Why the CGI Group Stock Price Fell 6.8% in January

Description

After capping off 2019 with a 30% return, **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB) stock price fell 6.8% in January. Why did the stock fall and what, if anything, should investors do about it?

I'd like to start by reminding investors of the importance of reviewing our stock holdings periodically. This should be done at least annually, but should also when big stock price movements happen. Moreover, this should not only be done with our stock holdings, but also with stocks on our watch lists.

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So why did CGI Group stock price fall in January? Let's take a look at the reasons.

CGI Group stock price fell in reaction to disappointing first-quarter results

On January 29, CGI Group reported first quarter fiscal 2021 earnings per share of $1.23, which was $0.02 below market expectations. This sent CGI stock price tumbling almost 8% on that day alone as investors reacted to this disappointment from a company famous for *not* disappointing.

So while the miss doesn't seem like a big miss, it affected the stock price disproportionately because investors were pretty blindsided by it and the stock was not pricing this in at all.

The two things that were cause for concern in the quarter were organic growth and bookings, both of which came in below expectations. Constant currency organic growth in the quarter came in at 1%, down from 4% in the prior quarter.

Growth was down sequentially in all regions in what appears to be the consequence of timing issues. For example, in the U.S., which represents 29% of revenue, budgeting delays resulted in lower U.S. Federal contracting.

In the U.K. (12% of revenue), government spending was lower as a result of impending elections. Management expects that the weak bookings that were seen this quarter will begin to recover as these timing issues resolve.

On the bright side, CGI Group continues to report strong margins, a reflection of the company's continued operational excellence. EBIT margins were 15.5% in the quarter compared to 14.8% in the same quarter last year.

Weakness in CGI Group stock price = buying opportunity

For investors serious about getting exposure to this $25 billion IT services behemoth, I would view this weakness as a buying opportunity. The company has acquired its way into its current global presence, and with plans to continue to build on this, CGI Group stock continues to record big upside.

Management continues to target a doubling of the company in the next five to seven years, and with $12.1 billion in revenue last year, it is clear that a sizable acquisition would need to be made to achieve this. The potential upside to the company and the stock is huge if and when this happens.

Foolish bottom line

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Looking at the bigger picture, cash flows remain strong, with free cash flow increasing 28% to $398 million in the quarter, the balance sheet remains healthy, and many attractive consolidation opportunities remain.

Management has noted that valuations are looking very attractive today, so we can probably expect more tuck-in acquisitions as well as a more meaningful acquisition coming soon, thus driving up CGI Group stock price.

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