Should You Buy CGI Group Inc. Today?

Description

CGI Group Inc. (TSX:GIB.A)(NYSE:GIB) stock hasn't done much recently. In the past year, it has declined by nearly 2%. That said, long-term investors have done very well.

An investment made at the end of 2007 would have delivered an annualized rate of return of 19%, outperforming the U.S. market (using **S&P 500** as a proxy), which has only delivered a rate of return of 6.5% in that period.

The business

CGI Group has been in business for more than 40 years. It is the fifth-largest independent information technology (IT) and business process services firm in the world. It serves clients across the Americas, Europe, and Asia Pacific, offering a portfolio of services including high-end business and IT consulting, systems integration, application development and maintenance, and infrastructure management.

In the last fiscal year, the company generated 44% of revenue from IT services, 10% from business process services, and 46% from systems integration and consulting.

CGI Group's business is diversified geographically and serves across a variety of vertical markets.

Here is the company's 2016 revenue geographic diversification: 28% from the United States; 15% from Canada; 15% from the United Kingdom; 13% from France; 8% from Sweden; 6% from Finland; and 15% from the rest of the world.

And here is the diversification by vertical markets: 34% from government; 23% from manufacturing, retail, and distribution; 21% from financial services; 15% from telecommunications and utilities; and 7% from health.

Shareholder value creation

A part of CGI Group's growth strategy is making strategic acquisitions. Since fiscal 2007, it has largely generated strong returns on equity of at least 12% every year other than one year. This shows that management is prudent and knows where to allocate its capital to generate value.

Although the company doesn't currently offer a dividend, given investors bought at reasonable valuations, any investment made in the last decade has delivered an annualized double-digit rate of return, which has been supported by long-term earnings and cash flow growth.

Investor takeaway

CGI Group is a strong and diversified business with a long history of operating successfully. Moreover, it has worked on a couple of acquisitions this month, which should help with its growth. However, I don't think the stock has a big enough margin of safety to be worth my dollars right now.

CGI Group recently traded at $62.50 per share, a multiple of ~17.2, and it's expected to grow its earnings per share by 7.3-13.7% per year for the next three to five years.

The street consensus from **Thomson Reuters's** latest report indicates a mean 12-month target price of $69.20 per share, which represents upside potential of ~10.7% in the near term.

Interested investors looking for a bigger margin of safety should consider the shares at lower levels.

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kayng