6 Key Takeaways From CGI Group Inc.'s Fiscal 2014 and Q4 Results

Description

With the release of **CGI Group Inc.'s** (TSX: GIB.A)(NYSE: GIB) fourth quarter and fiscal 2014 results, we continue to see evidence of the opportunity that lies ahead of the company, and the opportunity that lies ahead of investors who choose to go along for the ride. Here are six key things to know.

1. Increased margins

In the early days after CGI Group acquired Logica, EBIT margins took a big hit and fell below 10% for a few quarters. In the latest quarter, however, margins were back up to 14.9% (a 200-basis-point improvement) after the restructuring program that saw the company spend almost $600 million, and succeed in achieving $400 million in annual synergies. For the fiscal year of 2014, EBIT margins increased 21% to 12.9% from 10.7% in the prior year, while EPS increased 22%.

Although this improvement is consistent with what management had been expecting, investors were not so sure. So seeing the recovery in margins this quarter should certainly give us increased confidence in the company, its business model, and its prospects.

2. Charges related to the Logica acquisition all accounted for

The company has accounted for all activities and charges related to restructuring. In fact, the cost savings that the company was able to generate from its restructuring program is higher than initially anticipated, coming in at $400 million in annual synergies versus the initial estimate of $375 million.

3. Balance sheet continues to strengthen

The company's debt balance continues to decline and its cash on hand continues to increase. The debt-to-capitalization ratio currently stands at 27.6%. This is down from 46.5% two years ago. Furthermore, the company currently has $500 million in cash on its balance sheet.

4. Book-to-bill ratio strong in Europe

Another area of concern after the Logica deal was whether or not CGI would be able to secure new revenue contracts in a market that appeared to be faltering or weakening. This quarter proved those concerns to be merely that. Valid concerns but nothing to them. CGI Europe added $6.8 billion in bookings in the quarter, for a book-to-bill ratio of 112%. Furthermore, the EBIT margin in Europe came in at 11.2%, up from 8% last year. The company is continuing to allow lower margin, non-core business to run off. This is being replaced by new higher margin streams of revenue, effectively strengthening margins in Europe.

The company-wide book-to-bill was 0.968 for the year, but if we include **Bell's** $2 billion contract renewal that came shortly after quarter-end, the numbers look much more optimistic. Had the renewal come during the quarter, the book-to-bill ratio would have been 163% for the quarter and 116% for the full year.

While there are still delays in U.S. government projects, and it continues to be a drag on booking and revenue, CGI continues to work on improving its positioning so that it in in prime position when contracts are finally awarded. This is an $80 billion market, so CGI needs to be there and remain patient.

5. Strong cash generation

In fiscal 2014, CGI generated a 26% increase in cash from operations, to $1.2 billion. Cash flow as a percent of revenue was 11.4%, up from 9.4% in the prior year.

6. Attractive valuation

The stock currently trades at a P/E of 15 times 2014 EPS. In 2014 EPS increased 23% and is expected to increase 12% in 2015. These EPS numbers do not include any acquisitions, which, now that the company has a much improved balance sheet, may be coming sooner rather than later. This would obviously provide upside.

Bottom Line

CGI Group stands out as a fundamentally sound, reasonably valued company that investors can expect will be an outperformer this year. In 2015, management will be focused on profitable revenue growth and cost management, and they expect growth to come mostly in the back end of year and accelerating into 2016 and beyond.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Tech Stocks

Date
2025/07/22
Date Created
2014/11/28
Author
karenjennifer