CGI Group Inc. Results: The Good, the Bad, and the Beautiful

Description

Let's take a look at why I believe **CGI Group Inc.'s** (TSX:GIB.A)(NYSE:GIB) fourth-quarter and year-end 2015 results show that this stock is worth owning.

The good

CGI continues to do a terrific job boosting margins, and margins came in very strong this quarter. The EBIT margin was at 14.7% in the quarter, which was slightly below the fourth quarter of 2014, and 14.2% for the full year versus 12.9% in 2014. Recall that after the Logica acquisition, margins were down to below 10% for a while, so this result is a big accomplishment.

Furthermore, the company reported that cash flow from operations increased 9.5% to $451 million for the quarter and increased 9.7% to $1.3 billion for the year. And with 2015 capital expenditures of a mere $122.5 million, free cash flow was not far behind.

The company continues to churn out cash flow and has continued to buy back shares and reduce its debt. During 2015, $121 million of debt was repaid and 5.1 million shares were bought back at an average price of $47.73. Going forward, the company will continue to buy back shares, as it believes that valuation is attractive, and debt repayment will no longer be a priority. The current debt-to-capitalization ratio is good at 21.7% compared with 27.6% last year.

The bad

We are still not seeing much in the way of revenue growth. Yes, the company is consciously focusing on letting low margin revenue run off and is working on increasing margins and cash flow, and this all makes perfect sense. But as investors, I know we will feel even better when we see revenue growth return.

Although CGI reported a revenue increase of 4.1% in the quarter, the fact is that this was aided by foreign exchange. If we look at revenue growth on a constant-currency basis, we can see that revenue actually declined 3.1%.

The beautiful

Importantly, the results pointed to a stronger 2016.

The company's backlog was $20.7 billion at the end of the year (up from $19.7 billion at the end of the third quarter), and in the trailing 12-month period the company's book-to-bill ratio was 113.2% compared with 96.8% last year.

And there is strength across the board. The U.S. federal business, for example, which makes up a large portion of the company's revenue, showed a book-to-bill ratio of 144% for the fourth quarter, and management is encouraged that this business is recovering and turning to positive growth. The U.S. commercial business is also showing signs of recovery and posted a 3% growth rate year over year.

Lastly, going forward we should expect to see activity on the M&A front in 2016. The company has $1.8 billion of readily available liquidity ($305 million in cash and a fully available line of credit) which it will use for an acquisition.

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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