Is CGI Technologies and Solutions Inc. a Buy on the Post-Earnings Dip?

Description

CGI Technologies and Solutions Inc. (TSX:GIB.A)(NYSE:GIB), the world's fifth-largest independent information technology and business process services company, announced third-quarter earnings results before the market opened on July 29, and its stock has responded by falling over 3%. Let's take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or a warning sign to avoid the stock for the time being.

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Breaking it all down

Here's a summary of CGI's third-quarter earnings results compared with its results in the same period a year ago.

Metric	Q3 2015	Q3 2014
Earnings Per Share	$0.80	$0.71
Revenue	$2.56 billion	$2.67 billion

Source: CGI Technologies and Solutions Inc.

CGI's diluted earnings per share increased 12.7% and its revenue decreased 4% compared with the second quarter of fiscal 2014. Its double-digit percentage increase in earnings per share can be attributed to its net income increasing 14.3% to $257.2 million, and this growth was amplified by its repurchase of 1.9 million shares during the quarter for a total cost of approximately $94 million.

The company noted that its slight decline in revenue could be attributed to "lower work volume," "additional efforts needed in fiscal 2014 to complete the Patient Protection and Affordable Care Act projects" in its U.S. segment, and foreign currency rate fluctuations that reduced its revenue $13.1 million.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Adjusted earnings before interest and taxes (EBIT) increased 8.5% to $371.2 million
2. Adjusted EBIT margin expanded 170 basis points to 14.5%
3. Return on invested capital improved 150 basis points to 14.8%
4. Return on equity improved 10 basis points to 18.2%
5. Cash provided by operating activities decreased 38.1% to $214.1 million
6. Reported a backlog of signed orders totaling $19.7 billion at the end of the quarter, an increase of 4.9% from the end of the year-ago period
7. Net debt decreased 25% to $1.79 billion
8. Ended the quarter with $264.7 million in cash and cash equivalents, an increase of 18.4% from the beginning of the quarter

Should you buy CGI on the dip?

It was a solid quarter overall for CGI, so I do not think the post-earnings drop in its stock was warranted. With this being said, I think the drop represents a great long-term buying opportunity.

Its stock now trades at very attractive forward valuations, including just 15.3 times fiscal 2015's estimated earnings per share of $3.15 and only 14 times fiscal 2016's estimated earnings per share of $3.44, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 38.5 and the industry average multiple of 25.

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I think CGI's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $63 by the conclusion of fiscal 2015 and upwards of $68 by the conclusion of fiscal 2016, representing upside of more than 30% and 40%, respectively, from today's levels.

With all of the information above in mind, I think CGI Technologies and Solutions represents one of the best long-term investment opportunities in the tech sector today. Foolish investors should take a closer look and strongly consider using the post-earnings weakness to begin scaling in to positions.

CATEGORY

1. Investing
2. Tech Stocks

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

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