



CGI Group Inc. Beat Q1 Estimates: Should You Buy?

Description

CGI Group Inc. ([TSX:GIB.A](#))([NYSE:GIB](#)), the world's fifth-largest independent information technology and business-process services company, announced better-than-expected first-quarter earnings results on the morning of January 27, and its stock has responded by rallying.

Let's take a closer look at the results, an important announcement made by the company, and the fundamentals of its stock to determine if this could be the start of a sustained rally higher and if we should be long-term buyers today.

The results that narrowly beat expectations

Here's a summary of CGI's first-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Q1 2016 Actual	Q1 2016 Expected	Q1 2015 Actual
Adjusted Earnings Per Share	\$0.84	\$0.82	\$0.74
Revenue	\$2.68 billion	\$2.66 billion	\$2.54 billion

Source: Financial Times

CGI's adjusted earnings per share increased 13.5% and its revenue increased 5.6% compared with the first quarter of fiscal 2015. Its double-digit percentage earnings-per-share growth can be attributed to its adjusted net income increasing 12.1% to \$264.9 million and its weighted-average number of diluted shares outstanding decreasing 1.2% to 316.24 million.

Its strong revenue growth can be attributed to its revenues increasing in five of its seven business segments, including 9.4% growth to \$716.01 million in its U.S. segment, 0.2% growth to \$382.9 million in its Canada segment, 17.6% growth to \$365.33 million in its U.K. segment, 6% growth to \$344.82 million in its France segment, and 18.7% growth to \$129.05 million in its Asia Pacific segment.

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

1. Revenues decreased 1.4% to \$436.81 million in its Nordics segment
2. Revenues decreased 2.6% to \$308.76 million in its Eastern, Central, and Southern Europe segment
3. Adjusted earnings before interest and taxes (EBIT) increased 11.7% to \$384.1 million
4. Adjusted EBIT margin expanded 80 basis points to 14.3%
5. Backlog increased 6.6% to \$21.51 billion
6. Bookings decreased 25.7% to \$3.2 billion
7. Net debt decreased 18.2% to \$1.57 billion
8. Repurchased 192,500 million of its Class A subordinate voting shares for a total cost of approximately \$9.1 million compared with no repurchases in the same period a year ago

Let the repurchases begin

In the earnings report, CGI announced that its board of directors has authorized the renewal of its normal course issuer bid, allowing it to purchase up to 21.43 million of its Class A subordinate voting shares over the next 12 months, and this represents approximately 10% of its total public float.

Should you buy into or avoid the rally in CGI's stock?

The first quarter was a great success for CGI, and the results surpassed analysts' expectations, so I think its stock has responded correctly by rallying. I also think this could be the start of a sustained rally higher for two primary reasons.

First, even after the large rally, CGI's stock still trades at just 17.1 times fiscal 2016's estimated earnings per share of \$3.47 and only 16 times fiscal 2017's estimated earnings per share of \$3.72, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 35.7 and the industry average multiple of 20.6.

With the multiples above and its estimated 8.6% long-term earnings growth rate in mind, I think CGI's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of \$74 by the conclusion of fiscal 2017, representing upside of more than 24% from current levels.

Second, CGI has been accelerating its share repurchases in recent years, and the renewal of its normal course issuer bid will allow it to continue this trend in 2016. These repurchases will maximize the company's earnings-per-share growth potential going forward, and shows that it is fully dedicated to maximizing shareholder returns.

With all of the information provided above in mind, I think Foolish investors should strongly consider beginning to scale in to long-term positions in CGI Group over the next couple of trading sessions.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

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Author

jsolitro

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