3 Reasons to Own Quebec's Finest Tech Company

Description

A total of three different Quebec-centric mutual funds and ETFs won Lipper Awards November 8, the annual Canadian event honouring Canada's best funds and fund managers.

Two of the three have Montreal-based IT services provider **CGI Group** (TSX:GIB.A)(NYSE:GIB) in their top 10 holdings. It's a good move by the portfolio managers of the **First Asset** and **Desjardins** funds to own CGI. That's because long term, it's a winner.

Here are three reasons why.

Strong future revenue

Companies like CGI that provide services rather than products rely on future contracts to keep growing. Three metrics are useful for assessing this growth.

Backlog indicates new contracts, extensions, and renewals. Bookings are the work scheduled to be done from the backlog and billings are the revenues from completed work.

CGI finished fiscal 2018 with a backlog of $22.6 billion, 8.7% higher than a year earlier. Bookings were $13.5 billion at the end of fiscal 2018, 19.6% higher than in 2017. Lastly, its book-to-bill ratio was 117.3% — $13.5 billion in bookings divided by revenue of $11.5 billion — suggesting that $2 billion in revenue is still waiting to be completed and recognized.

While you want to see each of these numbers grow each year, given the variability and timing of the work, some years are going to show growth and others will experience a contraction. That's normal.

If the overall trend over three to five years is moving higher, you can generally assume that all is well with the business. That is definitely the case with CGI.

Build-and-buy business model

CGI's growth strategy includes building its business through new and existing customers in the company's target industries, while also making tuck-in acquisitions in geographic regions where it's already strong and larger M&A where it doesn't have a presence.

In 2018, CGI made three acquisitions in the U.K., New Jersey, and Quebec, totaling $277 million. The trio of acquisitions added 1,650 employees and $291 million in annual revenue.

On the organic side of the ball, CGI managed to deliver significant book-to-bill ratios in its U.S. federal government business (173.9%) and northern Europe (123.3%). Overall, it had a book-to-bill ratio of 117.3%, suggesting it also grew organically in 2018.

Free cash flow

One of the best ways to evaluate a company is by the free cash flow it generates. CGI finished 2018 with $1.28 billion in free cash flow, 12% higher than a year earlier. In the year ahead, CGI will use its free cash to repurchase its shares rather than pay down its debt, which stood at $1.45 billion at the end of September, $290 million less than at the end of 2017.

How a company allocates its capital is critical to long-term success. CGI hasn't had a negative calendar year return since 2008. That tells you a thing or two about its capital-allocation decisions over the years.

Based on an enterprise value of $24 billion, CGI has a free cash flow yield of 5.3%. While that's not value territory (anything above 8%), it's certainly fair for a company with CGI's future growth prospects.

As Quebec stocks go, this is one of the better large caps you can own.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:GIB (CGI Group Inc.)
2. TSX:GIB.A (CGI)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/08/18
Date Created
2018/11/17
Author
washworth