1 Turnaround Stock and 1 Tried-and-Tested Stock to Give Your Portfolio That Extra Return

Description

For those of us who are looking for some great additions to our portfolios, it has not been easy these days.

Record low interest rates mean, by definition, higher stock prices as the discount rate used to discount cash flows to present value elevates this value, and as companies' borrowing costs are low, enabling cheap access to fund growth, boosting earnings.

With interest rates being higher this year, and with a further upward bias, is the market on its way down as the discount rate rises, thus reducing the present value of companies' future cash flows?

I think, yes, this is what is coming.

So, with this being said, let's look at two companies that still make a great addition to investors' portfolios, with good growth ahead and attractive valuations.

The first is **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB).

With $10.8 billion in revenue, CGI is Canada's largest Information Technology (IT) services firm. The company has and will continue to grow by consolidating the industry and by growing organically, as the IT services industry is a growth industry.

This is where CGI comes in. Its consulting services, systems and integration services, IT outsourcing services, and its wide range of proprietary business solutions that companies rely on to get their businesses running as smoothly and productively as possible are in big demand these days.

The story at CGI has been about profitably growing through acquisitions and organically, while maintaining a strong balance sheet and generating strong cash flows. And the company has consistently shown that it can do this successfully.

At this point in time, CGI still has a big opportunity to continue along its growth trajectory, with a focus on higher-margin business further increasing the company's margins over time. In the latest quarter, adjusted EBIT margins were over 15%. This is a long way from margins of under 10% only four year ago.

Empire Company Limited (TSX:EMP.A), Canada's second-largest food retailer, is a different story. Having stumbled in recent years, falling prey to highly competitive industry conditions and its own missteps, the stock fell from highs of over $30 back in 2015 to lows of $15 at the end of 2016.

But 2017 has seen the company and the stock claw back from the depths of despair, with same-store sales growth slowly entering positive territory again and the stock rallying from its lows to almost $25 today.

It's a turnaround story in the making.

So, Empire has a new strategy, with new CEO Michael Medline at the helm, initiating cost streamlining, operational changes, and a marketing effort to win back its customers.

And hopes are high, as this is the same guy who came in and led the extraordinary turnaround at the once sleepy **Canadian Tire Corporation Limited** until his departure in 2016.

Finally, the stock is cheap right now — a reflection of years of problems and sub-par performance, but not factoring in the increasingly likely success of the turnaround strategy.

CATEGORY

1. Investing
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TICKERS GLOBAL

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2. TSX:EMP.A (Empire Company Limited)
3. TSX:GIB.A (CGI)

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karenjennifer