Growth, Acquisitions, Stability: This Stock Has Everything

Description

For investors who have a long-term investing time horizon, picking and choosing the sectors one wants to be heavily exposed to is perhaps the most important tool in generating market-beating returns. When I think about sectors that should outperform over the next decade or two, a few sectors come to mind. IT, consulting, and outsourcing are three growth areas I think are going to provide such returns.

These returns, I expect, will be generated through a combination of organic growth, consolidation, and investor appetite. These are the three reasons I like Canadian tech player **CGI Group** (TSX:GIB.A)(NYSE:GIB).

Secular trends only getting stronger

Some trends come and go with the times. However, the secular growth trends underpinning CGI's business model are solid. These are core areas of growth for the overall Canadian economy. Companies like CGI that provide the IT integration, outsourcing, and consulting services are integral to these shifts.

CGI is a great example of a long-term, forward-looking investment for those with a long enough investment time horizon. I always prefer companies like CGI that have these strong secular growth drivers that will not abate and will continue regardless of this pandemic.

CGI's growth story also strong

Very few companies are expected to report any sort of top- or bottom-line growth in the coming quarters. CGI is among the few that could buck the trend. The company has integrated its post acquisitions well. Moreover, CGI has gained meaningful synergies from these transactions — a huge plus for investors focused on growth.

Cost management is becoming a huge consideration for investors who are increasingly scrutinizing the minutiae of company balance sheets. CGI is well positioned relative to its high-growth peers.

Moreover, as the largest IT consulting company in Canada, CGI has grown to this size via organic growth at existing operations and through acquisitions.

Analysts expect these acquisitions to continue. In fact, the coronavirus pandemic could provide more attractive buyout prices and opportunities for consolidators like CGI. The company's expected double-digit earnings growth for 2020 is impressive in the face of this health crisis; even if CGI's actual earnings don't meet expectations, the fact that investors can pick up shares of CGI for roughly 10 times 2020 expected earnings highlights just how cheap this stock is today.

Operating business and outlook strong

One of the key factors I really like with CGI's current situation, relative to most of its peers, is its order backlog. To date, the company has approximately two years' worth of revenue in the form of committed business in its backlog. This signals just how strong the demand is for the services CGI provides the market. This relatively sticky demand has led to some bullish expectations of earnings, growth, and/or earnings stability in a time of severe uncertainty.

Bottom line

As a long-term fundamental buy-and-hold investment opportunity, the growth and value profile of CGI is, I believe, extremely attractive relative to most other options on the TSX. I would encourage investors to at least add CGI to their watch list at this point in time.

Stay Foolish, my friends.

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

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chrismacdonald