

EQUITY RESEARCH

February 2, 2022

Earnings Update

CGI INC.

Accelerating Growth In A Solid Environment

Our Conclusion

CGI saw constant currency growth accelerate both year over year and quarter over quarter to 6.8%. We expect revenue growth to continue, with CGI posting a book to bill of 1.17x in the quarter amid broad-based strength, with six of eight geographies posting a TTM book to bill of +1x. While wage inflation had been a concern, CGI continues to manage a tight labour market well, with margins up 50 bps Y/Y. We view CGI as a defensive name in a volatile technology market, with strong margins and accelerating growth. We see M&A as upside as CGI becomes more active on its metro market acquisition strategy. We retain our Outperformer rating and raise our price target to \$135 (prior \$130) on our revised forecast.

Key Points

Solid Demand Environment: CGI continues to see a solid demand environment, with a book to bill of 1.17x in the quarter (1.15x TTM). Bookings strength appears to be broad based, with the government (1.51x book to bill) and financial services (1.14x) two areas of strength as organizations look to digitize. CGI is also seeing accelerating demand for its IP solutions, noting a 10% Y/Y increase in bookings and a +10% increase in IP win rates. IP represented 22% of revenue in the quarter and CGI recommitted to its target of 30% of revenue from IP by 2025. CGI is also seeing increasing demand from new clients (33% of revenue) as it builds out global alliances and increases industry-focused expertise and consulting. On the managed services side, a focus on automation, offshoring, and modernization is driving larger deals.

Margins Up Y/Y Despite The Inflationary Environment: CGI's margins saw good acceleration in a rising wage environment, with EBIT margins up 50 bps Y/Y. Management reiterated its ability to pass rising wage costs onto clients and noted a gross margin improvement from higher utilization. SG&A has also benefited from offshoring and automation initiatives. We believe that CGI continues to have margin expansion opportunities driven by increased IP30 revenue, global delivery usage, and automation and improvements in underperforming geographies.

Reiterated M&A Spending Target of \$1 Billion: CGI spent \$122 million on M&A in FQ1/22, exceeding its full-year F21 spend (\$99 million). The company closed two metro market tuck-ins (ARRAY, Cognicase) with Unico expected to close in FQ2. The IT Services market remains fragmented and we see target valuations potentially declining in a rising rate environment. CGI continues to focus on metro market acquisitions of consulting and IP services firms. The company ended FQ1 with \$2.7 billion of available liquidity.

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Outperformer

GIB.A-TSX, Sector: Information Technology

Current Price (2/2/22): C\$111.89

Price Target (12-18 mos.): ↑ C\$135.00

Previous: C\$130.00

CIBC Estimates and Valuation

(Sep. 30)	2020	2021	2022	2023
Adj. EPS	4.89A	5.44A	6.03E	6.43E
Prior			5.93E	6.35E
Adj. EPS	Q1	Q2	Q3	Q4
2023	1.60E	1.61E	1.61E	1.61E
Prior	1.52E	1.59E	1.60E	1.63E
2022	1.49A	1.51E	1.51E	1.51E
Prior	1.45E	1.48E	1.48E	
Valuation	2020	2021	2022	2023
P/E	22.9x	20.6x	18.6x	17.4x

Stock Performance and Key Indicators

Enterprise Value:	C\$28,878M	Shares O/S:	272.7M
Market Cap.:	C\$30,512M	Float:	251.7M
52-wk Range:	C\$95.00 - C\$116.75	Div. / Yield:	NIL/NIL

TSX Composite Index vs. GIB.A-TSX



(Source: FactSet)

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks To Price Target" information on page(s) 5.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

CGI Inc. (GIB.A-TSX) — Outperformer

Price (2/2/22) C\$111.89 12-18 mo. Price Target C\$135.00

Sector: Information Technology

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Peer Comparison	2020	2021	2022E	2023E
P/FCF - Business Services	10.7x	10.9x	-	-
P/FCF - CGI	14.4x	14.2x	-	-
Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	0.4%	(0.3%)	4.3%	3.8%
Per Share Data	2020	2021	2022E	2023E
FCFPS	6.19	7.28	7.45	8.42
Adj. EPS Dil.	4.89	5.44	6.03	6.43
Wgt Avg # of Shares	262.0	249.2	239.4	222.9
FD Number of Shares	266.1	253.0	243.2	236.6
Income Statement	2020	2021	2022E	2023E
Revenue	12,164	12,127	12,612	13,132
Tot Operating Exp	9,735	9,664	10,068	10,505
OpEx (% of Revenue)	80.03%	79.69%	79.83%	80.00%
EBITDA	2,429	2,463	2,544	2,626
EBITDA Margin	19.97%	20.31%	20.17%	20.00%
D&A	566	511	482	479
EBIT	1,863	1,952	2,061	2,147
Interest Expense	114	107	83	92
Other Pretax Income	232	7	3	0
Pretax profit	1,516	1,838	1,975	2,055
Tax Expense	398	469	511	534
Adjusted Net Income	1,300	1,375	1,466	1,521
Adjusted Net Margin	10.7%	11.3%	11.6%	11.6%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	1,939	2,116	2,077	2,157
Capex	(128)	(122)	(133)	(120)
Free Cash Flow	1,810	1,994	1,944	2,037
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	1,708	1,699	2,004	3,131
Intangible Assets	521	507	351	112
Goodwill	8,380	8,140	8,233	8,233
Total Assets	15,550	15,021	15,749	16,598
ST Int-Bearing Debt	311	393	74	274
LT Int-Bearing Debt	3,276	3,009	3,004	2,804
Total Liabilities	8,286	8,035	8,245	8,324
Shareholders' Equity	7,264	6,986	7,503	8,274

Source: FactSet, Company Report, and CIBC World Markets Inc.

Company Profile

CGI Inc. is Canada's largest independent IT service, consulting and outsourcing company.

Price Target (Base Case): C\$135.00

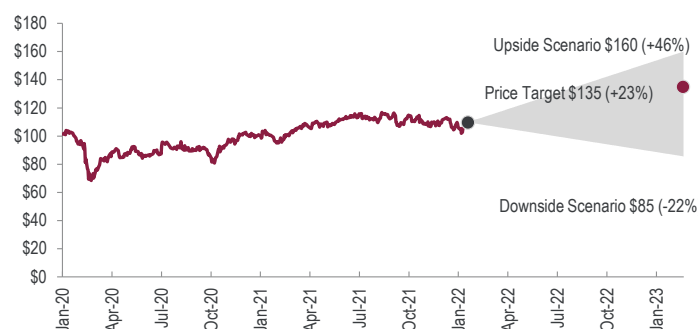
Our price target of \$135 is based on 4.0% revenue growth, 10.8% net margins and a 21x EPS

Upside Scenario: C\$160.00

Our upside scenario of \$160 is based on 8% revenue growth, 11.5% net margins and 25.0x EPS

Downside Scenario: C\$85.00

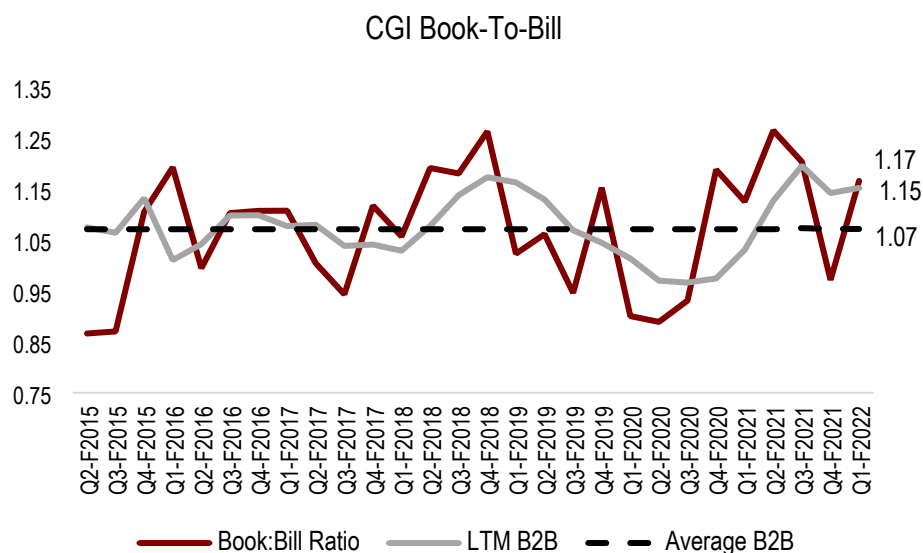
Our downside scenario of \$85 is based on -1% revenue growth, 10.50% net margin and 16x EPS



Q1/F22 Results Solid: CGI reported revenue of \$3.09 billion (consensus \$3.12 billion) and adjusted EPS of \$1.49 (consensus \$1.44). Adjusted EBIT margins of 16.9% was 60 bps above consensus and adjusted EBIT of \$521 million was 2% above consensus of \$510 million. Cash flow from operations was \$484 million, well below Street expectations of \$684 million, although the delta appears timing related, with expected full-year cash flow from operations in line to slightly better than F21.

Bookings: Bookings in the quarter were \$3.60 billion, resulting in a quarterly book-to-bill ratio of 1.17x, up from 0.97x in Q1/F21. On a trailing 12-month basis, book to bill increased to 1.15x, up sequentially from 1.14x. Trailing 12-month book to bill remains above CGI's long-term book to bill average of 1.07x as strong booking momentum continues.

Exhibit 1: CGI – Book To Bill, Q2/F15 – Q1/F22



Source: Company reports, FactSet and CIBC World Markets Inc.

Updates To Our Model: We have updated our model to reflect results in the quarter. We have increased or margin assumptions for F22 by 40 bps and 70 bps in F23 to reflect CGI's ability to navigate the current inflationary environment.

Exhibit 2: CGI – Changes To Our Model, 2021-2023E

	Revenues (\$mln)	EBIT (\$mln)	Adjusted EPS	CFO (\$mln.)
2021A	12,127	1,952	5.44	2,116
2022E				
CIBC est. – new	12,612	2,061	6.03	2,077
CIBC est. – prior	12,558	1,998	5.93	2,080
Consensus	12,600	2,047	5.91	2,115
2023E				
CIBC est. – new	13,132	2,147	6.43	2,157
CIBC est. – prior	12,976	2,041	6.35	2,161
Consensus	13,080	2,143	6.42	2,103

Source: Company reports, FactSet and CIBC World Markets Inc.

Environmental, Social and Governance (ESG) Metrics for GIB.A-TSX

CIBC ESG Metrics					
Governance Metrics					
Insider Ownership	2016	2017	2018	2019	2020
Board Gender Diversity	1.5%	1.5%	0.5%	0.4%	0.8%
Separation of Chair & CEO	20.0%	18.8%	28.6%	31.3%	31.3%
Dual-class Ownership?	YES	YES	YES	YES	YES
Disclose ESG Data?	YES	YES	YES	YES	YES
Social Metrics					
CEO Comp./Mkt Cap*	2016	2017	2018	2019	2020
Diversity Targets	\$0.5	\$0.4	\$0.5	\$0.5	\$0.2
Women Managers	YES	YES	YES	YES	YES
	14%	14%	12%	14%	19%
Environmental Metrics					
Emissions Intensity**	2016	2017	2018	2019	2020
Net-zero Targets?	NA	NA	NA	5	4
	NO	NO	NO	YES	YES

* CEO Compensation is shown as per thousand dollars of market capitalization

** Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating

17.0 -1.8 Low Risk

Updated on
Jan 24, 2022

Momentum



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	2052/15124	14th
Software & Services INDUSTRY	103/999	11th
IT Consulting SUBINDUSTRY	27/209	13th

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure	ESG Risk Management	ESG Risk Rating	Contribution to ESG Risk Rating
	Score Category	Score Category	Score Category	
Human Capital	7.6 Medium	43.2 Average	4.5 Medium	26.3%
Data Privacy and Security	8.4 High	62.5 Strong	4.2 Medium	24.7%
Corporate Governance	9.0 High	54.4 Strong	4.1 Medium	24.1%
Business Ethics	4.8 Medium	53.8 Strong	2.3 Low	13.7%
Product Governance	2.3 Low	17.5 Weak	1.9 Negligible	11.2%
Overall	32.0 Low	50.6 Strong	17.0 Low	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	1	+1	Value	119	+4
Momentum	5	+4	Momentum	110	+27
Quality	3	0	Quality	15	0
Market	2	0	Market	34	+1
Low Volatility	1	0	Low Volatility	48	-10
Growth	4	0	Growth	56	-1

Note: Ranking out of 16 stocks

Note: Ranking out of 241 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	-5	Momentum	D
Beta	0.93	MACD	D
Volatility	↗	Alpha (Sector)	A
Trend	↓	Alpha (Index)	C
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability.
Momentum and alpha metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.
Trend/Volatility metrics measure price deviations relative to underlying moving averages.
RSI is an oscillator that provides mean-reversion estimations.
MACD is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of C\$135 based on 21.0x F2023E EPS. The multiple is backed by CGI's three-year average premium multiple to Business Services Peers. This is supported by a DCF with long-term growth of 0.5%, a discount rate of 7.88%, and a terminal cash flow multiple of 13.5x

Key Risks To Price Target

The primary risks to our price target include the following: 1) volatility in the global IT environment, 2) increasing competition from other enterprise application vendors, 3) the company's ability to introduce new or updated technology in a timely manner, 4) the company's ability to successfully integrate and operate any current or future acquisitions, and 5) the loss of key management or other employees.

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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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Neutral	116	38.5%	Neutral	115	99.1%
Underperformer	9	3.0%	Underperformer	9	100.0%
Tender	0	0.0%	Tender	0	0.0%
Restricted	7	2.3%	Restricted	7	100.0%

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