Why CGI Group (TSX:GIB.A) Stock Soared 10% Last Week

Description

There's big opportunity in **CGI Group** ([TSX:GIB.A](#))([NYSE:GIB](#)) stock today.

While the pandemic has made many of us [flock to gold stocks for their safety](#), we cannot forget about certain growth stocks. I understand that some of us are nervous about many sectors and happy to just protect our money from more downside. This is a very respectable strategy. But let's make sure we don't miss out on the stocks that are benefiting from the new world order.

CGI Group stock is soaring, as the [coronavirus pandemic is speeding up its growth prospects](#). This makes it a stock to buy for long term wealth creation.

Here's why CGI Group stock rose 10% last week.

CGI Group earnings beat expectations

By virtue of its strong business model and its operational excellence, CGI Group earnings beat expectations. Revenue of $3.1 billion was matched by EBIT margins of 14.7%. Strong cash flows and a solid balance sheet provided flexibility and strength.

But what truly sets CGI apart is its bottom-line "build or buy" strategy. It is a strategy that has driven this IT services giant's long-term growth. In fiscal 2019, CGI Group generated approximately $12 billion in revenue — 17.7% higher than five years earlier and 217% higher than 10 years earlier.

CGI plans to continue to grow using this build (grow organically) or buy (acquisitions) strategy.

The coronavirus pandemic boosts demand for CGI Group

The coronavirus has negatively impacted CGI Group's short-term results. But the effect will be positive in the long run. The digitization movement will be accelerated. The initial response to the pandemic was business preservation. Companies were looking to advance their digital strategies to ensure

business continuity and ultimately survival.

Long term, there will be a shift in focus toward thriving in the new post-coronavirus world. Already, CGI Group is seeing increasing demand for its intellectual property and its managed services work. For example, financial services clients are looking for IT solutions around collections, loans, and no-touch technology. CGI Group is seeing strong demand for its Intellectual Property solutions in these and other areas.

So, right now, despite the coronavirus, CGI Group has a $22.3 billion backlog. And this backlog is high quality, mostly made up of long-term managed services contracts. This revenue is recurring, long term in nature, and higher margin.

Also, in the third quarter, CGI Group posted a 96% renewal rate on its contracts. CGI is headed in the right direction.

CGI Group stock to benefit from continued consolidation

Management's goal to double the company in the next five to seven years remains alive and well. And with $12.1 billion in revenue in fiscal 2019, this is an ambitious goal. 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.

On the earnings conference call, management highlighted that there's a growing pipeline of acquisition targets. The size of acquisition targets is growing. With $1.4 billion of cash on hand and access to a total of $2.9 billion in cash, CGI is in the driver's seat. Discussions with more than 20 targets are ongoing.

We can expect big news on this front imminently. This would drive CGI Group stock to further gains.

Foolish bottom line

CGI Group stock has been a star performer over the long term. Recent results have boosted the stock an additional 10% last week. Given the company's strong track record and bright future, I am still a buyer of this stock.

CATEGORY

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