

EQUITY RESEARCH

February 10, 2022

Flash Research

TELUS INTERNATIONAL (CDA), INC.

Q4/21 First Look: Solid Q4 Results And 2022 Guide

Our Conclusion: TELUS International reported a relatively in-line Q4 and released its 2022 guidance, with the midpoint of the 2022 revenue guide 2% above consensus, but adjusted EBITDA margins 100 bps below. In Q4, TI recorded 15% organic growth, with its overall revenue mix tilted slightly more towards e-commerce and fintech than expected, with the company generating 12% of revenue (vs. our 10% expectation) from the vertical. TI saw 21% revenue growth from recent acquisitions (Lionbridge/Playment). We will be looking for more details on customer dynamics and the cost environment on the call today at 10:30 a.m. ET.

Key Highlights

Full-year Guidance: TI introduced full-year 2022 guidance revenue of \$2.55B-\$2.6B, adjusted EBITDA of \$612MM-\$624MM (24% margins) and adjusted diluted EPS of \$1.18-\$1.23. Consensus expects 2022 full-year revenue of \$2.55B, adjusted EBITDA of \$635MM (25%) and adjusted EPS of \$1.18. Revenue and EPS guidance were in line with consensus, while margins of 24% were 100 bps less than expected. Expectations of wage inflation may have factored in to margin guidance.

Revenue By Vertical: Total revenue of \$600MM was in line with our estimate and consensus (\$601MM/\$596MM). Tech and Games contributed \$282MM of revenue (47% of total revenue), up 62% Y/Y given AI data solutions and organic growth. The Communications and Media vertical contributed \$138MM in revenue (23% of revenue), up 9% Y/Y and eCommerce & Fintech contributed \$72MM (12% of revenue) and was up 49% Y/Y.

Profitability: Adjusted EBITDA of \$143MM was slightly below of CIBCe (\$146MM) but ahead of consensus (\$140MM) and margins of 23.8% were 50 bps below CIBCe but 30 bps ahead of consensus (24.3%/23.5%). Margins were down 540 bps Y/Y as a result of the Lionbridge acquisition and growth investments.

Free Cash Flow: Free cash flow of \$29MM was down 59% Y/Y as the company saw higher income tax and share-based comp payments and a \$40MM usage of working capital vs. \$12MM in the prior year quarter.

Leverage Update: TI reduced debt by \$45MM in debt in Q4, ending the quarter with net debt of \$867MM. We calculate leverage of 2.1x, down from 2.2x sequentially. TI's total liquidity is \$831MM through a combination of cash and revolver availability.

Hiring: TI hired 3,614 net new team members in the quarter. Labour shortages have been an issue in the sector, but TI appears to have been able to keep up its hiring pace. The team member count was 62,141 as of December 31, 2021, an increase of 23% Y/Y.

Stephanie Price, CFA
+1 416-594-7047
Stephanie.Price@cibc.com

Scott Fletcher, CPA, CA
+1 416-956-3229
Scott.Fletcher@cibc.com

Natalie Zhang, CFA
+1 416-581-2120
Natalie.Zhang@cibc.com

Outperformer

TIXT-NYSE, Sector: Information Technology

Current Price (2/8/22): US\$26.93

Price Target (12-18 mos.): US\$48.00

All figures in US dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks To Price Target" information on page(s) 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

Financial Summary

Exhibit 1: TIXT – Financial Summary, FQ4/21

	Q4 2021						
	Actual	CIBCe	Cons	Q4-F2020	Y/Y%	Q3-F2021	Q/Q%
Consolidated							
Revenue (\$mm)	600	601	596	442	36%	556	8%
Tech & Games	282	270	NA	174	62%	251	12%
Comm. & Media	138	150	NA	127	9%	136	1%
eCommerce	72	60	NA	48	49%	70	3%
Other	108	120	NA	85	16%	99	9%
EBITDA (\$mm)	143	146	140	129	11%	137	4%
EBITDA Margin	23.8%	24.3%	23.5%	29.2%	-540 bps	24.6%	-80 bps
Adjusted EPS	\$0.28	0.25	0.24	0.27	4%	0.26	8%

Source: Company reports, FactSet and CIBC World Markets Inc.

Exhibit 2: TIXT – 2022 Full-Year Guidance

	New Guidance	CIBCe	Consensus
Consolidated			
Revenue (\$mm)	\$2,550 - \$2,600	\$2,525	\$2,549
Adjusted EBITDA (\$mm)	\$612 – \$624	\$634	\$635
Adjusted Diluted EPS	\$1.18 - \$1.23	\$1.21	\$1.18

Source: Company reports, FactSet and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of \$48.00 by applying an 18.0x EV/EBITDA multiple to our 2023E EBITDA estimate based on the current capital structure. The 18.0x multiple is a blended average of Digital Services, BPO, and IT services peers.

Key Risks To Price Target

The primary risks to our price target include the following: 1) risks related to the concentrated customer base, 2) an increase in employee attrition rates, 3) litigation related to the working conditions for content moderation team members, 4) challenges in integration future acquisitions, 5) increased competition from well capitalized peers.

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None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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