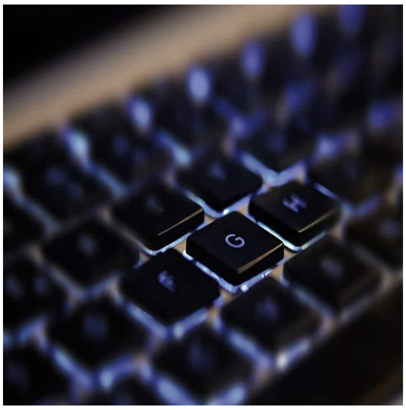

Supercharge Your Returns With This Canadian Technology Company

Description

Trying to get away from owning only banks and oil pipelines in your Canadian stock portfolio can be tricky. But this doesn't mean there aren't any companies in different sectors that could be worthy investments. Most of the major technology giants are not Canadian, but there are a number of solid Canadian technology companies that are worth taking a look at. One of these companies is **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB), a diversified IT and business services company with worldwide operations.

CGI is one of Canada's largest IT service providers. The company is active in multiple sectors, including government (32% of revenues), banking (23%), health care (7%), and communication and utilities (14%). Its sector diversification provides the company with a degree of immunity to any individual sector downturn. Much of its revenues, such as those obtained from government-related work, are quite stable.

By geography, CGI receives revenue from multiple jurisdictions. This wide diversity in geographic regions means that the company has income from multiple currencies. For those bullish on the American economy, CGI benefits from a strong U.S. presence, with 28% of its revenues coming from that country. It also gets a significant amount of revenues from France (15%), the United Kingdom (12%), and the rest of the world (15%), which consists primarily of emerging market economies.

While the stock is not extremely cheap, financially, CGI is growing, and the balance sheet is fairly strong. The company grew revenues almost 7% year over year as of Q2 2018. The company has taken on some debt and used some cash to make acquisitions, such as its 2017 purchase of Affecto, which expanded its presence in northern Europe. Net earnings were flat over the same time period primarily due to one-time acquisition-related costs. Excluding these one-time items, earnings were up 10%.

The biggest turnoff to owning CGI is the lack of dividend. While I tend to lean towards dividend companies, I have begun to change my mind about completely ignoring companies that do not have regular payouts. Companies such as CGI with strong, growing business models can be beneficial long-term holds when their cash is reinvested. While you should always consult an accountant, there appear to be some tax benefits to holding stocks without dividends, especially in non-registered accounts.

Companies that do not pay dividends have a favourable status in taxable accounts. While dividends from Canadian companies are taxed more favourably than foreign companies, companies without dividends are not taxed at all. A company like CGI can sit in your taxable account and compound for years, only being taxed when it is sold. Furthermore, capital gains, at present, are even more favourably taxed than dividends anyway.

CGI is an excellent technology company, one that has grown significantly over the past several years. While it is not extremely cheap at a P/E of 18, its strong revenue growth, free cash flow, and sector and geographic diversification would make it a good technology-related addition to a Canadian stock portfolio. It does not pay a dividend, but its ability to compound tax-free in your taxable account may provide motivation to take a chance on this Canadian technology company.

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