5 Things to Love About CGI Group Inc.'s Latest Earnings Release

Description

CGI Group Inc. (TSX: GIB.A) (NYSE: GIB) reported earnings recently. Here are five key facts to know (and love!).

1. Strong cash flow

CGI Group reported cash flow of $360 million in the first quarter, representing an increase of more than 400%, and $1.6 billion in the last 12 months. Free cash flow was also strong, at over $320 million, and illustrates the kind of financial flexibility this company has.

2. Increasing margins

The overall EBIT margin of 13.5% was up from 11.5% in the same quarter last year and 12.8% last quarter. Margins increased in all regions except Canada and Central and Eastern Europe, where they modestly declined. Canada is still the region with the highest EBIT margin, at 21.1%, and Asia Pacific is a close second, at 18.6%. The U.K. improved dramatically as well, reporting an 11.3% margin, up from 7.4% in the same period last year.

CEO Michael Roach expects further improvement as the company continues to bring on higher margin revenue and take advantage of its global delivery model. In the U.S., for example, CGI recently opened a new centre in Lafayette, which management expects will bring increased cost competitiveness. Furthermore, the increase in commercial business in the U.S. will drive margins higher as the commercial business is generally higher margin than the government business.

3. Strong balance sheet

After the latest debt repayment of $318 million this quarter, the debt-to-equity ratio currently stands at 45% compared to 53% last quarter. The company is in increasingly good shape to be a consolidator in its industry. The company is looking to increase its presence in the U.S. as well as the U.K., and is well prepared to act on this goal. It has almost $500 million in cash on its balance sheet, strong cash flow generation, and a debt-to-equity ratio that is quickly becoming much more manageable.

4. Strong demand

Demand for CGI’s services is strong, as evidenced by the company’s backlog of $20.2 billion, bookings of $4.3 billion in the quarter, and trailing 12-month bookings that increased significantly to $11.7 billion or 112.1% of revenue. The trailing 12-month book-to-bill ratio was 112%.

5. Plenty of promising opportunities, despite a decline in revenue

Although margins were up nicely this quarter, revenue of $2.5 billion represents a decline of 4% versus the same period last year. Given that the revenue performance has been lackluster in recent quarters, especially in Canada, where revenue declined 9.2% this quarter, we are led to search for more signs of future sustainable revenue growth.

Thankfully, there is no shortage of opportunities. The CEO talked about the many organic growth opportunities he expects going forward. Troubles in the oil patch in Western Canada may prove to be a good thing for CGI, as energy companies seek new ways to drive down costs and increase efficiency. CGI is focusing on securing more business from the banking sector and has opened a dedicated unit in Toronto to focus on that.

While U.S. federal government spending is flat, it is still an estimated $80 billion market and CGI is very present there. In the U.S., the company has made some progress in securing commercial business and expects success going forward. It has secured business from a top U.S. bank and from a leading global auto manufacturer. Interest in cyber security is expanding rapidly and CGI is seeing very strong demand in that area.

In Europe, regulatory changes are necessitating investment in information systems in order for companies to be compliant with these new regulations. In the U.K., for example, the financial services industry must respond to new regulatory requirements and CGI is expecting more business related to this. As a bonus, this business is not tied to the economy. Needless to say, there is no shortage of organic growth opportunities to pursue.

CGI’s industry is a growing one that in my view is here to stay. With reasons to use the company’s services in good times and in bad times, as technology plays an increasingly larger role in managing a company to success, CGI should continue to do well.

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