



Why You Should Consider Investing in CGI Group Inc. for Capital Growth

Description

In 2013, **CGI Group Inc.** ([TSX: GIB.A](#))([NYSE: GIB](#)) was in the news for all the wrong reasons. The Obamacare fiasco put the company in the middle of a heated debate with our neighbors in the south. Add to that the negative press of hedge fund investor Jim Chanos announcing his short position, and we can begin to understand why the stock is only up 12% so far this year.

Aside from that negative press, the underlying business is getting stronger and here are a couple of reasons why I like the company.

Logica restructuring

Back in 2012, CGI made its biggest acquisition in the company's history by buying Logica PLC—a rival information technology company—and the merger is being implemented ahead of schedule. Management even announced on the last conference call that it was estimating the annualized cost synergies of the merger to meet or even exceed the \$375 million target set at the beginning of the year.

European business

As of the last quarter, book-to-bill — the ratio of contracts signed divided by the contracts completed — was 108%. Anything over 100% is good because it indicates that the company can sign orders faster than it can complete them. When you take into account that in its history the company had almost all of its revenue coming from North America, having a more balanced revenue stream can only help mitigate any future economic downturn.

Additional acquisitions

During the last conference call management stated they were looking for additional acquisition. They mentioned that with the Logica merger behind them, cash flows should return to a normal level, giving the company a lot more resources. The company also took advantage of the low level of interest rates to refinance a portion of its debt with a longer maturity, strengthening its balance sheet in the event of an acquisition that would require near term resources.

As I stated in my introduction, this is not an investment for the income investor. The company is not

ready to pay a dividend, and the share buyback program is not the principal focal point of management. CGI Group is a complete play on capital growth and with the stock currently trading at a 2014 forward P/E of 14, it is not overly expensive.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date

2025/08/26

Date Created

2014/09/04

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