

<b>DST Systems Inc.</b> Ticker: DST Sector: Technology Industry: Technology Services	Intrinsic Value: \$ 105 - 140 Current Price: \$89.83 (10/27) Stop Loss: \$ 78 Upside Review: \$ 110	TTM P/E: 16.58 Forward P/E: 18.16 Beta: 0.95	Market Cap: \$ 3.6 billion Dividend Yield: 1.22% 52 Week Range: \$ 81.83– \$99.89
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**Business Summary:** DST Systems is a provider of financial services products and reporting services. Founded in 1969, it grew into the largest third-party provider of U.S. mutual fund recordkeeping and the largest third-party transfer agent in the United Kingdom. It's also one of the world's largest defined contribution recordkeepers, and one of the largest Medicare pharmacy claims processors.

**Investment Thesis:**

DST is the market leader in outsourcing of mutual fund record keeping and accounting services with over a 50% national market share.

DST sees a lot of opportunity to grow in all areas, mainly due to an aging population that will mean more active retirement accounts and a need for more reporting. It also sees opportunity in the growth of Exchange Traded Funds and Alternative Asset Classes. Also, more financial services companies are wanting the top tier data security that DST supplies, and more are outsourcing processing duties to companies like DST. Its healthcare division is getting a big boost from President Obama's push for more electronic record keeping.

With a lower-than-average PE and PEG, DST is undervalued.

**Competitive Analysis:**

DST has been growing strongly over the last couple of years due to higher number of client additions, better customer relationships and growth at ALPS and DST Brokerage Solutions.

**Pros:**

- Its third quarter operating revenue and EPS continue to reflect the strong growth of its business initiatives. The third quarter 2014 diluted earnings per share of \$1.54 increased \$0.33 or 27.3% from third quarter 2013.
- Deep, Longstanding Customer Relationships. It has a large and diverse global customer base that is comprised of many of the world's largest financial and healthcare companies.
- During 2013, DST created a new reportable segment entitled Healthcare Services. Changing healthcare landscape will continue to benefit the company's business as demand expands for healthcare solutions and services. This Segment income from operations increased \$4.2 million or 36.8% during third quarter 2014.
- Since 2010, the Board has returned \$726 million to shareholders through dividends and share repurchases.

**Risk Factors:**

- The stock's rise in the past week has already helped drive it to a level which is relatively expensive.
- Facing tough competition from IBM and Fiserv.

**5 Year Stock Performance:**

(Yahoo!)



**Total Return Estimates**

3 Yr FV Reversion: 10%  
5 Yr FV Reversion: 6%

**Key Valuation Assumptions**

Est Revenue Growth: 9%  
WACC: 8.72%  
Expected Inflation: 1.7%  
Terminal Growth Rate: 4%  
10 Yr Risk Free Rate: 2.42%  
Equity Risk Premium: 7.26%  
Tax Rate: 37.00%

**Key Financial Data**

Est 2014 EPS: \$5.2  
Est 2015 EPS: \$5.65  
3-5 Yr Est EPS Growth: 8%

PEG (TTM): 1.42

Credit Quality: N.A

ROE: 36.1%

ROA: 13.2%

Price/Book: 3.1

Price/Cash Flow: 13.5

Debt/Equity: 0.58

**CSR Characteristics (DST/Industry)**

Human Rights: 0/0 Business Ethics Policy: 1/1

ESG Disclosure: 15.29/14.57 Equal Opportunity: 0/0

Emission Reduction: 0/0 Environment Disclosure: N.A/6.98

**Competitor Comparison:**

Direct Competitor Comparison					
	DST	FISV	IBM	PVT1	Industry
Market Cap:	3.54B	16.46B	160.46B	N/A	730.84M
Employees:	12,930	21,000	431,212	17,000*	1.30K
Qtrly Rev Growth (yoy):	0.03	0.05	-0.06	N/A	0.21
Revenue (ttm):	2.68B	4.95B	97.45B	4.13B*	235.06M
Gross Margin (ttm):	0.17	0.43	0.49	N/A	0.55
EBITDA (ttm):	423.50M	1.45B	24.53B	N/A	23.77M
Operating Margin (ttm):	0.12	0.23	0.20	N/A	0.07
Net Income (ttm):	419.10M	715.00M	16.06B	63.00M*	N/A
EPS (ttm):	9.87	2.75	12.34	N/A	0.21
P/E (ttm):	9.03	23.99	13.13	N/A	24.72
PEG (5 yr expected):	1.42	1.49	1.70	N/A	1.62
P/S (ttm):	1.33	3.28	1.65	N/A	3.13

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo

Prepared by Ming Dai (October 31, 2014)