Growth Investors: This Stock Has Risen 150% in 5 Years and Could Grow More!

Description

Service-based businesses are appealing since sales are more likely to be recurring and often see more consistency than product sales, which always need to find new ways to grow. With a good foundation of customers, a company that provides services can often rely on those existing clients to provide it with a consistent stream of revenue. I'm going to focus on a service-based company that has a diverse set of customers and services that could see lots of growth in the years ahead.

CGI Group Inc. (TSX:GIB.A)(NYSE:GIB) specializes in information technology (IT) and offers its customers a range of services, including application development, consulting, systems integration, and infrastructure management. In 2016, 54% of the company's revenue came from the management of IT and business functions, with 46% coming from systems integration and consulting.

Diversified customers provide stability in CGI's top line

CGI is well diversified geographically with less than a third of sales coming from the U.S. and less than half (43%) from North America. The company's customers are also spread across many industries with government making up a third of revenues and manufacturing, retail & distribution taking up another 23% of sales this past fiscal year. By not being too exposed to one part of the world or one type of industry, CGI's revenues are less at risk to struggling economies or industries.

Four straight years of strong profit growth

Although the company has not seen a big improvement in its top line with sales increasing just 6% in the past three years, the bottom line has more than doubled during this time. CGI was able to reduce its costs and incur fewer acquisition-related expenses, which allowed the company to bank over 8% of its revenue as profit.

A look at recent performance

In the company's last quarter, its revenues were up 6% year over year, and profits were slightly up 1%. Overall, CGI has seen fairly consistent performances over the past five quarters, as it continues to show great stability.

Current valuation suggests CGI is a bargain

At a price-to-earnings ratio of over 18, CGI is priced favourably to similar stocks, like **Constellation Software Inc.** (TSX:CSU), which trades at a multiple of 56, and **WSP Global Inc** (TSX:WSP), which is priced at 23 times its earnings. Given CGI's strong earnings growth, its PEG ratio is just 0.29, suggesting that the stock is a good value, given the rate of increase in its earnings per share over the past four years.

Is the stock a buy today?

Year to date, the stock has yielded returns of just 2%, but in the past five years, the share price has risen more than 150%. There is plenty of reason to expect the company will continue its growth with over $1 billion in free cash the past few years coupled with a debt-to-equity ratio of just 0.26, which gives CGI plenty of flexibility to take on new investments or acquisitions.

At a very attractive valuation, the stock is definitely a good buy, and it has lots of room for the share price to grow. Although the company doesn't currently offer a dividend, that may change over time, especially as it continues to grow its free cash flow.

CATEGORY

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2. TSX:CSU (Constellation Software Inc.)
3. TSX:GIB.A (CGI)
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