

# EQUITY RESEARCH

April 26, 2023

Earnings Update

## CGI INC.

### Solid Results Despite The Weaker Macro Environment

#### Our Conclusion

CGI's solid FQ2 results illustrate the company's resiliency in an uncertain market, with double-digit constant currency revenue growth driven by broad-based growth across all segments. EBIT margins were up 20 bps Y/Y despite the inflationary environment, illustrating CGI's ability to manage costs. While the bookings mix shifted towards SI&C in the quarter, we view this as primarily timing related with CGI's managed services pipeline up 20% sequentially. With minimal M&A completed in H1, we see upside from an M&A pipeline that includes some larger transactions. We retain our Outperformer rating and increase our price target from C\$146 to C\$150.

#### Key Points

**Solid Bookings In A Seasonally Weaker Quarter:** CGI's 1.03x book-to-bill ratio was a strong result in what is typically a seasonally weaker quarter as customers finalize 2023 IT budgets. Bookings in the quarter were skewed towards SI&C work (56% of total bookings), although we view this as primarily timing related with a number of larger, multi-year managed services contracts in the pipeline. In a more uncertain environment, CGI has focused on its existing customer base, with extensions, renewals and add-ons representing 77% of new bookings in FQ2. IP book-to-bill was strong at 1.18x, with CGI seeing demand for its wealth platform and payroll IP, among others. Backlog reached a record \$25.2B, representing 1.8x annual revenue.

**Demand Drivers Intact:** While CGI noted some lengthening sales cycles, the demand environment remains robust with customers turning to CGI for cost-saving and digitization initiatives. The company noted continued demand in financial services (constant currency revenue up 16% Y/Y in FQ2) as banks look to improve efficiency and reduce costs through managed services and IP. CGI's focus in the FI space is larger banks, and the company has not seen any slowdown in demand from the regional banking turmoil. Government (12% Y/Y) is another area of growth as public sector spending is rising for modernization and IT services. While the U.S. debt ceiling discussion introduces some uncertainty, clients have been looking to use existing budgets ahead of a potential shutdown.

**Slower Start To The M&A Year:** CGI spent just \$4MM on M&A in H1/F23 against a target of \$1B. That said, the pipeline remains robust, including a number of larger deals and ~25% that are IP-related. We expect CGI to remain disciplined on M&A and see M&A as upside to our forecast.

Stephanie Price, CFA  
+1 416-594-7047  
Stephanie.Price@cibc.com

Scott Fletcher, CPA, CA  
+1 416-956-3229  
Scott.Fletcher@cibc.com

Kirill Kozyar, CFA  
+1 416-594-7907  
Kirill.Kozyar@cibc.com

### Outperformer

GIB.A-TSX, Sector: Information Technology

Current Price (4/26/23): C\$138.18

Price Target (12-18 mos.): **↑C\$150.00**

Previous: C\$146.00

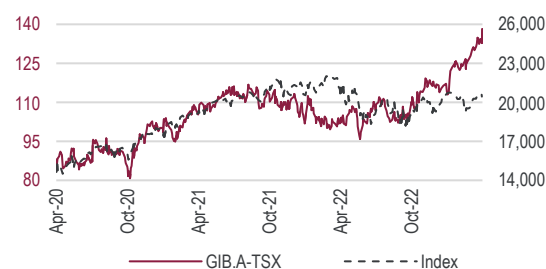
#### CIBC Estimates and Valuation

(Sep. 30)	2021	2022	2023	2024
Adj. EPS	5.44A	6.10A	7.13E	7.56E
Prior			6.89E	7.33E
Adj. EPS	Q1	Q2	Q3	Q4
2023	1.66A	1.82A	1.83E	1.82E
Prior			1.74E	1.75E
2022	1.49A	1.53A	1.54A	1.54A
Valuation	2021	2022	2023	2024
P/E	25.4x	22.6x	19.4x	18.3x

#### Stock Performance and Key Indicators

Enterprise Value:	C\$29,083M	Shares O/S:	272.7M
Market Cap.:	C\$37,682M	Float:	251.7M
52-wk Range:	C\$95.89 - C\$138.18	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 5.  
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

**CGI Inc. (GIB.A-TSX) — Outperformer**

Price (4/26/23) C\$138.18 12-18 mo. Price Target C\$150.00

Sector: Information Technology

Stephanie Price, CFA +1 416-594-7047 Stephanie.Price@cibc.com

Peer Comparison	2021	2022	2023E	2024E
P/E - Business Services	23.5x	17.0x	16.0x	16.0x
P/E - CGI	23.9x	21.4x	19.2x	19.2x
EV/EBITDA - Business Services	14.7x	13.2x	12.0x	12.0x
EV/EBITDA - CGI	18.2x	13.9x	13.9x	13.9x
Key Financial Metrics	2021	2022	2023E	2024E
Sales Growth	(0.3%)	6.1%	14.1%	2.9%
Per Share Data	2021	2022	2023E	2024E
FCFPS	7.28	6.21	7.36	8.89
Adj. EPS Dil.	5.44	6.10	7.13	7.56
Wgt Avg # of Shares	249.2	239.3	233.2	228.7
FD Number of Shares	253.0	242.9	236.9	232.2
Income Statement	2021	2022	2023E	2024E
<b>Revenue</b>	<b>12,127</b>	<b>12,867</b>	<b>14,580</b>	<b>15,102</b>
Tot Operating Exp	9,664	10,306	11,800	12,082
OpEx (% of Revenue)	79.69%	80.09%	80.93%	80.00%
<b>EBITDA</b>	<b>2,463</b>	<b>2,561</b>	<b>2,780</b>	<b>3,020</b>
EBITDA Margin	20.31%	19.91%	19.07%	20.00%
D&A	511	475	429	568
<b>EBIT</b>	<b>1,952</b>	<b>2,087</b>	<b>2,351</b>	<b>2,452</b>
Interest Expense	107	92	81	95
Other Pretax Income	7	28	40	0
<b>Pretax profit</b>	<b>1,838</b>	<b>1,967</b>	<b>2,229</b>	<b>2,357</b>
Tax Expense	469	501	573	601
<b>Adjusted Net Income</b>	<b>1,375</b>	<b>1,486</b>	<b>1,689</b>	<b>1,756</b>
Adjusted Net Margin	11.3%	11.5%	11.6%	11.6%
Cash Flow Statement	2021	2022	2023E	2024E
<b>Net CFO</b>	<b>2,116</b>	<b>1,865</b>	<b>2,028</b>	<b>2,313</b>
Capex	(122)	(156)	(148)	(120)
<b>Free Cash Flow</b>	<b>1,994</b>	<b>1,709</b>	<b>1,880</b>	<b>2,193</b>
Balance Sheet	2021	2022	2023E	2024E
Cash & ST Investment	1,699	966	1,719	3,003
Intangible Assets	507	616	626	626
Goodwill	8,140	8,481	8,850	8,850
<b>Total Assets</b>	<b>15,021</b>	<b>15,175</b>	<b>17,184</b>	<b>18,310</b>
ST Int-Bearing Debt	393	93	757	957
LT Int-Bearing Debt	3,009	3,174	2,414	2,214
<b>Total Liabilities</b>	<b>8,035</b>	<b>7,903</b>	<b>8,677</b>	<b>8,796</b>
<b>Shareholders' Equity</b>	<b>6,986</b>	<b>7,273</b>	<b>8,507</b>	<b>9,513</b>

Source: FactSet, company report, and CIBC World Markets Inc.

**Company Profile**

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

**Investment Thesis**

The company's revenues are derived from Canada (15% of revenues), U.S. (30%), Europe (40%-50%) and rest of world (~9%), split between outsourcing (~53% of revenue) and systems integration / consulting (~47% of revenue). The company generates strong profitability and cash flow, used to date on debt repayment, share buybacks, and acquisitions.

**Price Target (Base Case): C\$150.00**

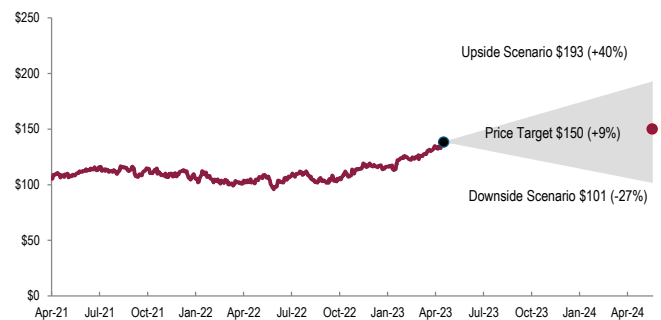
Our price target of \$150 is based on 3.6% revenue growth, 11.7% net margins and a 20x EPS on F2024E.

**Upside Scenario: C\$193.00**

Our upside scenario of \$193 is based on 10% revenue growth, 12% net margins and 23.5x EPS

**Downside Scenario: C\$101.00**

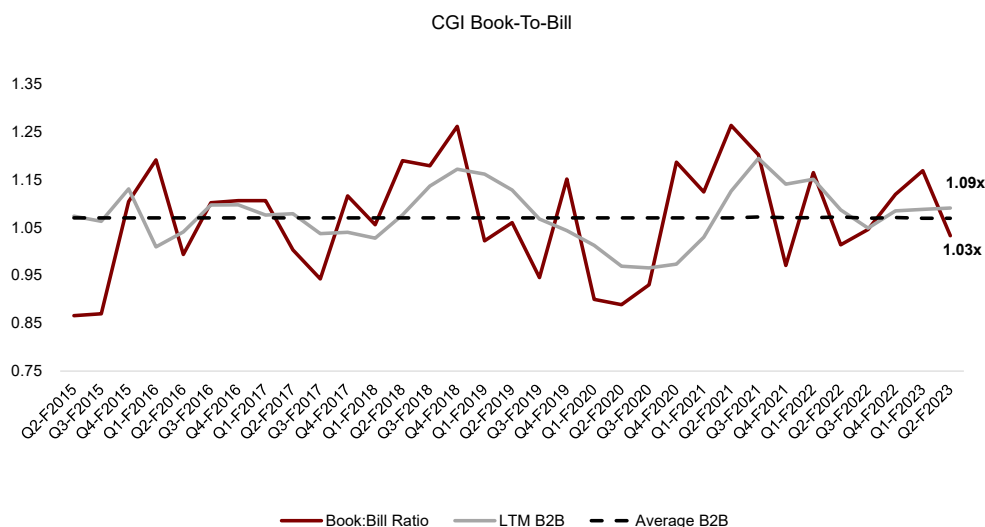
Our downside scenario of \$101 is based on 3% revenue growth, 10.50% net margin and 15x EPS



**Q1/F23 Results Beat:** CGI reported revenue of \$3.72B, (consensus of \$3.56B) and adjusted EPS of \$1.82 versus consensus of \$1.71. Constant currency revenue growth was 11.4% in the quarter. Adjusted EBIT margins of 16.2% were 10 bps above consensus and adjusted EBIT of \$601M was 5% above consensus at \$573MM and 4% above our estimate at \$576MM. Free cash flow FCF of \$362MM was above our estimate of \$318MM and below the Street of \$403MM.

**Bookings:** Contract signing of \$3.84B resulted in a book-to-bill ratio of 1.03x in FQ2 (TTM 1.09x, down from 1.17x in FQ1. TTM book-to-bill was driven by U.K./Australia (1.28x) and U.S. Commercial (1.20x). CGI's backlog ended the quarter at \$25.2B or 1.8x annual revenue.

#### Exhibit 1: CGI - Book-to-bill Ratio, Q2/F15 – Q2/F23



Source: Company reports and CIBC World Markets Inc.

**Updates To Our Model:** We have updated our model to reflect FQ2. We have increased our revenue assumptions by 4% in F2023E and 5% in F2024E given the robust demand environment. We expect EBIT margins to improve 10 bps from F2023E to F2024E as the company offsets wage inflation and increased travel expenses with economies of scale from recent bookings, a shift in mix to more managed services/IP, and improved efficiencies from global delivery centres.

#### Exhibit 2: CGI – Changes To Our Model, F2022 - F2024E

	Revenues (\$MM)	EBIT (\$MM)	Adjusted EPS (Continuing Operations)	CFO (\$MM.)
<b>2022A</b>	12,867	2,087	6.10	1,865
<b>2023E</b>				
CIBC est. – new	14,580	2,351	7.13	2,028
CIBC est. – prior	13,967	2,279	6.89	2,096
Consensus	14,079	2,290	6.89	2,215
<b>2024E</b>				
CIBC est. – new	15,102	2,452	7.56	2,313
CIBC est. – prior	14,449	2,375	7.33	2,303
Consensus	14,721	2,435	7.51	2,260

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

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

## CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	1.5%	0.5%	0.4%	0.8%	1%
Board Gender Diversity	18.8%	28.6%	31.3%	31.3%	29%
Separation of Chair & CEO	YES	YES	YES	YES	YES
Dual-class Ownership?	YES	YES	YES	YES	YES
Disclose ESG Data?	YES	YES	YES	YES	YES
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$0.4	\$0.5	\$0.5	\$0.2	\$0.6
Diversity Targets	YES	YES	YES	YES	YES
Women Managers	14%	12%	14%	19%	33%
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	5	4	3
Net-zero Targets?	NO	NO	YES	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

15.3

Updated on  
Jan 14, 2023

-1.6

Momentum

Low Risk



## Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 <sup>st</sup> = lowest risk)	PERCENTILE (1 <sup>st</sup> = lowest risk)
Global Universe	1559/15536	11th
Software & Services INDUSTRY	73/1074	8th
IT Consulting SUBINDUSTRY	24/235	11th

## 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	
Corporate Governance	9.0 High	54.0 Strong	4.1 Medium	27.0%
Human Capital	7.6 Medium	48.2 Average	4.1 Medium	26.8%
Product Governance	2.1 Low	17.5 Weak	1.7 Negligible	11.3%
Business Ethics	4.8 Medium	53.8 Strong	2.3 Low	15.1%
Data Privacy and Security	7.6 Medium	75.0 Strong	3.0 Low	19.8%
Overall	31.0 Low	54.3 Strong	15.4 Low	100%

## CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	6	-1	Value	134	-1
Momentum	3	+3	Momentum	21	+15
Quality	2	0	Quality	15	-1
Market	3	-1	Market	35	0
Low Volatility	1	0	Low Volatility	14	-4
Growth	5	-3	Growth	61	-8

Note: Ranking out of 12 stocks

Note: Ranking out of 233 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	10	Momentum	A
Beta	0.71	MACD	A
Volatility	↔	Alpha (Sector)	D
Trend	↑	Alpha (Index)	A
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\$150 based on 20.0x F2024E EPS. The multiple is supported 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; 5) the loss of key management or other employees.

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Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
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.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
Restricted	R	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.

Sector Ratings	Abbreviation	Description
Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
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

For price and performance charts, please visit CIBC on the web at <https://researchcentral.cibccm.com/#/disclaimer-central-new> or write to CIBC World Markets Inc., 161 Bay Street, 4th Floor, Toronto, ON M5H 2S8, Attn: Research Disclosure Chart Request.

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- 12 The equity securities of these companies are subordinate voting shares: CGI Inc.

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Outperformer	147	50%	Outperformer	147	100%
Neutral	130	44%	Neutral	129	99%
Underperformer	7	2%	Underperformer	6	86%
Tender	0	0%	Tender	0	0%
Restricted	11	4%	Restricted	11	100%

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