Are CGI Group Inc. Shares Ready to Surge?

Description

CGI Group Inc. (TSX:GIB.A)(NYSE:GIB) shares have slowed down over the past year. Although the company's earnings have been on a consistent upward trajectory, revenues have definitely tapered over the last few years, and that could be a cause for concern once CGI runs out of ways to boost its margins. With earnings slated to be released in less than a week, does it make sense to buy shares? Or is it time for long-term investors to take some profits off of the table?

Earlier this year, CGI announced a major restructuring as it cut ~1,600 jobs from the workforce. CEO George Schindler noted that a majority of its clients plan to either increase or maintain their current budgets, so this move didn't appear to be a major negative, even though the general public perceived it to be a huge negative.

Nobody wants to hear of restructuring and layoffs, even if they are the norm in the tech business. Major restructuring often leads to uncertainty, and that's the last thing that investors want. The management team believes that the new changes will beef up the company's sub-par revenue growth numbers for the long haul in addition to providing another means to boost its already high margins.

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Going forward, CGI Group is expected to start hiring over the next year, as management attempts to reinvigorate its top-line growth. Software development comes with ridiculously high margins, and as CGI Group ventures into higher-margin projects, it can be expected that the company will continue to deliver earnings growth, at least for the medium term. If the company's stable top line can start growing again, CGI shares could suddenly pop.

Valuation

Shares of GIB.A trade at a 18.8 price-to-earnings multiple, which is substantially lower than the company's five-year historical average price-to-earnings multiple of 48.4.

While the stock may seem absurdly undervalued, based on other valuation metrics, CGI Group's valuation may actually be more in line with historical averages. Shares currently have a three price-to-book multiple, a 1.9 price-to-sales multiple, and a 14.9 price-to-cash flow multiple, all of which are slightly higher than the company's five-year historical average multiples of 2.7, 1.4, and 14.5, respectively.

Bottom line

Management is ramping up its digital plans to boost revenue and margin growth. The company has a pristine balance sheet that could open doors to potential acquisitions down the road. Shares are fairly valued today, but if CGI Group struggles to turn its initiatives into top-line growth, I suspect shares could remain flat for a longer period of time.

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