

(Review) These Stocks Have Hit 52-Week Highs: Should You Buy, Sell, or Hold?

Description

When it comes to investing, it's the best problem to have. Your stock has hit a 52-week high and you have a nice profit on this investment. At this point though, you may be re-evaluating the stock's future given that it is trading at a high. Let's consider two stocks that have recently hit 52-week highs: **CGI Group Inc.** ([TSX:GIB.A](#))([NYSE:GIB](#)) and **Valeant Pharmaceuticals Intl Inc.** ([TSX:VRX](#))([NYSE:VRX](#)).

Has the investment case deteriorated?

In CGI's case, the investment case has not changed, and in fact, there is lower risk associated with it as the company has made significant margin improvements and is well positioned to continue to make improvements with the help of its size and breadth of offering. After the Logica acquisition, 2012 and 2013 earnings before interest and taxes (EBIT) margins were hurt. In 2013, the company's EBIT margin was 10.6%, and it flirted with 8% at one point. In the latest quarter, margins were back up to 12.8% after the restructuring program that saw the company spend almost \$600 million succeeded in achieving \$375 million in annual synergies.

Valeant is definitely in the right business to benefit from one of the major secular trends going forward: the aging population. The investment case here has not changed either, and in fact, it is strengthened somewhat as leverage is down (although still high) and free cash flow generation has improved.

Future growth prospects

At CGI, the company's strategy targets growing through contract renewals and extensions and winning new contracts, smaller niche acquisitions, and if and when the time is right, bigger transformational acquisitions. We are seeing this strategy play out in the company's healthy backlog of \$18.8 billion as of the end of the most recent quarter and in the continued success at being awarded contracts.

Growth prospects over at Valeant also look strong as organic growth is exceeding expectations, and the company continues to hunt for acquisitions that would give it a 20% internal rate of return over five to six years. However, growth prospects at Valeant largely depend on the company being able to find suitable acquisitions — and the financing of these acquisitions is also an issue. The company's debt load is still high, and with a debt-to-equity ratio of almost 80%, this adds risk to the company.

Valuation

CGI's stock is trading at 18 times trailing earnings per share (EPS), 16.5 times consensus fiscal 2015 EPS expectations, and 15.4 times consensus 2016 EPS expectations. And considering the amount of cash this company generates (a trailing 12 months free cash flow of \$1.2 billion) and the flexibility and opportunity to deploy this cash to make acquisitions and continue to invest in organic growth, in my view, there is clear upside to the EPS numbers going forward.

Valeant is trading at 33 times 2013 EPS, 25 times 2014 consensus EPS, and 20 times 2015

consensus EPS. Although the growth that Valeant has achieved is nothing short of impressive, in my view, these valuations are high considering the fact that the company is so highly leveraged, and this presents itself as a risk.

Risk vs. reward

If the risk/reward relationship deteriorates to the point that the risk is too high relative to the potential reward, it's a good idea to at least take some money off the table. This enables investors to monetize and lock in gains. Even if nothing has changed, it may still be good practice to take some money off the table when a stock has done exceptionally well.

As far as these two stocks are concerned, it looks like CGI is still in good shape, with a strong balance sheet, strong demand expected in its industry, and continued success in integrating its acquisitions. When it comes to Valeant, things are a little more risky, as the stock is trading at higher valuations and the company's balance sheet could get it into trouble by reducing its ability to maintain its high growth rate.

CATEGORY

1. Investing

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1. NYSE:BHC (Bausch Health Companies Inc.)
2. NYSE:GIB (CGI Group Inc.)
3. TSX:BHC (Bausch Health Companies Inc.)
4. TSX:GIB.A (CGI)

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Author

karenjennifer

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