Why Investors Should Embrace Canadian Tech Companies Like CGI Group Inc. and Mitel Networks Corporation

Description

While it may be a limited pool to choose from, there are still a few gems lurking in Canada's tech sector whose names don't start with Black or end in Berry. Today we will look at a pair of these top Canadian tech companies that have proven themselves to be steady earners while also being adaptive specialists of their respective fields.

Canada's IT stalwart

Founded back in the days when punch-cards and vacuum tubes were all the rage, **CGI Group** (TSX: GIB.A)(NYSE: GIB) has grown to be the fifth largest independent IT company in the world.

Over the past few months CGI Group has managed to pick up a slew of high profile contracts, including deals with the states of Colorado and West Virginia, to create new financial management system for each state, which has just gone online.

CGI has also recently signed an outsourcing agreement with Toyota Material Handling Europe under which CGI will assume all IT operations including the data center, application management, service desk, email, network, collaboration, storage, and security services.

This deal is expected to gross about $37 million over the next five years. In all, CGI has approximately $19 billion worth of order back logs.

In its last quarter CGI Group posted revenues of $2.7 billion a year over year increase of 4%, while also posting net earnings of $225 million ($0.71 per share) up from $178 million ($0.56 per share). The extra cash on hand is thanks to $346 million in cash flow from operations and is leading the company to prepare the way for another round of acquisitions. This comes off the heels of its acquisition of Logica PLC, a U.K. IT company.

The stock closed on Tuesday at $39.22, right near the top end of its 52-week range of $32.57 to $41.47. CGI Group currently has an average price target of $45.60. This might be a good opportunity to look into this company. Some of the negative PR resulting from its involvement with the failed

Obamacare health-care reform website still lingers, pushing down the stock price and popular opinion.

Don’t fear the cloud

Following its purchase of cloud-computing focused Aastra, **Mitel Networks Corporation** (TSX: MNW)(NASDAQ: MITL) has emerged as a billion-dollar company. Mitel’s shift from its core business communications model was once seen as a risk, but is now taking the company to its next level. It was a matter of adapt or perish, either remain bound to cables or embrace the cloud.

It would seem that this strategy is paying off for the company. In its latest quarterly release, Mitel added 53,000 more “recurring cloud seats” to its portfolio, an increase of 98% year over year. This brings Mitel’s total installed cloud base to 754,000 seats, up by 75% year-over-year.

Revenues in the past quarter rose to $293 million ($288 million not including Aastra) up from $146 million during Q2 2013. Adjusted EBITDA totaled $35 million up from $21 million, while there was a net loss of $1.6 million. This should not alarm investors as this loss is attributed to the remaining integration costs of the Aastra merger.

Mitel’s stock closed Tuesday at $10.94, still within a healthy top end of its 52-week range of $4.64 and $13.00. The stock has an average price target of $11.90 and a top end price target of $14.00. With its growing global market share this could be a solid Canadian company to fill the tech portion of your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date
2025/08/18
Date Created
2014/09/03
Author
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