

# Computacenter (LSE: CCC)

## CAMSIF TMT – Long Recommendation

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# Meet The Team

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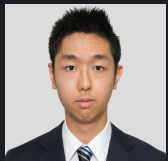
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# Executive Summary

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- We recommend CAMSIF to long Computacenter [CCC] as its current price (GBP 1831.00) is undervalued by 55.1% according to consensus analyst estimates (GBP 2840.63) and is expected to increase significantly in the next 6-12 months
- **Investment Thesis:** Market has undervalued CCC due to general macroeconomic trends and seasonality without accounting for company-specific competitive advantages, and has incorrectly valued its growth and takeover potential
- **Valuation:** The CCC stock is trading at an undervalued price compared to intrinsic valuation and peer competition
- **Catalyst:** In the next 6-12 months, catalysts include: CCC's successful acquisitions of firms, being acquired by international rivals, and gradual increase in share price due to company fundamentals
- **Risks:** Limitations of thesis include worsening macroeconomic and UK political situation before improvements and an increase in competition may slow revenue growth and erode pricing power and margins

# Business Overview

## Business Description

- Industry: IT Wholesalers
- LTM Financials:
  - £6372.5mm Revenue
  - £345.9mm EBITDA
- Market Cap: £2.25bn
- Enterprise Value: £2.01bn
- LTM Multiples:
  - 11.6x P/E
  - 0.3x EV/Revenue
- Products:
  - Technology Sourcing
  - Managed Services
  - Professional Services

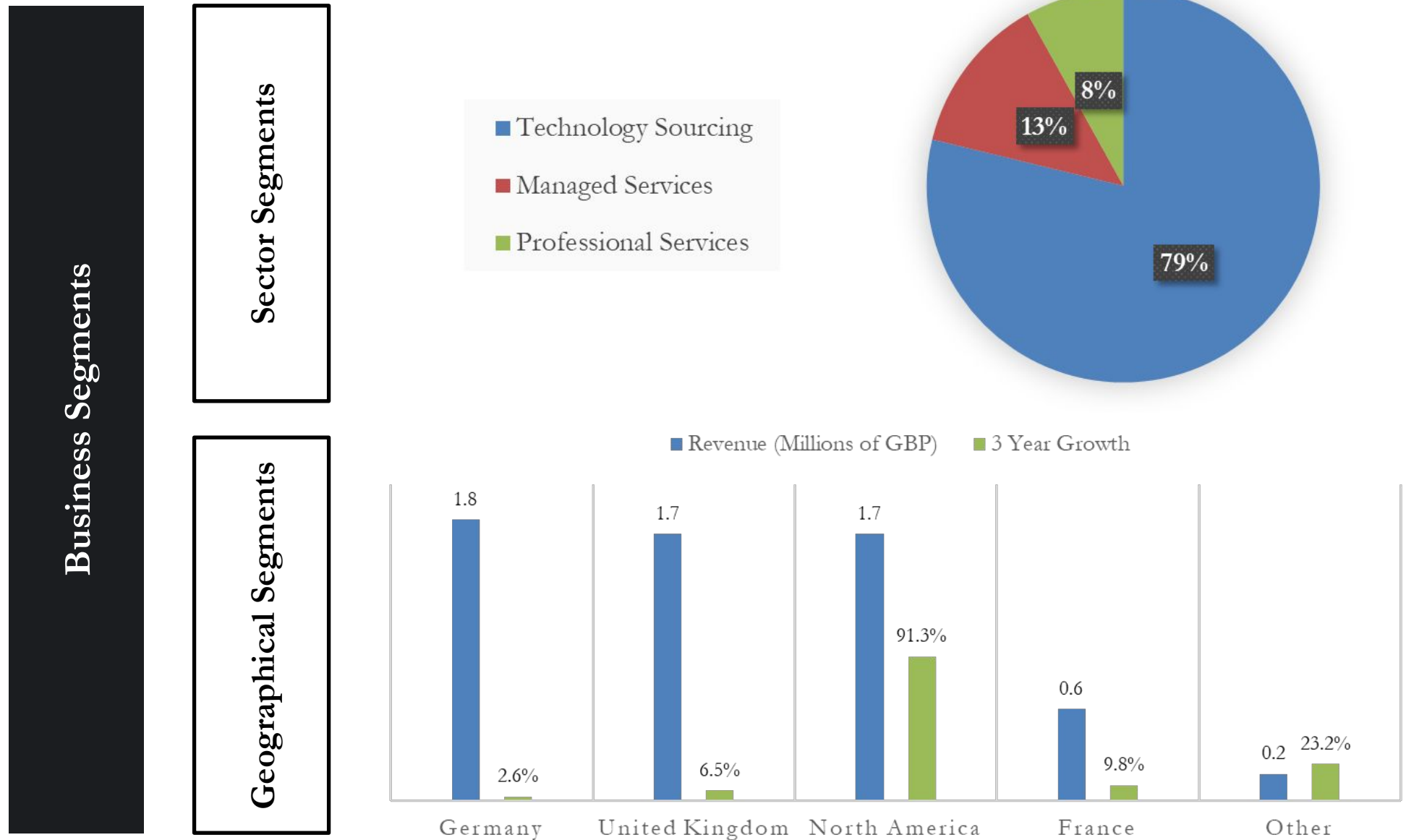
Longstanding  
Corporate  
Partners

Global  
Exposure

A leading independent technology partner delivering digital transformation and enabling people and their business.



# Business Overview - continued



# Main Thesis Points

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1

Defences against macroeconomic headwinds

2

History of successful acquisitions

3

Strong brand image & takeover target



A resilient, stable and cash generative business

# Defences Against Macroeconomic Headwinds - Continued

## Macroeconomics

### Supply Chain Instability

Unstable supply creates shortage, which increases the input cost. Hardware products are also harder to procure or produce, affecting the inventory of wholesale technology firms

### Slowing Growth

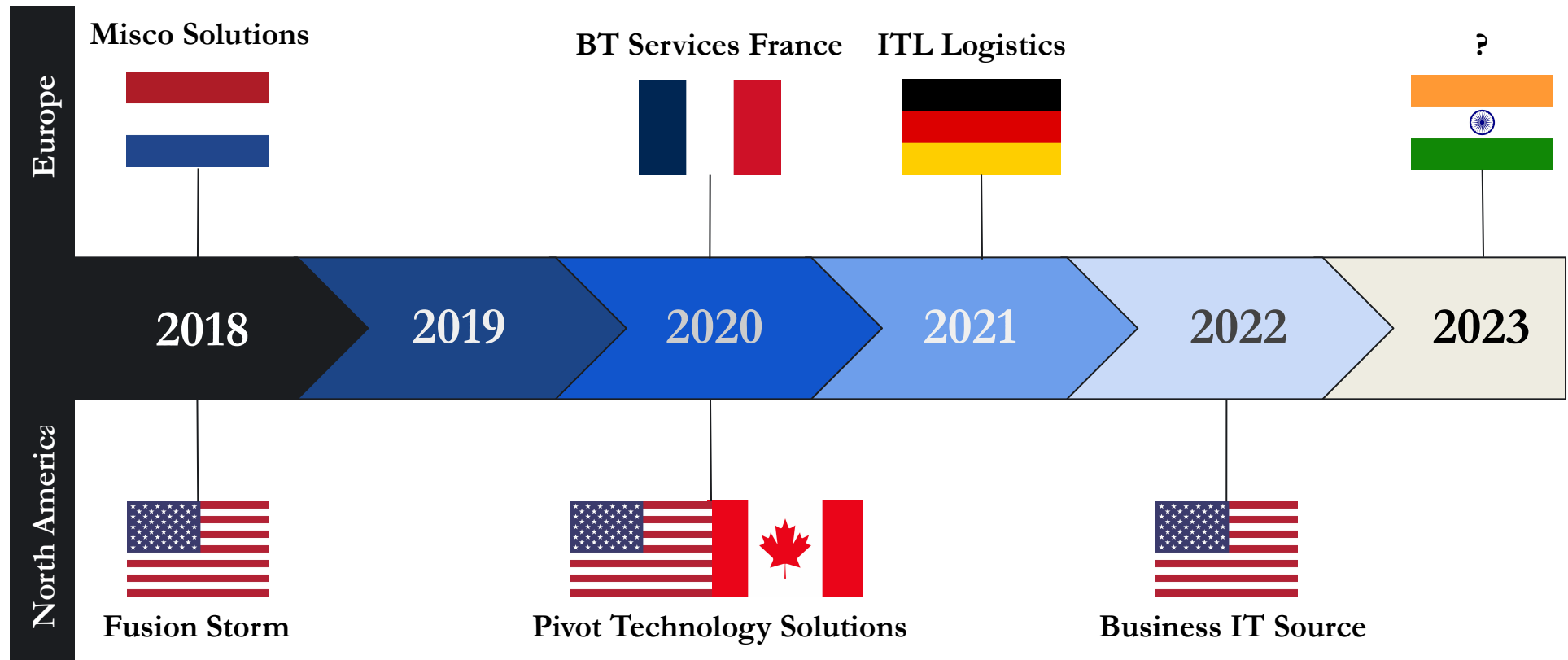
Require technology firms to focus on R&D and capital expenditures to counter the slowing growth, which in the short term decreases the cash flow of tech firms

## Computacenter's Defences

- **Increased inventory:** Counter the unstable supply chain, stabilises revenue and customer confidence
- **Committed purchases:** Secure the purchase of raw materials and hardware products in advance, stabilises the production and the wholesale revenue

- **Global market diversification:** Recent M&A in Germany and North America resulted in increasing revenue in those regions, countering the slow growth rate of the UK industry
- **Trend of digitalisation:** increased digitalisation across industries as companies seek to invest in technology to accelerate innovation and meet customer needs despite incoming recession

# History of Successful Acquisitions



## Expanding product coverage

- IT logistics fleet to deliver products
- Warehouse capacity for products
- Local offices to push IT services to local clients

## Expanding geographical coverage

- North America
- Move to India to reduce labour costs (approx. 3000 jobs moved to India)



# Strong Brand Image & Takeover Target

## Brand Image

### Established Partner Relationships

- Computacenter has developed long-lasting relationships with world leading technology partners
- Breadth and width of CCC's partners enables them to integrate the most optimal solutions comprising of products from multiple partners

### Brand Loyalty

- Majority of CCC's clients have traded with the company for 10+ years
- Retention of long term, large clients provides financial stability

### ESG Focus

- Aim for carbon neutrality by end of 2022
- 73% of electricity usage comes from green energy resources



## Takeover Target

### Undervalued

- 36% fall in the shares and 5.6 times the enterprise value of gross income mark the group at its lowest valuation in at least nine years
- Weak pound indicates cheaper acquisition price for international rival to takeover CCC

### Cash-Heavy

- Highly cash generative business provides liquidity
- Low debt levels - easy to refinance
- Consistent and growing business (CAGR of 19%)
  - Able to leverage financing in professional services and further acquisitions

### Competitive Advantages

- Providing technology with complementary services provides customer retention
- Established international reputation and client base
- Experienced management evidenced through prudent debt/acquisition governance

# Valuation

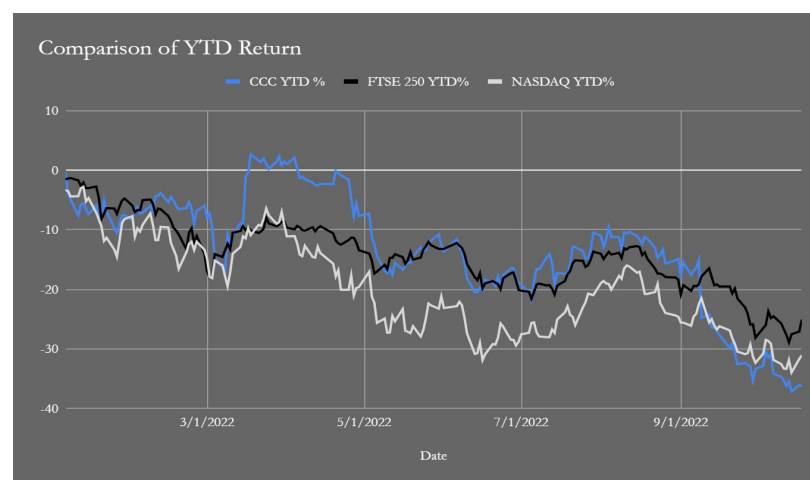
## Financials

	Historical					Projected Financials	
Year (£ millions)	2017	2018	2019	2020	2021	2022E	2023E
<b>Revenue</b>	3,793	4,353	5,053	5,441	6,726	5,932	6,242
% change	<b>16.9</b>	<b>14.8</b>	<b>16.1</b>	<b>7.7</b>	<b>23.6</b>	<b>-11.8</b>	<b>5.21</b>
<b>Gross Profit</b>	496	549	663	721	868	905	943
% margin	<b>13.1</b>	<b>12.6</b>	<b>13.1</b>	<b>13.2</b>	<b>12.9</b>	<b>15.3</b>	<b>15.1</b>
<b>Operating Profit</b>	107	109	147	198	255	268	276.3
% margin	<b>2.8</b>	<b>2.5</b>	<b>2.9</b>	<b>3.6</b>	<b>3.8</b>	<b>4.5</b>	<b>4.4</b>
<b>Net Profit</b>	75	82	103	140	185	187	191
% margin	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>	<b>2.6</b>	<b>2.8</b>	<b>3.2</b>	<b>3.1</b>

## Multiples

Company Name	P/E	EV/Rev	Total Debt to Equity
Bytes	30.6x	2.1x	0.0
Nemetschek	34.4x	7.4x	0.3
Sage	24.8x	4.1x	1.0
SAP	26.3x	3.8x	0.3
Softcat	22.0x	1.6x	0.1
TeamViewer	29.0x	3.9x	6.8
<b>Median</b>	<b>27.7x</b>	<b>3.9x</b>	<b>0.3</b>
<b>Computacenter</b>	<b>11.7x</b>	<b>0.3x</b>	<b>0.2</b>

## YTD Performance



# Risks and Mitigants

Risks	Mitigants
<b>UK Political/Macroeconomic Instability</b> <ul style="list-style-type: none"> <li>Further political instability could lead to general decline in UK equity markets</li> <li>Increased cost of borrowing due to increasing interest rates</li> </ul>	<ul style="list-style-type: none"> <li>Computacenter has geographically diversified operations including North America and Germany, while further expanding into other markets e.g. India, East Asia through acquisitions</li> <li>Further diversify CAMSIF portfolio</li> </ul>
<b>Further Weakening of Pound</b> <ul style="list-style-type: none"> <li>Foreign acquisitions become more expensive</li> <li>Difficulties when looking to expand business further abroad</li> </ul>	<ul style="list-style-type: none"> <li>Strong financials and cheap acquisition price offers a potential international takeover</li> <li>Non-UK business is handled in USD</li> <li>Computacenter uses Foreign Currency Derivatives (Forward Contracts) to hedge exposure</li> </ul>
<b>Low Barriers to Entry</b> <ul style="list-style-type: none"> <li>Computacenter is fundamentally a wholesale company</li> <li>Lower barriers to entry in terms of technology, infrastructure, etc.</li> <li>Market share could shrink in the future</li> </ul>	<ul style="list-style-type: none"> <li>Diversified services e.g. data center, professional services, managed services,</li> <li>Strong and growing partner relationships, high product order backlog of £3.4 bn</li> <li>Portfolio contains Softcat (a competitor that focuses on SMEs), which diversifies this risk</li> </ul>

# Conclusion

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# Appendix

## Income Statement

	Note	H1 2022 £m	H1 2021 £m (restated)	Year 2021 £m (restated)
<b>Revenue</b>	5	<b>2,826.7</b>	2,425.1	5,034.5
Cost of sales		<b>(2,401.8)</b>	[1,999.8]	[4,166.7]
<b>Gross profit</b>		<b>424.9</b>	425.3	867.8
Administrative expenses		<b>(315.3)</b>	[305.5]	[612.0]
Impairment loss on trade receivables and contract assets		<b>0.5</b>	[1.0]	[0.6]
<b>Operating profit</b>		<b>110.1</b>	118.8	255.2
Finance income		<b>1.0</b>	0.2	0.3
Finance costs		<b>(3.3)</b>	[3.8]	[7.5]
<b>Profit before tax</b>		<b>107.8</b>	115.2	248.0
Income tax expense		<b>(30.0)</b>	[33.1]	[61.5]
<b>Profit for the period/year</b>		<b>77.8</b>	82.1	186.5
<b>Attributable to:</b>				
Equity holders of the Parent		<b>77.2</b>	81.9	185.3
Non-controlling interests		<b>0.6</b>	0.2	1.2
<b>Profit for the period/year</b>		<b>77.8</b>	82.1	186.5
<b>Earnings per share:</b>				
– basic for profit for the period/year	9	<b>68.4p</b>	72.5p	164.0p
– diluted for profit for the period/year	9	<b>67.3p</b>	70.7p	160.9p

## Cash Flow Statement

	H1 2022 £m	H1 2021 £m	Year 2021 £m
<b>Operating activities</b>			
Profit before tax	107.8	115.2	248.0
Net finance cost	2.3	3.6	7.2
Depreciation of property, plant and equipment	10.3	12.7	24.8
Depreciation of right-of-use assets	26.2	26.3	50.6
Amortisation of intangible assets	8.0	7.0	15.3
Share-based payments	5.2	4.5	10.6
Loss on disposal of intangibles	–	–	0.5
Loss/(Gain) on disposal of property, plant and equipment	0.4	0.1	[1.3]
Net cash flow from inventories	[33.0]	[47.0]	[131.5]
Net cash flow from trade and other receivables (including contract assets)	[67.6]	[27.9]	[238.5]
Net cash flow from trade and other payables (including contract liabilities)	[19.9]	[68.8]	292.2
Net cash flow from provisions and employee benefits	[1.9]	[2.6]	[1.7]
Other adjustments	0.1	0.7	1.3
<b>Cash generated from operations</b>	<b>37.9</b>	<b>23.8</b>	<b>277.5</b>
Income taxes paid	[29.8]	[22.3]	[53.2]
<b>Net cash flow from operating activities</b>	<b>8.1</b>	<b>1.5</b>	<b>224.3</b>
<b>Investing activities</b>			
Interest received	1.0	0.2	0.3
Acquisition of subsidiaries, net of cash acquired	[2.3]	[1.1]	[2.5]
Purchases of property, plant and equipment	[8.7]	[9.6]	[18.8]
Purchases of intangible assets	[6.8]	[7.9]	[11.5]
Proceeds from disposal of property, plant and equipment	1.0	0.2	7.5
<b>Net cash flow from investing activities</b>	<b>[15.8]</b>	<b>[18.2]</b>	<b>[25.0]</b>
<b>Financing activities</b>			
Interest paid	[0.7]	[1.1]	[2.3]
Interest paid on lease liabilities	[2.5]	[2.7]	[5.2]
Dividends paid to equity shareholders of the Parent	–	–	[62.4]
Proceeds from share issues	1.6	1.5	6.2
Purchase of own shares	[34.4]	[20.3]	[25.5]
Repayment of loans and credit facility	[5.8]	[93.3]	[99.7]
Payment of capital element of lease liabilities	[25.9]	[24.6]	[50.2]
New borrowings – bank loan	4.5	10.4	10.7
<b>Net cash flow from financing activities</b>	<b>[63.2]</b>	<b>[130.1]</b>	<b>[228.4]</b>
<b>Decrease in cash and cash equivalents</b>	<b>[70.9]</b>	<b>[146.8]</b>	<b>[29.1]</b>
Effect of exchange rates on cash and cash equivalents	[8.8]	[4.5]	[7.5]
Cash and cash equivalents at the beginning of the period/year	273.2	309.8	309.8
<b>Cash and cash equivalents at the end of the period/year</b>	<b>193.5</b>	<b>158.5</b>	<b>273.2</b>

## Balance Sheet

	Note	H1 2022 £m	H1 2021 £m	Year 2021 £m
<b>Non-current assets</b>				
Property, plant and equipment		88.3	101.2	90.0
Right-of-use assets		138.5	141.9	138.1
Intangible assets		296.5	272.8	273.7
Investment in associate		0.1	0.1	0.1
Deferred income tax assets		22.2	18.9	30.2
Prepayments		16.5	16.6	16.6
		582.1	551.5	548.7
<b>Current assets</b>				
Inventories		399.3	254.4	341.3
Trade and other receivables		1,388.6	1,069.6	1,275.2
Income tax receivable		8.5	9.6	8.8
Prepayments		136.2	112.6	103.0
Accrued income		162.0	142.8	148.1
Derivative financial instruments	11	15.1	3.2	3.6
Cash and short-term deposits	12	199.0	164.2	285.2
		2,288.7	1,756.4	2,165.2
<b>Total assets</b>		<b>2,850.8</b>	<b>2,307.9</b>	<b>2,713.9</b>
<b>Current liabilities</b>				
Bank overdraft	12	5.5	5.7	12.0
Trade and other payables		1,411.3	1,076.7	1,410.4
Deferred income		308.4	224.1	249.3
Financial liabilities	12	19.0	15.8	15.1
Lease liabilities	12	43.6	44.1	43.0
Derivative financial instruments	11	3.5	1.6	2.5
Income tax payable		42.7	49.6	47.9
Provisions	13	4.3	3.2	3.5
		1,838.3	1,420.8	1,783.7
<b>Non-current liabilities</b>				
Financial liabilities	12	15.2	20.9	16.7
Lease liabilities	12	103.6	107.1	103.1
Deferred income		8.6	11.7	8.3
Retirement benefit obligation*	14	17.4	23.0	21.8
Provisions*	13	6.5	9.7	9.7
Deferred tax liabilities		20.9	23.9	25.8
		172.2	196.3	185.4
<b>Total liabilities</b>		<b>2,010.5</b>	<b>1,617.1</b>	<b>1,969.1</b>
<b>Net assets</b>		<b>840.3</b>	<b>690.8</b>	<b>744.8</b>
<b>Capital and reserves</b>				
Issued share capital		9.3	9.3	9.3
Share premium		4.0	4.0	4.0
Capital redemption reserve		75.0	75.0	75.0
Own shares held		(141.3)	(125.3)	(115.5)
Translation and hedging reserve		45.9	5.5	5.4
Retained earnings		842.0	719.0	762.3
<b>Shareholders' equity</b>		<b>834.9</b>	<b>687.5</b>	<b>740.5</b>
Non-controlling interests		5.4	3.3	4.3
<b>Total equity</b>		<b>840.3</b>	<b>690.8</b>	<b>744.8</b>



# Appendix

## Net Funds: Debt

	30 June 2022 £m	30 June 2021 £m	31 December 2021 £m
Cash and short-term deposits	199.0	164.2	285.2
Bank overdraft	(5.5)	(5.7)	(12.0)
<b>Cash and cash equivalents</b>	<b>193.5</b>	158.5	273.2
Bank loans/Credit facility	(34.2)	(36.7)	(31.8)
<b>Adjusted net funds<sup>3</sup> (excluding lease liabilities)</b>	<b>159.3</b>	121.8	241.4
Lease liabilities	(147.2)	(151.2)	(146.1)
<b>Net funds</b>	<b>12.1</b>	(29.4)	95.3



# Appendix

## Business Segments

For the period ending	%	Restated:2017 A	%	Restated:2018 A	%	Restated:2019 A	%	Original:2020 A	%	Original:2021 A
	2017-12-31	2017-12-31	2018-12-31	2018-12-31	2019-12-31	2019-12-31	2020-12-31	2020-12-31	2021-12-31	2021-12-31
Revenue	100.00	3,793.37	100.00	4,352.57	100.00	5,052.78	100.00	5,441.26	100.00	6,725.80
Technology Sourcing	69.49	2,636.19	73.00	3,177.58	75.65	3,822.23	76.82	4,180.08	78.43	5,274.90
Services	30.51	1,157.18	27.00	1,174.99	24.35	1,230.55	23.18	1,261.17	21.57	1,450.90
Managed Services	22.09	838.02	19.60	853.07	17.11	864.47	15.36	835.77	13.36	898.50
Professional	8.41	319.16	7.40	321.92	7.25	366.08	7.82	425.40	8.21	552.40

# Appendix

## Multiples

### Multiples

For the period ending	Original:2015 A 2015-12-31	Original:2016 A 2016-12-31	Restated:2017 A 2017-12-31	Restated:2018 A 2018-12-31	Restated:2019 A 2019-12-31	Original:2020 A 2020-12-31	Original:2021 A 2021-12-31	Current 2022-10-17	Estimate:2022 A 2022-12-31	Estimate:2023 A 2023-12-31
P/E	10.15	15.12	17.13	14.09	19.63	17.97	17.74	11.55	11.32	11.09
Average	18.46	9.41	16.82	18.69	17.83	20.89	19.16			
High	21.17	15.12	21.53	24.07	25.62	28.11	22.25			
Low	10.15	8.08	13.52	14.09	13.52	10.35	15.32			
P/Book	2.89	2.29	2.89	2.76	4.11	4.45	4.49	2.53	2.37	2.09
Average	2.70	2.67	2.55	3.16	3.49	4.37	4.75			
High	3.09	2.98	3.27	4.07	5.01	5.88	5.51			
Low	2.43	2.29	2.05	2.39	2.64	2.17	3.79			
P/Tangible Book	3.73	2.79	3.46	4.69	6.39	7.91	7.12	3.92		
Average	3.53	3.45	3.11	3.78	5.94	6.80	8.43			
High	4.04	3.85	3.97	4.87	8.53	9.14	9.80			
Low	3.17	2.79	2.49	2.86	4.50	3.37	6.74			
P/Sales	0.34	0.30	0.37	0.26	0.39	0.51	0.49	0.33	0.36	0.34
Average	0.33	0.32	0.33	0.40	0.33	0.42	0.54			
High	0.38	0.36	0.43	0.52	0.48	0.58	0.64			
Low	0.29	0.27	0.26	0.26	0.25	0.20	0.43			
P/Cash Flow	11.17	14.12	13.05	10.01	10.38	11.97	15.15	9.28	7.87	5.58
Average	10.75	10.34	15.70	14.23	12.66	11.05	12.78			
High	12.31	14.12	20.11	18.34	18.20	14.86	15.15			
Low	9.67	8.89	12.62	10.01	9.60	5.47	10.20			
P/Free Cash Flow	13.02	19.04	18.26	16.65	12.31	13.30	16.58	10.08		
Average	12.34	12.06	21.17	19.93	21.03	13.10	14.20			
High	14.12	19.04	27.11	25.66	30.27	17.62	16.58			
Low	11.09	10.36	17.02	15.08	12.31	6.49	11.34			
EV/Sales	0.30	0.26	0.32	0.27	0.40	0.50	0.48	0.33	0.35	0.34
Average	0.26	0.28	0.29	0.33	0.32	0.42	0.54			
High	0.30	0.31	0.39	0.44	0.47	0.57	0.63			
Low	0.23	0.23	0.23	0.24	0.24	0.21	0.43			
EV/EBITDA	7.87	7.19	9.03	8.16	9.09	9.73	9.30	6.24	5.96	5.77
Average	7.29	7.20	8.14	9.28	9.68	9.69	10.38			
High	8.50	8.16	10.77	12.24	14.08	13.06	12.08			
Low	6.44	6.06	6.30	6.61	7.24	4.75	8.26			
EV/EBIT	10.85	9.56	11.46	10.76	13.63	13.84	12.61	8.50	7.82	7.59
Average	10.43	9.92	10.82	11.77	12.76	14.51	14.76			
High	12.17	11.24	14.31	15.52	18.56	19.56	17.18			
Low	9.22	8.35	8.37	8.38	9.55	7.12	11.75			
Price/Share	8.52	8.00	11.53	10.06	17.73	24.48	29.10	18.47		
High	8.59	8.85	11.56	16.32	18.51	25.94	30.98	18.52		
Low	6.57	6.69	7.09	9.36	9.57	9.00	20.82	18.15		
Enterprise Value	924.27	837.03	1,223.42	1,176.98	2,003.30	2,746.12	3,218.51	2,095.99		
Average	799.96	845.32	948.50	1,257.39	1,397.92	2,135.99	2,932.97			
High	932.61	957.39	1,252.94	1,657.91	2,030.38	2,876.48	3,410.42			
Low	706.92	711.05	732.74	895.45	1,044.20	1,046.80	2,332.93			

# Appendix

## Market Share

