CGI Group Inc.: Is Declining Revenue Cause for Concern or a Good Buying Opportunity?

Description

With revenue decreasing almost 4% this quarter, it is clear that **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB) continues to work through its transformation. The question is, however, is this weakness in revenue a short-term phenomenon or does it signal a long-term trend? Let's explore this question.

The decline in revenue was due in large part to the completion of certain North American projects, most significantly the winding down of the U.S. federal government healthcare projects and the continued, purposeful winding down of lower margin business in Europe in order to focus on higher margin business. Despite the fact that in the U.S., there are ongoing sector-wide delays in the federal business, the long term looks good.

The company is still awaiting approval on $1.2 billion in business with the U.S. federal government and has seen a high level of renewals, extensions, and add-ons. Also, according to management, the commercial side of the U.S. business has been quite strong and is seeing growth rates in the double-digit range.

We can look at the company's backlog and bookings profile as an indication of future revenue streams, and both signal healthy future revenue growth in the coming months. The company booked $2.3 billion in contract awards this quarter, bringing the total bookings in the last 12 months to $11.1 billion, or 107.4% of revenue.

Another positive data point is the fact that new business accounted for 43% of total bookings, signaling traction with new clientele, while the rest was extensions and renewals. As of the end of the quarter, backlog stood at $20 billion, up $524 million, or 2.7%, versus the same period last year.

This review of the second quarter fiscal 2015 results would not be complete without highlighting the company's continued success in increasing margins, as growing profitability is just as important, if not more, as revenue growth. EBIT margin was 14% in the quarter, versus 12.6% in the same period last year and versus 13.5% last quarter.

All regions in Europe, except the Central & Eastern Europe segment, achieved margins of over 10%, with the Nordics region coming in at 12.1%. This is significant since margins in these regions were below 10% after the Logica acquisition. This success in increasing margins has resulted in bottom-line improvements, despite weak revenue growth, with net income increasing 9.4% in the quarter and strong cash flows.

Going forward, areas of growth include the U.S. commercial business, which is already seeing growth in the double digits, cybersecurity, and Intellectual property software. CGI Group is a long-term opportunity and you should consider initiating positions today.

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1. Editor's Choice

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2. TSX:GIB.A (CGI)

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