Is CGI Group Inc. Worth Checking Out?

Description

CGI Group Inc. (TSX:GIB.A)(NYSE:GIB) is a Canadian technology consulting company based out of Montreal. The company provides services including IT and business function management, systems integration, and the sale of software solutions. Software production is a high-margin business, and it's expected that the demand for third-party developers will increase over the coming years.

The stock has been a terrific performer over the last few years, but it has since slowed down. Is the slowdown a buying opportunity?

Great fundamentals

CGI recently reported $2.7 billion in revenue for its last quarter — an increase of 3.7% year over year on a constant-currency basis. The company has been steadily increasing earnings over the past decade, which is a trait that many Buffettarian investors look for. The ROE is currently at a very attractive 17.3%, which shows the company is efficient at turning its expenditures into profits.

The balance sheet is healthy with $1.8 billion worth of cash and unused credit facilities. CGI's debt is really low with a debt-to-equity ratio of 0.27. The company is generating a ton of free cash flow, and it's expected that it will use the cash to buy back shares and grow through acquisitions. I think the slowdown is unwarranted and could represent a great entry point for investors looking to get some tech exposure in their portfolios.

Decent valuation

The stock currently trades at a 17.6 price-to-earnings multiple with a three price-to-book multiple. The stock isn't expensive right now, but there don't appear to be any catalysts that will drive it higher in the short to medium term. For these reasons, the stock may continue to be flat for a large chunk of the year.

The company doesn't pay a dividend, so many investors may pass up on the consulting giant. CGI has a solid cash flow stream, and margins have been improving over the years, so it could support a nice dividend. However, the management team has decided to use it invest in organic growth and acquisitions instead.

The management team is truly going all-in with growth, and it’s expected that CGI will deliver strong double-digit earnings-per-share growth over the next few years.

Takeaway

Sure, the company has a fairly predictable long-term earnings outlook, but one thing that concerns me about the consulting business is the lack of a moat. The software consulting business is very competitive, and there is no stopping clients from jumping ship to another solutions provider.

The lack of a moat could put pressure on margins going forward, but I still think the stock is a decent pickup for Canadians looking for a fundamentally sound growth play at a reasonable price.

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