Why CGI Group Inc. Dropped 2.6% on Wednesday

Description

CGI Group Inc. (TSX:GIB.A)(NYSE:GIB), one of the world's largest information technology and business process services providers, released its fourth-quarter earnings results before the market opened on Wednesday, and its stock responded by falling 2.6% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if this weakness represents a long-term buying opportunity or a warning sign to avoid it for the time being.

Breaking down the Q4 performance

Here's a quick breakdown of eight of the most notable statistics from CGI's three-month period ended September 30, 2017, compared with the same period in 2016:

Metric	Q4 2017	Q4 2016	Change
Revenue	$2,608.10 million	$2,582.43 million	1.0%
Adjusted EBIT	$395.83 million	$395.08 million	0.2%
Adjusted EBIT margin	15.2%	15.3%	(10 basis points)

Net earnings excluding specific items	$275.72 million	$274.44 million	0.5%
Diluted earnings per share (EPS) excluding specific items	$0.93	$0.89	4.5%
Cash provided by operating activities	$352.08 million	$401.81 million	(12.4%)
Backlog	$20,812.7 million	$20,893.2 million	(0.4%)
Bookings	$2,912.9 million	$2,858.3 million	1.9%

What should you do with the stock now?

It was a decent quarter overall for CGI, but there was nothing in the report that stood out as impressive, so I'm not surprised that the market reacted by sending its stock lower. That being said, the company did report solid results for the full year of fiscal 2017, as its revenue increased 1.5% to $10.8 billion, its adjusted EBIT increased 1.7% to $1.59 billion, and its adjusted EPS increased 5.5% to $3.65 when compared with fiscal 2016.

As for the stock, I think the drop represents an attractive entry point for long-term investors for one reason in particular — valuation. CGI's stock now trades at just 18.2 times fiscal 2017's adjusted EPS of $3.65 and only 16.3 times fiscal 2018's estimated EPS of $4.07, both of which are inexpensive given its estimated 11.5% earnings-growth rate in 2018 and its long-term earnings-growth potential.

CGI's stock has risen more than 31% since I first recommended it in January 2015 and more than 3% since I last recommended it following its third-quarter earnings release in August of this year, and I think it still represents a great long-term investment opportunity, so take a closer look and consider adding it to your portfolio today.

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