



CGI Stock: How High Could it Go in 2023?

Description

CGI Inc. ([TSX:GIB.A](#)) has been steadily growing since 1976. Today, it's a \$26 billion company that shows no signs of stopping. You see, the digital world has only accelerated in the 2020s and CGI is front and center. As the IT consultancy continues its growth path, what's in store for CGI stock in 2023?

CGI stock rallies hard on better-than-expected results

Not too long ago, CGI was stuck in a slow growth environment that had analysts questioning its strategy. Today, this is no longer the case. With growth ramping up in all geographies and market segments, CGI is breaking records. In fact, its latest quarter, Q1 fiscal 2024, highlighted this.

Excluding the effects on foreign exchange, revenue increased 12.3% to \$3.5 billion. Also, earnings per share increased 10.7%. Now you might think that these growth rates are not that high, so what's the big deal? Well, when you're growing off such a large base, these growth rates represent a lot of money and a lot of growth – in this case, \$400,000 million in additional revenue.

Momentum continues to build

Analyzing the last few quarters, it's clear to see that momentum is building and accelerating for CGI. For example, CGI's backlog hit a record \$25 billion – an all-time high. Importantly, many of the new bookings this year have been long-term digitization engagements. This means recurring revenue, stability, and predictability. Examples of these types of new contracts include a long-term contract with the U.S. Department of State and four-year contract with the UK government.

Also, the quarter was the fourth consecutive quarter of [double-digit revenue growth](#) and double-digit earnings per share growth. Clearly, the company is seeing ongoing demand for its business solutions. Of course, as expected, CGI stock is rallying hard as a result. In the last two years, CGI stock has rallied 25%. This follows years of outperformance for CGI's stock price, and it looks like there's still much more to come.

An acquisition is imminent for CGI

The global information technology (IT) market remains highly fragmented today. This means that there are a lot of smaller IT firms ripe for the taking – opportunities abound for CGI to continue to execute on its “build-and-buy” strategy. It's a strategy that has been working exceptionally well for CGI. With it, the company has been able to grow into the IT giant it is today.

This strategy involves acquiring select companies that meet CGI's very strict criteria. After an acquisition is made, CGI benefits from increased reach and scale. The company also benefits from the many cost synergies that come from any such acquisitions. This exercise then clearly adds to the bottom line as well as the top line.

Today, management is very optimistic about its acquisition opportunities. So much so that they have dedicated \$1 billion to mergers and acquisitions in 2023. As usual, management will exercise discipline and caution. CGI is looking for [long-term accretion in any deal](#) it makes. In their words, they're looking for the right company, at the right place, and the right time. This patience is part of CGI's culture, and it's what has made the company's acquisition strategy so wildly successful.

In closing, CGI stock can conceivably rise much higher in 2023. Clearly, another \$1 billion-plus acquisition has the potential to add so much value to CGI stock in 2023 and beyond. I will stop short of giving an actual price target. But I think it's enough for me to say CGI's stock price will likely continue its steady ascent.

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Author

karenjennifer

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