The Cocooning Effect: Netflix and This Canadian Stock Will Soar

Description

There's one key takeaway investors can synthesize from the COVID-19 pandemic. That is the strength of what I call the "cocooning effect" of modern society.

The already ever-increasing propensity of Canadians to "Netflix and Chill" rather than go out for a dinner and movie is not just an idea. This secular trend is already shaping certain sectors of the economy. I argue this trend has merely been accelerated by the COVID-related social-distancing measures put in place by governments.

The fact that this natural progression has become a mandated requirement by most advanced economies around the world provides us with a unique opportunity. We can dissect what this secular trend means at a broad, market level as well as at an individual company level.

In this article, I'm going to discuss why Canadian technology company **CGI** (TSX:GIB.A)(NYSE:GIB) could soar in a similar fashion to **Netflix** (NASDAQ:NFLX), a global streaming juggernaut.

It's all about the business model

Most investors watching the incredible rise of Netflix from a growth company to a mature, cash flow-generating behemoth point to a few key factors for this company's success. Among them, a core business model built upon the expectation that stay-at-home entertainment, or the cocooning effect, will only accelerate over time, has been foundational.

This expectation has panned out. While capital spending remains high, other operational metrics such as revenue per employee are astronomical at Netflix.

CGI has, similarly, provided investors with extremely high revenue generation and growth on a comparative level, when assessed side by side with its peers. Unlike the cocooning effect of consumers of entertainment, however, CGI has capitalized on the cocooning effect of businesses. This is a less often discussed but equally strong trend, in my view.

CGI is Canada's largest IT outsourcing and consulting business. The company benefits from corporate strategic moves toward lower domestic headcount and higher productivity. The company leverages global human resource pools and IT integration.

As North American companies become squeezed by the economic impacts of this pandemic, only investments that can yield tangible productivity returns will be priorities. Opening office space in another market simply will not be as attractive as contracting some outsourcing support. This trend has, again, merely been accelerated by the pandemic, but it has been around a while.

CGI stock still looks cheap

Despite much better Q1 results than were expected by analysts, CGI's stock has not taken off to the degree many expected. This has provided investors an opportunity to pick up shares of an excellent high-growth company at a reasonable price. This may be due to less coverage due to CGI's home base of Canada. Alternatively, CGI's business model may be overlooked by investors. I think CGI is one of a few rare Canadian gems every investor ought to consider.

The company has provided relatively stable and robust double-digit earnings growth in the past. I do not expect this to change. Despite this, the company's stock only trades around a 10 times multiple to earnings, lower than global growth counterparts. With sticky earnings, two years of revenue in CGI's backlog, and an attractive valuation, CGI seems like an amazing long-term buy-and-hold opportunity at these levels.

Stay Foolish, my friends.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

POST TAG

1. canada
2. coronavirus
3. Covid
4. Editor's Choice
5. technology

TICKERS GLOBAL

1. NASDAQ:NFLX (Netflix, Inc.)
2. NYSE:GIB (CGI Group Inc.)
3. TSX:GIB.A (CGI)

PARTNER-FEEDS

1. Business Insider

2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Tech Stocks

Tags

1. canada
2. coronavirus
3. Covid
4. Editor's Choice
5. technology

Date
2025/09/30
Date Created
2020/07/01
Author
chrismacdonald