

Genpact Limited (G)

\$44.01 (As of 02/20/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Shares of Genpact have outperformed its industry in the past year, partly due to better-than-expected earnings and revenues performance in the last four quarters. The company continues to enjoy a competitive position in the BPO services market based on domain expertise in business analytics, digital and consulting. Buyouts help expand customer base and drive top-line growth. Artificial Intelligence presents significant growth opportunities. Consistency in rewarding shareholders through dividend payments and share repurchases boost investors' confidence and positively impact earnings per share. However, Genpact continues to face significant client concentration in terms of geographic location. Frequent acquisitions have negatively impacted the company's balance sheet. Seasonality causes considerable fluctuations in revenues and profits.

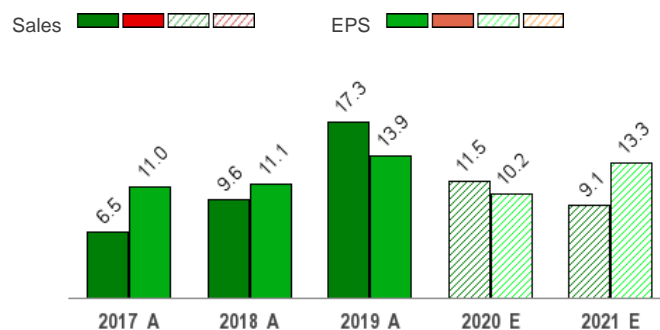
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.20 - \$33.02
20 Day Average Volume (sh)	1,118,279
Market Cap	\$8.4 B
YTD Price Change	4.4%
Beta	0.83
Dividend / Div Yld	\$0.39 / 0.8%
Industry	<u>Outsourcing</u>
Zacks Industry Rank	Bottom 38% (159 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.8%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	05/07/2020
Earnings ESP	-0.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	992 E	1,065 E	1,093 E	1,153 E	4,285 E
2020	904 E	976 E	995 E	1,054 E	3,927 E
2019	809 A	882 A	889 A	941 A	3,521 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.54 E	\$0.61 E	\$0.68 E	\$0.74 E	\$2.56 E
2020	\$0.47 E	\$0.55 E	\$0.60 E	\$0.65 E	\$2.26 E
2019	\$0.43 A	\$0.49 A	\$0.56 A	\$0.57 A	\$2.05 A

*Quarterly figures may not add up to annual.

P/E TTM	21.5
P/E F1	19.5
PEG F1	1.8
P/S TTM	2.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/20/2020. The reports text is as of 02/21/2020.

Overview

Hamilton, Bermuda-based Genpact Limited manages business processes for companies around the world. The company combines process expertise, information technology and analytical capabilities with operational insight and experience in diverse industries to provide a wide range of services using its global delivery platform.

Genpact helps companies improve the ways in which they do business by applying Smart Enterprise Processes (SEP), Six Sigma and Lean principles. Genpact Cora combines the company's proprietary automation, analytics, and AI technologies into a single common platform. The platform is used to embed latest technologies and deep domain knowledge into Genpact solutions to speed up clients' digital transformations.

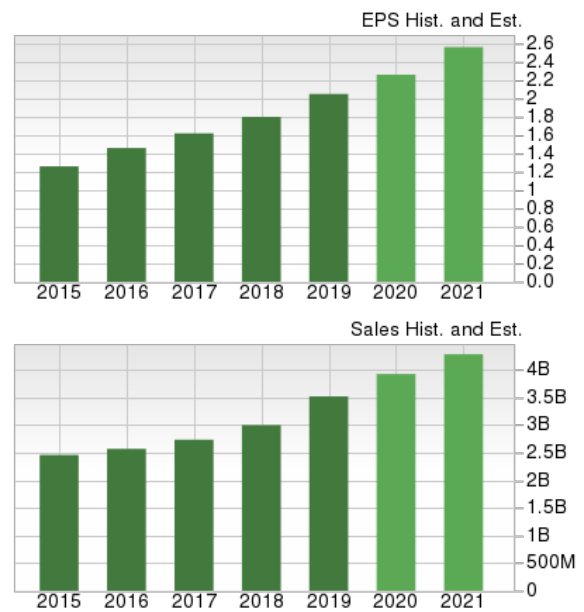
The company's transformation services include digital products, services and solutions, consulting services, and analytics offerings. Professional services include finance and accounting services; core industry operations specific services; sourcing, procurement and supply chain services; and IT services.

Across the globe, the company serves banking and financial services, insurance, consumer goods and retail, life sciences and healthcare, infrastructure, manufacturing industries, and capital markets. It serves about one fourth of the Fortune Global 500, including Boeing, Citigroup, Hyatt, Aon, Bayer, McKesson, PayPal, Walmart and Walgreens Boots Alliance.

The company operates service delivery centers in Brazil, China, Czech Republic, Guatemala, India, Israel, Japan, Malaysia, Mexico, Netherlands, Philippines, Poland, Romania, Slovakia, South Africa, United Kingdom and the United States.

Genpact has over 87,000 employees, serving more than 700 clients spread across 25 plus countries. The company reported net revenues of \$3.00 billion in 2018. Almost 91% of this revenue came from clients other than GE, which the company refer to as Global Clients. The remaining 9% came from GE. Segment wise, BPO accounted for 83% of total revenue, while the remaining 17% came from Information technology services in 2018.

Genpact operates in a highly competitive global market. Its competitors include multinational consulting service providers and accounting firms, and business process service providers.



Reasons To Buy:

▲ Genpact is a **dominant name in the BPO services** market based on domain expertise in business analytics, digital and consulting. We note that Genpact is also rapidly gaining popularity among customers in providing emerging technologies like Blockchain and Industrial Internet of Things (IoT). The company's focus on integrating process, analytics and digital technologies along with deep domain expertise is helping it to win customers on a regular basis. We expect expanding customer base, stringent cost control, accretive acquisitions and aggressive share repurchase to drive overall results in the long haul.

Genpact's leading position in BPO and its expanding product portfolio, driven by acquisitions, strong clientele and aggressive share buyback are encouraging.

▲ **Acquisitions**, over time, have been Genpact's most favored mode of expanding product portfolio as well as gaining new domain expertise. In January 2019, Genpact acquired riskCanvas Holdings from Booz Allen Hamilton to expand its expertise in AML managed service operations for banking and financial services clients. In 2018, the company completed the purchase of Barkawi Management Consultants and certain affiliated entities in the United States, Germany and Austria to expand global supply chain management transformation expertise. Acquisition of Commonwealth Informatics should boost Genpact's pharmacovigilance artificial intelligence (PVAI) suite of capabilities. These buyouts have helped the company to significantly expand customer base and boosted its revenues.

▲ Genpact has a **strong clientele** across the world. The company serves almost one fifth of the Global Fortune 500, including Boeing, Citigroup, GlaxoSmithKline, Wells Fargo, Ironshore, Mondelez, PayPal and Abbott. We note that the Global Client base has improved rapidly over the last five years (2013-2018). Revenue from this group has increased at a healthy CAGR of 11% in this time frame to reach \$2.7 billion in 2018. Moreover, Global Clients as a percentage of total revenue increased from approximately 77% in 2013 to approximately 91% in 2018. We believe that Genpact's expertise in providing BPO services will continue to expand customer base in the long run.

▲ **Artificial Intelligence (AI) presents significant growth opportunity** for Genpact. The company's AI platform — Genpact Cora — is an automation to AI-based platform that combines the company's proprietary automation, analytics, and AI technologies into a single common platform. It has a modular, interconnected network of technologies that enables clients to better tackle specific operational business challenges. The platform is helping the company to provide related offerings to industries like consumer-packaged goods, industrial engineering, life sciences and high tech. Acquisitions like Rage Framework and design thinking based companies, such as Tandem Seven have also expanded the company's AI product portfolio. Per an IDC report, worldwide spending on cognitive systems and AI will witness CAGR of 28.4% over the 2018-2023 period to reach \$97.9 billion. We believe that Genpact is well positioned to take advantage of the projected improvement in the AI space.

▲ We are impressed with Genpact's endeavours in **returning value to shareholders** in the form of share repurchases and dividend payments. During 2019, 2018 and 2017, Genpact repurchased shares worth \$30 million, \$154.1 million and \$219.8 million, respectively. The company paid \$64.7 million, \$57.1 million and \$46.7 million in dividends to its shareholders during 2019, 2018 and 2017, respectively. Such shareholder-friendly moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instil investors' confidence but also positively impact the company's earnings.

▲ Genpact's shares have gained 32.5% over the past year, outperforming the 16% growth of the industry it belongs to. The **outperformance** partly reflects better-than-expected earnings and revenues performance in the last four quarters.

Reasons To Sell:

- ▼ The outsourcing industry is labor intensive and heavily dependent on foreign talent. **Rising talent costs due to competition** coupled with Trump's stringent policies on immigration could curb the industry's growth. Genpact, being one of the companies in the industry, is likely to get affected.
- ▼ A significant portion of Genpact's revenue comes from a handful of customers including GE, which contributed almost 9% to 2018 revenues as compared with 9.8% contribution in 2017 revenues, 13.9% in 2016 and 18.7% in 2015. **GE's planned divestiture** of the GE Capital business has negatively impacted Genpact's top-line growth. Management anticipates revenues from GE to be more volatile in the future.
- ▼ Genpact also faces significant **client concentration** in terms of geographic location. In 2018, more than 65% of the company's revenues were derived from clients based in North America and more than 15% of revenues were derived from clients based in Europe. Additionally, in 2018, more than 35% of Genpact's revenues were derived from clients in the financial services industry, including insurance. We believe that this dependency on a particular industry doesn't bode well for the investors in the long run.
- ▼ Genpact experiences **seasonality** with revenues typically lower in the first and second quarters. This is because demand for services like short-term IT projects, transformation, analytics, collections and transaction processing services is lower in the first half of the year. The seasonality causes considerable fluctuations in revenues and profits, and makes forecasting difficult.

Client concentration, seasonality and high debt level are Genpact's major headwinds.

Last Earnings Report

Genpact Beats on Q4 Earnings and Revenues

Genpact delivered impressive fourth-quarter 2019 results, with earnings and revenues beating the Zacks Consensus Estimate.

Adjusted earnings per share of 57 cents outpaced the consensus mark by 1.8% and increased 9.6% year over year. The increase was driven by higher operating profit of 7 cents and positive impact of a penny related to higher foreign exchange balance sheet remeasurement gains, partially offset by higher effective tax rate of 2 cents and increased share count of a penny.

Revenues amounted to \$941 million, which beat the consensus estimate by 3.2% and improved 12.7% year over year on a reported basis as well as constant-currency basis. The top line was driven by large deals and growth in transformation services.

Quarter Details

Total BPO revenues (85% of total revenues) increased 14% year over year to \$801 million. Total IT revenues (15% of total revenues) came in at \$140 million, up 3% year over year.

Global Clients (86% of total revenues) revenues climbed 7% year over year on a reported basis and 8% at cc to \$811 million. Global Client BPO revenues of \$711 million improved 9% year over year on a reported basis and 10% on a constant-currency basis. Global Client IT revenues grew 4% year over year to \$100 million.

General Electric (GE) revenues of \$129 million increased 61% year over year. It contributed 14% to total revenues. GE BPO revenues improved 81% year over year to \$90 million. GE IT revenues of \$40 million increased 29%.

Adjusted income from operations totaled \$159 million, up 12% year over year. Adjusted operating income margin was 16.9%, flat with the year-ago quarter figure.

Balance Sheet

Genpact exited the fourth quarter with cash and cash equivalents of \$467.1 million compared with \$368 million at the end of the previous quarter. Long-term debt (less current portion) totaled \$1.3 billion compared with \$950.9 million at the end of the third quarter.

Genpact returned around \$65 million to shareholders through dividend payout and \$30 million through share repurchase in 2019.

2020 Guidance

Adjusted EPS is projected between \$2.24 and \$2.28. The company expects revenues in the range of \$3.89-\$3.95 billion. Global Client revenues are expected to register 12-14% growth on a reported as well as constant-currency basis. Adjusted operating income margin is continued to be anticipated around 16%.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	3.18%
EPS Surprise	1.79%
Quarterly EPS	0.57
Annual EPS (TTM)	2.05

Recent News

On **Feb 6, 2020**, Genpact announced that its board of directors has approved a dividend hike of roughly 15%, thereby raising the annual dividend payout from 34 cents per share to 39 cents. The company's board also declared a first-quarter dividend of 9.75 cents per share (up from the 8.5-cents quarterly dividend paid in 2019), payable on Mar 18, 2020, to shareholders of record at the close of business on Mar 9, 2020.

On **Feb 4, 2020**, Genpact announced a partnership with HighRadius, an enterprise SaaS (Software-as-a-service) fintech company. Together, the companies are expected to improve to enterprise accounts receivable and bring together digital automation solutions powered by advanced machine learning and AI.

On **Jan 30, 2020**, Genpact announced a partnership with KONE, one of the leading companies in the elevator and escalator industry.

On **Jan 28, 2020**, Genpact announced that it is partnering with Amplexor wherein Genpact will provide enhanced Digital Transformation services to support Amplexor's Regulatory Information Management (RIM) solution.

On **Jan 16, 2020**, Genpact announced that it was awarded with the 2019 Brandon Hall Group Human Capital Management (HCM) Excellence Awards for global talent development programs, hiring practices and corporate culture.

Valuation

Genpact shares are up 32.5% over the trailing 12-month period. The Zacks sub-industry, sector and S&P 500 index are up 16%, 26% and 21.2%, respectively in the same time frame.

The stock is currently trading at 19.12X price to forward 12 months' earnings, which compares to 23.38X for the Zacks sub-industry, 26.91X for the Zacks sector and 19.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.06X and as low as 14.65X, with a 5-year median of 19.21X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46.00 price target reflects 19.98X price to forward 12 months' earnings.

The table below shows summary valuation data for G

Valuation Multiples - G					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.12	23.38	26.91	19.39
	5-Year High	25.06	23.76	26.91	19.39
	5-Year Low	14.65	18.79	18.78	15.18
	5-Year Median	19.21	22.41	20.59	17.47
P/S F12M	Current	2.1	3.04	4.31	3.59
	5-Year High	2.33	3.04	5.14	3.59
	5-Year Low	1.5	2.23	3.1	2.54
	5-Year Median	1.94	2.55	3.64	3
P/B TTM	Current	5.21	8.57	5.28	4.68
	5-Year High	5.32	8.69	6.72	4.68
	5-Year Low	3.52	5.74	4.13	2.85
	5-Year Median	4.3	7.19	5.27	3.62

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (159 out of 255)



Top Peers

Accenture PLC (ACN)	Neutral
Euronet Worldwide, Inc. (EEFT)	Neutral
Fiserv, Inc. (FISV)	Neutral
FleetCor Technologies, Inc. (FLT)	Neutral
Global Payments Inc. (GPN)	Neutral
Maximus, Inc. (MMS)	Neutral
Sykes Enterprises, Incorporated (SYKE)	Neutral
WNS (Holdings) Limited (WNS)	Neutral

Industry Comparison Industry: Outsourcing				Industry Peers		
	G Neutral	X Industry	S&P 500	ACN Neutral	EEFT Neutral	SYKE Neutral
VGM Score	B	-	-	D	B	B
Market Cap	8.36 B	1.27 B	24.34 B	135.97 B	7.67 B	1.49 B
# of Analysts	8	2	13	11	3	2
Dividend Yield	0.77%	0.00%	1.78%	1.50%	0.00%	0.00%
Value Score	C	-	-	D	D	A
Cash/Price	0.05	0.11	0.04	0.04	0.23	0.10
EV/EBITDA	19.44	10.44	14.18	18.53	15.85	11.82
PEG Ratio	1.83	1.70	2.09	2.65	1.82	1.53
Price/Book (P/B)	5.22	3.47	3.30	8.72	5.35	1.78
Price/Cash Flow (P/CF)	19.98	13.69	13.49	24.00	17.85	9.71
P/E (F1)	19.47	19.18	19.28	27.34	18.22	15.33
Price/Sales (P/S)	2.37	1.02	2.68	3.09	2.79	0.93
Earnings Yield	5.14%	5.22%	5.17%	3.66%	5.49%	6.54%
Debt/Equity	0.77	0.35	0.70	0.17	0.90	0.29
Cash Flow (\$/share)	2.20	3.31	7.03	8.91	7.96	3.70
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	12.01%	11.71%	10.84%	11.25%	21.60%	3.59%
Proj. EPS Growth (F1/F0)	10.24%	12.61%	7.09%	6.31%	11.17%	11.93%
Curr. Cash Flow Growth	7.53%	9.89%	6.72%	8.06%	17.70%	-1.79%
Hist. Cash Flow Growth (3-5 yrs)	5.26%	11.32%	8.25%	9.75%	19.96%	8.03%
Current Ratio	1.46	1.24	1.22	1.39	1.88	2.17
Debt/Capital	43.36%	28.68%	42.37%	14.60%	47.31%	22.62%
Net Margin	8.66%	1.14%	11.56%	11.06%	12.61%	3.62%
Return on Equity	21.40%	14.59%	16.80%	33.35%	27.10%	10.08%
Sales/Assets	0.88	1.07	0.55	1.48	0.66	1.20
Proj. Sales Growth (F1/F0)	11.53%	3.87%	3.90%	6.66%	8.50%	3.70%
Momentum Score	B	-	-	D	D	D
Daily Price Chg	0.16%	-0.36%	0.01%	-0.94%	-1.68%	1.55%
1 Week Price Chg	2.82%	1.40%	1.65%	0.37%	-8.36%	1.13%
4 Week Price Chg	-1.37%	-4.09%	0.36%	1.53%	-14.80%	0.25%
12 Week Price Chg	7.53%	0.00%	4.39%	6.29%	-9.99%	0.76%
52 Week Price Chg	32.56%	3.93%	15.29%	34.08%	8.14%	17.83%
20 Day Average Volume	1,118,279	141,826	1,992,841	1,675,238	535,866	132,247
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.96%	0.00%	-0.02%	0.00%	-2.85%	0.00%
(F1) EPS Est 12 week change	0.96%	0.00%	-0.17%	0.55%	-2.98%	0.00%
(Q1) EPS Est Mthly Chg	0.37%	0.00%	-0.48%	0.00%	-9.86%	0.00%

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	B
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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