS.

The company signed a large IT transformation project at Vodafone Germany in the ongoing quarter, along with another NFV deal with VodafoneZiggo. These deals are expected to improve its visibility among large service providers, thus attracting more deals.

Quarter Ending **09/2019**

Report Date	Nov 12, 2019
Sales Surprise	-0.06%
EPS Surprise	0.93%
Quarterly EPS	1.08
Annual EPS (TTM)	4.31

Recent News

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 a 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.

On Sep 17, 2019, Amdocs announced that its Final Spectrum Access System Certification Test Report has been approved by the United States Federal Communications Commission, meaning that it can begin Initial Commercial Deployments of its solutions and services for Citizens Broadband Radio Service access.

On Sep 9, 2019, Amdocs announced that it is partnering with Samsung SSNLF to speed up the delivery of 5G services to market. Reportedly, the companies will deliver various solutions and services to expedite the shift of communications service providers (CSPs) to open cloud networks.

Valuation

Amdocs shares are up 17.8% in the six months period and 23% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 0.8% and 16.5% in the six months period, respectively. Over the past year, the Zacks sub-industry has increased 25.8% and the sector is up 35.3%.

The S&P 500 Index is up 12.3% in the six months period and 25.7% in the past year.

The stock is currently trading at 16.15X forward 12-month earnings, which compares to 23.4X for the Zacks sub-industry, 23.12X for the Zacks sector and 19.19X 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 16.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$78 price target reflects 16.95X 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	16.15	23.4	23.12	19.19
	5-Year High	18.44	32.37	23.12	19.34
	5-Year Low	13.03	15.6	16.87	15.17
	5-Year Median	16.7	22.18	19.24	17.44
P/S F12M	Current	2.35	5.22	3.74	3.57
	5-Year High	2.53	10.29	3.74	3.57
	5-Year Low	1.79	4.34	2.3	2.54
	5-Year Median	2.27	7.46	3.01	3
EV/Sales TTM	Current	2.34	5.25	4.4	3.34
	5-Year High	2.4	8.12	4.4	3.34
	5-Year Low	1.7	4.16	2.56	2.16
	5-Year Median	2.08	5.93	3.45	2.8

As of 01/20/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

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

Industry Comparison Industry: Computers - It Services				Industry Peers		
	DOX Neutral	X Industry	S&P 500	CRM Neutral	ORCL Neutral	SAP Neutral
VGM Score	B	-	-	D	B	D
Market Cap	10.02 B	3.40 B	24.65 B	161.64 B	176.84 B	167.06 B
# of Analysts	5	5	13	16	13	5
Dividend Yield	1.53%	0.00%	1.73%	0.00%	1.74%	0.86%
Value Score	C	-	-	F	B	D
Cash/Price	0.05	0.06	0.04	0.04	0.16	0.04
EV/EBITDA	12.32	12.32	14.11	56.19	11.59	20.16
PEG Ratio	1.94	1.98	2.08	3.36	1.45	2.25
Price/Book (P/B)	2.83	5.38	3.39	4.86	10.93	4.97
Price/Cash Flow (P/CF)	13.05	15.57	13.81	49.00	12.50	23.80
P/E (F1)	16.49	20.88	19.19	63.00	14.18	22.68
Price/Sales (P/S)	2.45	1.70	2.69	10.20	4.47	5.50
Earnings Yield	6.08%	2.84%	5.21%	1.59%	7.06%	4.41%
Debt/Equity	0.00	0.23	0.72	0.16	3.13	0.45
Cash Flow (\$/share)	5.70	1.39	6.94	3.72	4.41	5.88
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	6.12%	16.94%	10.56%	141.24%	6.17%	4.96%
Proj. EPS Growth (F1/F0)	4.83%	9.62%	7.57%	5.18%	10.47%	10.49%
Curr. Cash Flow Growth	2.45%	14.90%	14.73%	66.28%	-0.35%	5.30%
Hist. Cash Flow Growth (3-5 yrs)	3.85%	16.56%	9.00%	41.18%	-1.03%	1.98%
Current Ratio	1.39	1.32	1.24	1.05	2.37	1.01
Debt/Capital	0.00%	37.45%	42.99%	13.87%	75.79%	31.11%
Net Margin	11.73%	1.78%	11.14%	4.64%	27.62%	12.62%
Return on Equity	15.98%	12.44%	17.16%	5.37%	56.86%	16.12%
Sales/Assets	0.78	0.81	0.55	0.43	0.37	0.47
Proj. Sales Growth (F1/F0)	3.15%	8.61%	4.16%	27.93%	1.07%	6.39%
Momentum Score	D	-	-	B	B	C
Daily Price Chg	0.49%	-0.21%	0.27%	-0.25%	-0.54%	1.94%
1 Week Price Chg	-0.40%	1.33%	0.39%	8.44%	1.28%	2.24%
4 Week Price Chg	3.45%	6.90%	2.95%	11.57%	3.55%	5.17%
12 Week Price Chg	13.89%	16.42%	7.76%	23.03%	1.60%	6.20%
52 Week Price Chg	24.05%	15.02%	22.29%	21.63%	13.48%	35.06%
20 Day Average Volume	652,990	230,367	1,536,375	4,395,381	9,515,127	520,634
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.08%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.70%	-0.70%	-0.40%	2.59%	-0.02%	-4.96%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	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	C
Growth Score	B
Momentum Score	D
VGM Score	B

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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