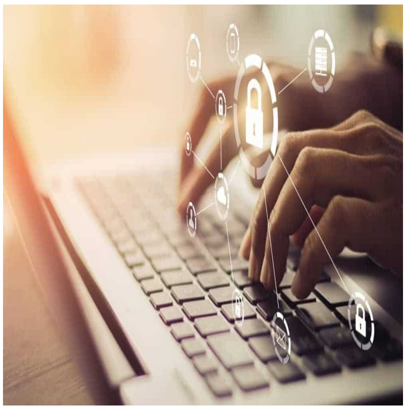

Market Recovery: Is This Tech Stock Worth Buying Today?

Description

Probably the most puzzling aspect of the recent pullback in stock prices is the fact that high-valued tech stocks have barely budged. Expensive as they were going into the recent crisis, I thought that any pullback in stocks would lead to the more expensive ones getting sold off rather quickly. Their sky-high valuations, I reckoned, would leave them vulnerable to a sharp correction.

The nature of this correction threw that theory on its head. Stable dividend-paying stocks turned out to be less safe than what I assumed would be riskier high-valuation names. The most expensive stocks have kept climbing.

In hindsight, I suppose this makes sense. The world has retreated largely online, so internet-focused companies ended up being the only ones that performed. Utilities recovered after being punished initially, regaining some of their safe-haven statuses. Pretty much everything else has remained fairly low.

Since tech stocks have retained their value, should I buy them today?

I am still hesitant about purchasing shares of high-valuation stocks today. It doesn’t make sense to sell at the moment, but as a value-leaning investor, I still feel nervous purchasing high-valuation stocks at all-time highs.

For me, owning tech stocks at this time comes down to a few factors. The first is the business in which they participate, the second is their balance sheet, and the third is valuation. One stock that has come down rather heartily over the past month is **CGI** (TSX:GIB.A)(NYSE:GIB).

Why is it interesting today?

CGI has been punished over the past month and has yet to recover its highs. This is far different than other technology companies that have continued to rocket higher, often to parabolic, nosebleed levels.

The reduced share price leaves CGI trading at a price-to-earnings multiple of 19 times trailing earnings. Its price to book is not low at three times book value. It is, however, much lower than many other tech companies.

Attractive business potential

CGI is an asset-light company focused on technology consulting. There are a number of aspects of its business that fit well within the work-from-home paradigm that may become more prevalent as we emerge from the post-pandemic period. One particular business that jumps out at me is its infrastructure services business.

The focus of this business is to transform traditional businesses into a digital framework. As much as this strategy was in demand before the crisis, it is likely to be more in demand following COVID-19. Businesses will most likely accelerate their transition to digital so that they will not be as negatively impacted by a shutdown like this in the future.

Balance sheet strength

The good news for CGI is that it has a fairly strong balance sheet with enough cash to meet any current debt obligations. It does not pay a dividend either, which helps it conserve cash. In uncertain times such as these, a lack of a dividend is helpful to maintain balance sheet integrity.

It is not the fastest-growing tech company, but it is posting acceptable numbers. In its Q1 2020 report, CGI posted year-over-year revenue growth of 3% Cash provided by operating activities was more substantially up, improving by 18.8% year over year.

A decent buy

I am not especially thrilled by the value offered by tech companies at this time. In general, they have continued to climb to valuations that are even higher than they were before the market downturn.

CGI is one exception to this. It has a reasonable valuation, good growth prospects tied to businesses that should be able to grow through this difficult period, and a decent balance sheet. This is one of the few Canadian tech companies that are worth a look at this very unusual time in history.

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