



Why CGI Group Inc. Soared Over 7% on Wednesday

Description

CGI Group Inc. ([TSX:GIB.A](#))([NYSE:GIB](#)), one of the world's largest independent information technology and business process services companies, announced very strong third-quarter earnings results on Wednesday morning, and its stock responded by rising over 7% in the trading session that followed. Let's break down the results and the fundamentals of its stock to determine if we should consider buying in to this rally or if we should wait for it to subside.

A quality quarter of top- and bottom-line growth

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

Metric	Q3 2016 Actual	Q3 2016 Expected	Q3 2015 Actual
Revenue	\$2.67 billion	\$2.67 billion	\$2.56 billion
Adjusted Diluted Earnings Per Share	\$0.89	\$0.88	\$0.80

Source: *Financial Times*

CGI's revenue increased 4.2% and its adjusted diluted earnings per share increased 11.3% compared with the third-quarter of fiscal 2015. Its strong revenue growth can be attributed to its revenues increasing in five of its seven operating segments, led by 21.2% year-over-year growth to \$379.5 million in its France segment, 9.4% year-over-year growth to \$362.8 million in its U.K. segment, and 12.5% year-over-year growth to \$134.7 million in its Asia Pacific segment.

Its double-digit percentage earnings-per-share growth can be attributed to its strong revenue growth paired with lower operating expenses as a percentage of revenue, which led to its adjusted net earnings increasing 6.5% year-over-year to \$273.8 million, and this growth was amplified by its weighted-average number of diluted shares outstanding decreasing 4.2% to 308.99 million.

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

period:

1. Adjusted earnings before interest and taxes (EBIT) increased 5.2% to \$390.5 million
2. Adjusted EBIT margin improved 10 basis points to 14.6%
3. Backlog increased 4.7% to \$20.61 billion
4. Bookings increased 32% to \$2.94 billion
5. Net debt decreased 8% to \$1.65 billion
6. Cash provided by operating activities increased 64.3% to \$351.7 million

What should you do with CGI's stock now?

It was an outstanding quarter overall for CGI, so I think the market responded correctly by sending its stock significantly higher. I also think it will continue higher from here and that it represents a great long-term investment opportunity for two reasons in particular.

First, it still trades at attractive valuations. CGI's stock still trades at just 18.2 times fiscal 2016's estimated earnings per share of \$3.47 and only 16.9 times fiscal 2017's estimated earnings per share of \$3.74, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 36.1 and the industry average multiple of 20.4.

These multiples are also very inexpensive given its estimated 8.2% long-term earnings-growth rate. With these statistics in mind, I think investors should be willing to pay up to 20 times this year's earnings estimates for CGI's stock.

Second, it may not pay a dividend, but it's been returning a significant amount of capital to its shareholders via share repurchases. It repurchased 6.93 million of its Class A subordinate voting shares for a total cost of \$332.5 million in fiscal 2015, and it has repurchased 9.32 million of its shares for a total cost of \$517.8 million in the first nine months of fiscal 2016.

There is still over 10 million shares remaining for repurchase under its 21.43 million share normal course issuer bid that began on February 11, 2016, and will expire on February 3, 2017, so I think its repurchases will continue going forward.

With all of the information provided above in mind, I think all Foolish investors should take a closer look and 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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