1 Top TSX Tech Stock to Buy Now

Description

The COVID-19 pandemic has left an impact on almost all industries. There could even be lasting changes to certain industries. That said, technology is generally a good place to invest one's money, particularly, in today's environment.

CGI (TSX:GIB.A)(NYSE:GIB) could come out as a winner in light of COVID-19 disruptions, as businesses accelerate their tech strategies. The tech stock appears to be decently valued and offers nice long-term growth potential.

CGI has been operating for more than 40 years. It delivers end-to-end services and solutions to clients globally across 10 industries. Essentially, it helps its clients to accelerate and maximize their returns from investing in technology.

Excellent long-term returns

CGI has an incredible track record of profitability that has resulted in outsized long-term returns for its shareholders. Since fiscal 2007, it has delivered total returns of more than 17%.

Its earnings per share (EPS) compounded by more than 16%, which supported these amazing returns. Essentially, its EPS was six times what it was 12 years ago.

I chose fiscal 2007 as the starting point of the period, because that was before the last great recession. Moreover, I picked a point at which the stock was reasonably valued. This prevents me from overstating CGI's earnings power. Its return on assets and return on equity have been excellent. Their five-year percentages are 9% and 17%, respectively.

CGI's recent results

Notably, CGI's fiscal year ends in September. It recently reported its fiscal Q2 results for the period January to March. Its revenue increased by 2% to $3.1 billion against fiscal Q2 2019. It was a 3%

growth on a constant-currency basis.

CGI's adjusted EBIT climbed 6.4% to $483 million. It was also helped by an adjusted EBIT margin expansion of 0.60% to 15.4%. Net earnings fell 1% to about $315 million, which included a margin contraction of 0.30% to 10.1%. Earnings per share increased by 3.5% year over year, as the tech firm reduced its share count by about 3.7%.

When excluding acquisition and integration costs, earnings would have increased by 7.7% instead. However, I believe it's better to focus on the earlier numbers, because M&A is a part of CGI's strategy. So, there will be ongoing acquisition and integration costs, as it makes new acquisitions.

During the pandemic, the company was able to quickly raise its available liquidity to $2.5 billion to strengthen its competitive position likely through strategic acquisitions.

The company's recent net debt-to-capitalization ratio was about 35%, which is reasonable. Its profitability is expected to remain intact this year, despite COVID-19's impact on the macro environment.

Valuation and upside potential

CGI stock has corrected about 23% year to date. At $84 and change per share, it trades at a price-to-earnings ratio of below 18. This is a decent valuation to start buying the stock that normally grows at a double-digit rate.

Buyers enjoy a discount of about 15% compared to the shares the company bought back during fiscal Q2.

Analysts have a 12-month average price target of $99.80 per share on the tech stock. It represents near-term upside potential of 18%.

The Foolish takeaway

CGI has an excellent track record of growth that's set to continue for the long haul. Moreover, the tech firm will be resilient in this and future economic downturns. Now is a good time to start buying the wonderful business as a long-term investment.

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