The Best Stock That Pays No Dividend

Description

For investors seeking long-term returns, there is sometimes nothing better than a company that is able to deliver high returns on equity on a reoccurring and long-term basis, while retaining a high amount of the profits. Although most companies that deliver high returns on equity are gradually weighed down by the higher amount of equity as the denominator steadily increases, there are sometimes exceptions.

In the case of **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB), the company is a prime example of what can happen when the decision is made to return capital to shareholders through share buybacks instead of through dividend payments, which become much more of an obligation once they are initiated.

Although the information technology industry is one which has traditionally been characterized by boom-and-bust periods, as new technology is very good at displacing both new and old competitors that seem “entrenched,” the case at CGI Group is somewhat different. The company is in the business of providing IT services to third parties that wish to outsource this particular part of their business. The result is top-line revenue growth which has increased at a rate of 2.7% over the past three years.

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For those seeking the investment rationale, the reason to buy this security is due to the company’s ability to grow the bottom line (becoming more efficient) over this same period. The bottom line has grown at a rate of 2.9% over this period.

On a per-share basis, however, the earning per share (EPS) have increased at a rate of 8.16%, as the company has executed a fantastic share buyback to reward investors with a bigger share of the pie. Over the past three full fiscal years, the total number of shares outstanding have decreased by 25.62 million, which translates to a decrease of 7.1% of the company’s footprint. For CGI Group, the fiscal year-end is the end of September, which means that the latest data available is, in fact, the current year-end.

One of the key benefits of returning capital to shareholders through share repurchases only is that management has the ability to accept project with high margins and high returns on equity instead of needing to take on all projects simply to maintain a dividend payment to investors. Further, management will have the discretion as to the timing of the share buybacks with the ability to commit all cash flows generated by the business into the repurchase of shares, or use the money to increase working capital in the hopes of driving revenues higher in the next year.

Although investors have almost been conditioned to recognize dividends as the most important metric to judge an investment, it is not always the case; there are other fantastic investments available that are not suited to paying dividends over a long-term basis.

Have fun with CGI Group!

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Date
2025/06/30
Date Created
2018/01/11
Author
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