3 Reasons CGI (TSX:GIB.A) Still Has 30% Upside Left

Description

Momentum is a powerful force in capital markets. If a company has been on a growth spurt for well over a decade, it's probably because of some secret sauce that keeps it insulated from competition and at the forefront of every new opportunity in its niche.

No other company epitomizes this relentless spirit of growth better than Montreal-based **CGI Inc.** (TSX:GIB.A). The global infotech (IT) systems giant has been compounding investor wealth at an annual rate of 24% since 2009. Lucky investors who bought the stock shortly after the global financial meltdown have enjoyed an eight-fold return thus far.

The company's stock price is at a record high, but it doesn't appear to be running out of room to grow just yet. Here are three reasons investors can still expect another 30% upside:

Cash

At last count, CGI had $544 million in cash and cash equivalents on its book. That's an important factor because much of the company's growth is driven by acquiring small and medium-sized businesses from across the tech industry.

In fact, acquisitions drive much of the company's growth. Last year, its organic growth was a mere 3%, while the official return on equity was an impressive 17.5%. Collectively, the company spent $277 million on acquisitions last year. This year it has twice as much in dry powder, a bright green flag for growth in my opinion.

Valuation

Undervaluation is probably the best indicator of potential upside. At its current market price, CGI trades at 23 times trailing earnings, 19 times forward earnings, and 18 times free cash flow. Given its double-digit growth rate and 17.5% return on equity, these ratios seem phenomenally low.

Meanwhile, the company's capital-light business model, geographic diversification, recurring income streams and low debt put it on a solid footing for future growth.

Founder's message

CGI's founder Serge Godin is now considered one of the most successful entrepreneurs this country has ever produced. Over his 30-year career as chief executive officer and 43-year career as chairman of the board, Godin has created the corporate culture and strategic prowess that drives CGI forward to this day.

It's hard to argue that anyone understands CGI's growth prospects better than Godin himself, so his prediction in 2017 is certainly worth a closer look. In an interview with the BBC, Godin confidently declared his team's ambition to "double the size of the company [again] within five to 10 years."

At the time, CGI's stock was trading around $65. It's already up 51.4% since then, but if the company really doubles before 2027, there could still be another 30% upside left.

Bottom line

CGI's growth strategy is simple, but not easy to execute. Delivering consistent shareholder returns through a series of savvy acquisitions requires a robust balance sheet and experienced management team. Given the company's current valuation and its founder's prediction in 2017, there seems to be plenty of room left for capital appreciation and wealth creation.

I believe CGI is the perfect stock for any investor seeking growth at reasonable prices. The company's track record and management's history should inspire you to accumulate the stock at current prices.

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