



What to Expect When CGI Group Reports This Week

Description

Last year, **CGI Group** ([TSX: GIB.A](#))([NYSE: GIB](#)) was in the news for anything but the right reasons. What could have been great exposure worldwide ended up being a public relations nightmare. The company's reputation suffered a severe blow when it took the blame for the failed health insurance exchange rollout in the United States.

Besides that, here are a couple of points I want to hear more about when it reports this week.

Logica restructuring

Back in 2012, CGI Group made its biggest acquisition in the company's history by buying Logica, a rival IT company, and since then it has been working hard to merge the two entities together. Thus far, the merger is proceeding extremely well with revenue growth of 2.5% last quarter for the Logica division, and more importantly, 32% growth in EBIT. On the call, I hope to get more details concerning future synergies between both entities and the potential cross-selling of products.

Also important is the state of the restructuring of Logica, which so far is 80% complete. Investors are expecting the last 20% to be finished by the end of this year. In my opinion, management can take the time it deems necessary to execute well. So far, the restructuring has been already beneficial to shareholders ahead of what was previously scheduled.

Business in the U.S.

Another issue is the state of the company in the U.S. considering what happened in 2013. Is the brand damaged or are clients already forgetting the troubles with its health insurance exchange implementation? Any upside in book to bill — that is, the ratio between the dollar amount of contracts awarded divided by contracts being filled — over 1.0 in the United States would be positive for me in light of recent headwinds. I don't anticipate the recent problems having a dramatic effect in the long term, but the next few quarters could be rough.

Book to bill

Finally, on a more firm-wide aspect, I am looking for a book to bill of at least 1.05; anything under 1.0 would be a cause for worry, especially in such a challenging time for IT companies. So far, CGI Group has managed to keep its book to bill over this threshold and generate massive amounts of cash flow, with estimates of over \$1 billion annually after the Logica restructuring. If it can keep a strong book to bill ratio, investors will be rewarded with additional share buybacks due to the massive amount of free cash flow that will be generated in the future.

The bottom line

CGI Group has been the victim of some bad press in 2013 and as a result, investors seem hesitant to invest in the company. I, on the other hand, am much more optimistic on the prospects of the company and the skills of its management, as evidenced by the great execution of the Logica acquisition. The company is currently trading at a P/E ratio of 16. This is not necessarily cheap, but not expensive either considering the massive growth prospects in the next few years.

If you're looking for a strong cash flow generator for the long term, CGI Group could be the one stock missing from your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:GIB (CGI Group Inc.)
2. TSX:GIB.A (CGI)

Category

1. Investing

Date

2025/08/27

Date Created

2014/07/28

Author

fdenault

default watermark