



Why I Wouldn't Own CGI Group Inc.

Description

CGI Group Inc. ([TSX:GIB.A](#))([NYSE:GIB](#)) has delivered a huge amount of appreciation over the years. The company is in the technology consulting business and provides IT services as well as function management, systems integration, and software solution sales. Although the company is headquartered in Montreal, CGI Group is internationally diversified and one of the few stocks that can satisfy the needs of investors seeking tech exposure in addition to diversification away from Canada.

The company doesn't pay a dividend, so you had better be a growth-focused investor, because the only way you'll profit is through stock appreciation. I don't believe CGI Group will start a dividend anytime soon, even though it could certainly afford to. The company has a solid balance sheet with a considerable amount of cash as well as a very low amount of debt.

The software industry offers impressive margins that CGI Group has been enjoying over the years. We live in a world where software is increasingly more important in everyday lives, so the demand for software development and consulting solutions is likely to increase over the next few years. I believe this tailwind will send CGI Group's earnings to even higher levels over the medium to long term.

What about risks?

A consulting company is only as strong as its employees. CGI Group needs to continue to attract top-level software developers to support the demands of its clients. If employees suddenly decide to start leaving the company, then CGI Group will be left in the dark. Layoffs tend to happen in massive waves in the tech industry, but unlike traditional tech companies, IT consulting firms aren't usually left with a hit product that they could continue to sell.

For this reason, I believe CGI Group will get hit extremely hard once the next industry-wide tech downturn happens. Layoffs will happen, and the talent that remains may start to head for the exits because of fears over job security. If the talent leaves, all that will remain is an empty shell with a management team that will be scratching their heads, and it will be a tough hill to climb back to the top.

Takeaway

CGI Group has seen great results over the last few years, and the management team looks solid, but I'm worried about what may happen in the event of a massive economic collapse. It may be harder for CGI Group to rebound relative to its tech peers, and it'll probably cost a lot more to attract talent again.

Personally, I'm on the sidelines because I think CGI Group's moat could easily be eroded if the company fails to retain talent. I believe that'll be a really tough task once the next recession arrives.

I'm also not a fan of stocks that don't pay dividends, but if you're fine with this and you're feeling aggressive, CGI Group could certainly beef up your long-term returns if you play your cards right.

If you're not an aggressive investor, I'd recommend looking elsewhere for opportunities.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/07/06

Date Created

2017/05/30

Author

joefrenette

default watermark

default watermark