



CGI Group Inc.'s Q2 EPS Rises 10.3%: 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 very strong second-quarter earnings results on the morning of April 27, but its stock has responded by falling about 1%. Let's take a closer look at the results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity or if we should look elsewhere for an investment instead.

A strong quarter of top- and bottom-line growth

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

| Metric | Q2 2016 Actual | Q2 2016 Expected | Q2 2015 Actual |
|-----------------------------|----------------|------------------|----------------|
| Adjusted Earnings Per Share | \$0.86 | \$0.88 | \$0.78 |
| Revenue | \$2.75 billion | \$2.74 billion | \$2.60 billion |

Source: Financial Times

CGI's adjusted earnings per share increased 10.3% and its revenue increased 5.7% compared with the second quarter of fiscal 2015. Its double-digit percentage earnings-per-share growth can be attributed to its adjusted net earnings increasing 6.8% to \$268.3 million and its weighted-average number of diluted shares outstanding decreasing 2.9% to 313.6 million.

Its strong revenue growth can be attributed to its revenues increasing in six of its seven major segments, led by 7% growth to \$747.57 million in its U.S. segment, 14.6% growth to \$378.95 million in its France segment, 8% growth to \$360.6 million in its U.K. segment, and 13.9% growth to \$135.48 million in its Asia Pacific segment. It is also important to note that the company benefited from a \$173.7 million gain on foreign currency translation.

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 7.6% to \$390.6 million
2. Adjusted EBIT margin improved 20 basis points to 14.2%
3. Earnings before income taxes increased 8.7% to \$368 million
4. Backlog increased 3.5% to \$20.7 billion
5. Bookings increased 21.3% to \$2.73 billion
6. Net debt increased 3% to \$1.93 billion
7. Cash provided by operating activities decreased 11.7% to \$251.4 million
8. Repurchased 9.1 million of its Class A subordinate voting shares for a total cost of approximately \$508.7 million

Is CGI Group a buy or sell today?

Overall, it was a fantastic quarter for CGI, so I think its stock should have responded by making a significant move higher. With this being said, I think its stock represents a great long-term investment opportunity today for two reasons in particular.

First, it's a value play. CGI's stock now trades at just 17 times fiscal 2016's estimated earnings per share of \$3.51 and only 15.8 times fiscal 2017's estimated earnings per share of \$3.77, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 35.9 and the industry average multiple of 26. These multiples are also inexpensive given the company's estimated 8.7% long-term earnings growth rate.

Second, it has been actively repurchasing its shares. CGI repurchased 6.93 million shares for a total cost of about \$332.5 million in fiscal 2015, and it has repurchased 9.32 million shares for a total cost of about \$517.8 million in the first half of fiscal 2016.

There are also about 12.11 million shares remaining for repurchase under the 21.43 million share-repurchase program that began on February 11, 2016, and will end on February 3, 2017, so I think the company will accelerate repurchases in the second half of the year, which will boost its earnings-per-share growth going forward and make its remaining shares more valuable than ever.

With all of the information provided above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in CGI Group to begin scaling in to long-term positions.

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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