Recession-Proof Your Portfolio With This Technology Company

Description

Technology companies and “recession-proof” are two terms which often do not find themselves in the same sentence, and for good reason. Many of the most prominent tech companies focus on subscription revenue or discretionary spending trends, which typically take a hit in any sort of bear market or correction.

I’m going to discuss why **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB) is a great “sneaky” play on the technology sector, given the company’s focus on IT-related consulting and integration services.

Who is CGI?

As Canada’s largest systems integration and technology outsourcing company, CGI specializes in providing consulting solutions to large corporations and governments seeking assistance for a wide range of large-scale projects. The company operates around the globe, with the vast majority of CGI’s revenue originating outside Canada, making this company another one of those TSX-traded plays with currency exchange implications.

The largest customer of CGI is the American government, and given the newfound impetus of the Trump administration to increase spending on infrastructure, anticipation has begun to build that IT infrastructure will undergo a much-needed transformation, with CGI (hopefully) playing a key role.

Where is the upside with CGI?

Fundamentally, CGI is a very strong company from a valuation-multiple perspective and return-on-investment standpoint. The company is currently trading at a forward multiple of just more than 16 times earnings, with a return on equity of more than 16% and an annual earnings-growth rate in the double-digit range.

While CGI’s share price has kept pace with its earnings growth of late, investors have not necessarily shared in the gains the company has made in integrating a range of bolt-on acquisitions in recent years, which have provided CGI with additional capacity to gain market share in key geographical regions, as well as providing the company with new core competencies to tackle projects the company would have otherwise have difficulty bidding on in the past.

What is the downside with CGI?

As fellow Fool contributor Joey Frenette has noted in the past, CGI has recently undergone a series of layoffs to streamline its operations. While layoffs are rarely a good thing, the reality is that CGI has undertaken a series of acquisitions that provided duplication of services, which have been either outsourced or consolidated, providing for the type of efficiency gains, or synergies, that can only be garnered by job cuts following acquisitions.

CGI's revenue growth has indeed slowed, although the company has continued to introduce intellectual property into many of its integrations, allowing for the potential for increased margins over time. Remember, investors: a company is valued as the cumulative value of its future stream of cash flows, not revenue, so it's important to stay focused on the bottom line.

Bottom line

CGI has continued to churn out double-digit earnings growth for some time now, and I do not anticipate this trend will abate anytime soon. The stock is fairly valued, and I would consider buying on any dips moving forward.

Stay Foolish, my friends.

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chrismacdonald