



## A Closer Look at CGI Group Inc.'s Value Proposition

### Description

**CGI Group Inc.** ([TSX:GIB.A](#))([NYSE:GIB](#)) recently presented to a group of investors and highlighted a few points that I think are key in understanding the company and its outlook.

CGI's goal is to continue to build on its build-and-buy strategy with a focus on investing into its Intellectual Property (IP) portfolio. The plan is to have 30% of revenue come from IP-related activities in three years' time, which is higher-margin revenue. It currently stands at 22% of revenue.

### Robotic Process Automation (RPA)

RPA entails automating high-volume, repeatable tasks through the use of software programmed for artificial intelligence so as to replace humans. CGI is seeing a lot of momentum in RPA, and this is driven by the move towards increasingly digital systems in corporations, governments, and in society in general.

This is a secular trend that is gaining traction and that is promising a reduction in costs and increased efficiencies as the cost savings can be reinvested into other areas.

I think it would help to give an example of where cost savings have been implemented.

CGI recently worked on "smart metering" in the U.K., which is the use of RPA systems to automatically record electricity usage. CGI completed one million metres, and there are over 50 million in total in the U.K. The company is working on applying this experience to new geographies and utility companies and is now in many different bidding contests across Europe.

CGI is also working closely with the banks to figure out how to use RPA in their systems.

This leads to the next question: Why would CGI be chosen over its many competitors? Well, I think that the company's track record means a lot. The fact that the company develops its software in conjunction with its client also means a lot. The many relationships it has built are sticky, meaning they have staying power.

Lastly, the company's balance sheet remains strong, and its cash flow-generation ability continues to impress, generating \$1.4-1.5 billion in cash from operations. Management has no plans to introduce a dividend, as using the excess cash for share repurchases affords more flexibility to invest in the business and make acquisitions when the timing is right.

On that note, it seems that management is actively looking at acquisitions, and they seem ready to pull the trigger on a bigger, more transformative acquisition in the near future.

Given CGI's ability to continue to be a consolidator in the industry, and due to accelerating demand, I believe that the upside in the earnings number justifies the valuation on the stock at 18 times earnings. It will be harder for CGI to achieve high growth rates just because the company has become so big, but this is more than offset by its stability and successful execution record.

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