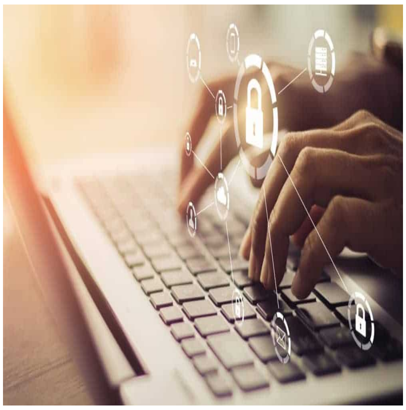

800% Returns in 10 Years: Can This Tech Stock Keep Going?

Description

I've looked into a number of Canadian technology stocks in recent months. The nation's top tech stocks — the so-called DOCKS — all have lucrative business models, stable earnings, and massive potential for future growth. However, this convenient acronym overlooks another tech stock that's just as good.

Montreal-based global information technology (IT) consulting giant **CGI Group** (TSX:GIB.A)(NYSE:GIB) is probably one of the biggest and most stable tech companies listed on the Toronto stock exchange.

Over the past 10 years, CGI stock has grown at an annually compounded rate of 24%, creating 800% in capital appreciation for shareholders. It has outperformed its benchmark **S&P/TSX Capped Information Technology Index** by 8.21 percentage points over this period.

Currently worth $24.67 billion in market capitalization, CGI employs 74,000 people across 400 offices in over 40 countries. Last year, it generated $11.65 billion in revenue and over $1.17 billion in net profit.

According to the company's latest filings, cash flow from operations was 12.7% of revenue, or $5.15 per share, over the past 12 months. Based on the current stock price of $90.32, that's a cash yield of 5.7% — excellent for any mature company of this size.

However, shareholders do not get that cash in hand. CGI doesn't pay a dividend; instead, it deploys cash back into its operations to drive organic growth and into mergers and acquisitions to drive inorganic growth.

The best indicator of organic growth for CGI is probably its book-to-bill (BB) ratio. The ratio measures the number of orders received to the number of orders completed within a period. A ratio of more than one indicates that demand outweighs supply and there is opportunity for growth. CGI's BB ratio is 1.16 over the past 12 months.

Consequently, revenue and earnings per share were up by high single and low double digits, respectively, over the past quarter.

Meanwhile, the company continues to augment this steady growth by purchasing niche technology companies. CGI has gobbled up 89 smaller firms since going public in in 1986. Nine of those mergers were completed in the last two years alone.

When this M&A strategy works, the results are instantaneous. The best example of this is CGI's acquisition of British IT firm Logica in 2012. The strategic purchase more than doubled the company's headcount, gave it access to three new regions, made it the fifth-largest IT company in the world, and the largest technology company in Canada at the time.

The confluence of organic and inorganic growth is reflected in the company's return on invested capital (ROIC). Since 2014, ROIC has been stable around 14.5%. Considering the fact that CGI doesn't pay a dividend, this metric is an excellent proxy for potential growth in the company's value.

Applying the growth proxy to the company's current price-to-earnings (PE) ratio indicates a PE-growth (PEG) ratio of 1.53. That means CGI is currently overvalued.

Bottom line

CGI is an excellent tech company with a robust growth model. I have little doubt that the firm can continue to expand its operations through organic growth and acquisitions for the foreseeable future.

However, at its current market price, the stock seems mildly overvalued. Investors should monitor for pullbacks or game-changing acquisitions in the near term.

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