



## CGI Group and Celestica: Seeing the Value in Technology Stocks

### Description

Positive free cash flow, manageable debt levels, improving business fundamentals, reasonable valuations. These are all things that you would like to see from a company before it's deemed worthy of your hard earned investment dollars. Well, it turns out that we have 2 such companies in the technology sector, right here under our nose.

**CGI Group Inc.** (TSX: GIB.a, NYSE: GIB) has seen a 32% rise in its share price since the end of April. In the last 3 quarters, results beat expectations. In the latest quarter, the company beat expectations handily, as revenue more than doubled to \$2.57 billion and EPS increased over 50% to \$0.56. Based on 2013 consensus expectations, CGI Group is trading at a P/E multiple of 15 times. EPS in 2013 is expected to increase over 40% year-over-year.

Going forward, CGI is well positioned to continue to capitalize on the growing trend of companies outsourcing their business IT functions. The Logica Plc acquisition made CGI the fifth largest independent IT services firm in the world, and has given CGI access to markets in Sweden, Denmark, Finland, Norway, Portugal, Spain and Brazil.

Backlog of signed orders as at the end of the second quarter of 2013 was \$18.7 billion, up 4% versus the end of the previous quarter. Debt to capitalization is around the 50% mark, but the company generates free cash flow and has been using some of this cash flow to strengthen its balance sheet.

**Celestica** (TSX: CLS, NYSE: CLS) is also seeing improving demand for its products. Although the company has made comments about the lack of visibility of demand, continued strong economic data points to continued healthy demand for Celestica. The company has a very strong balance sheet anchored by a sizeable cash position, good cash flow generation, and is focusing on new higher margin markets. Going forward, we should see this free cash flow back to shareholders through share buybacks, and in the medium to longer term, possibly the initiation of a dividend.

### Bottom Line

Like shoppers, investors want value for their money. We can find that in these two technology stocks that have shown good strategic vision and sound financial results. While neither offers the rocket ship

ride of past Canadian tech darlings, the crash-and-burn characteristic that was attached to these former darlings is also noticeably absent from both of these names.

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*Fool contributor Karen Thomas owns shares of Celestica. The Motley Fool doesn't own shares in any of the companies mentioned.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:CLS (Celestica Inc.)
2. NYSE:GIB (CGI Group Inc.)
3. TSX:CLS (Celestica Inc.)
4. TSX:GIB.A (CGI)

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