A Strong Quarter for CGI, One of Canada's Most Polarizing Stocks

Description

Wednesday was not a good day for American short sellers. **Thomson Reuters** (TSX:TRI)(NYSE:TRI), a company heavily targeted south of the border, reported solid first-quarter numbers, and the shares jumped nearly 4%. And the same thing could be said for another stock Americans love to hate: IT services vendor **CGI** (TSX: GIB.A)(NYSE: GIB).

"CGI posts strong Q2 results"

Those are the exact words used by CGI in its own release; the company is clearly not shy about its successes. And when looking at the numbers, it is clear CGI has a lot to be proud of. Revenue increased 7% year over year, but thanks to a strong order flow, CGI's backlog increased by over $2 billion from the previous quarter. The company's "book to bill" ratio, which compares orders with revenue, came in at 105.4% (anything over 100% generally implies a growing business).

So why do Americans hate it?

Among the broader American public, CGI is best known as the company behind the healthcare.gov debacle. But among the financial community, CGI is also suspected of various accounting shenanigans. Jim Chanos, who became famous for short selling Enron right before its collapse, is also betting against CGI.

The problem, as Mr. Chanos and many others see it, relates to CGI's accounting for acquisitions. It's a common trick for acquirers to write down a target's assets right before buying it. Then, once the target is under the acquirer's umbrella, the assets can be written back up, which helps artificially inflate revenue and earnings. It's commonly referred to as "cookie jar" accounting.

Analysts are especially suspicious of CGI's purchase of Logica in 2012, an acquisition that doubled the company's revenue. CGI denies all of these claims.

"A screaming buy"

The healthcare.gov and accounting issues have weighed on CGI's share price, which fell more than

20%. Although the shares have almost completely bounced back since then, some believe it is still seriously undervalued. One is Jason Donville of Donville Kent Asset Management, who told the *Globe and Mail* he considers CGI “a screaming buy”. One reason is CGI’s long-term track record, which is hard to argue with. Over the last 25 years, its stock is up about 25% per year.

And Mr. Donville is worth paying attention to. Donville Kent has one of the best-performing hedge funds in Canada; if you had invested in its flagship fund back in 2008, you would have quadrupled your money by now.

Foolish bottom line

CGI has proven to be one of Canada’s most polarizing companies, with very smart people on both sides of the aisle. Time will tell who ends up on top. But for one day at least, you can score one for Mr. Donville.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:TRI (Thomson Reuters)
2. NYSE:GIB (CGI Group Inc.)
3. TSX:GIB.A (CGI)
4. TSX:TRI (Thomson Reuters)

Category

1. Investing

Date
2025/09/27
Date Created
2014/05/01
Author
bensinclair