1 Canadian Tech Stock That Growth Investors Should Consider

Description

There are not that many Canadian tech stocks out there, and that can make things difficult for Canadian growth investors, who usually have to go south of the border to get high-growth tech names. But there’s one Canadian tech stock that you can pick up and hang onto for many years, as it rides huge long-term tailwinds.

CGI Group Inc. (TSX:GIB.A)(NYSE:GIB) is a technology consulting and solutions company based out of Montreal. The company is one of the largest IT service companies on the planet. It makes its money by producing customized software for its clients.

Software production is a high-margin business, and demand is expected to pick up next year. The assets of the company are its employees, as they bring a wealth of expertise to the field of software development and consulting.

Gartner, a spending forecaster, sees global IT spending hitting $3.5 trillion in 2017, and there’s no question that CGI Group will see huge growth on its top and bottom line due to this trend. CGI Group has done business with clients from over 40 countries. The demand for software is only going to increase in the future, and this is a huge catalyst for long-term growth in the company.

High ROE and steady earnings growth are traits of a Warren Buffett business

To add to these very impressive growth prospects, CGI Group has a very healthy balance sheet with lots of free cash flow coming in. The company has over $2 billion worth of cash and will use it to make acquisitions or reinvest back into the company to get more organic growth.

The company is very good at growing organically; it has a fantastic 17.27% ROE, which indicates the business is very capable of getting profitability out of its investments. Margins are also steadily increasing, as the demand for software expertise keeps getting higher by the year.

CGI also has a high-profile client in the U.S. government, which has 58 contracts with CGI. The U.S. government is poised to increase IT spending as Donald Trump takes the helm. This will definitely be a huge tailwind for the company as it heads into 2017.

The stock is one of the few high-growth names on the TSX, so one would expect that the stock would be trading at a huge premium. The contrary is true, in fact; the stock is quite cheap at current levels given the impressive earnings growth experienced over the last decade.

Warren Buffett loves stocks that have high ROEs and steadily growing earnings per share. Both of these are present in CGI Group, and right now the stock is trading at a 18.2 price-to-earnings multiple, which is lower than its five-year historical average valuation of 47.2.

If you're a growth investor, then now may be the perfect time to put CGI Group on your Christmas list!

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

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