

EQUITY RESEARCH

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Flash Research

CGI INC.

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Repurchasing \$100 Million In Class A Shares From CDPQ

Conclusion: CGI announced on Monday that it will be repurchasing \$100 million in Class A shares from Caisse de depot et placement du Quebec (CDPQ) at a 3% discount to the last close. The announcement follows the repurchase of \$400 million in Class A shares from CDPQ in early 2022. Post the repurchase, CDPQ will remain a significant (9.5%) shareholder. We expect CGI will continue to allocate cash flow between share buybacks and M&A, and we forecast ~\$1.5 billion in free cash flow in F2022E. In the current valuation environment, we expect the weighting to tilt more towards M&A.

Key Takeaways

Repurchasing \$100 Million In Class A Shares: CGI announced on August 1 that it will be buying back 939K Class A shares from CDPQ at a price of \$106.51/share for a total purchase price of roughly \$100 million. The price per share represents a 3% discount to CGI's last close. The share repurchase will be made under CGI's NCIB, which allows CGI to repurchase up to 18.8 million Class A shares by February 2023.

CDPQ Still A Significant Shareholder: Post the repurchase CDPQ will continue to hold approximately 22.5 million shares, representing roughly 9.5% of CGI's total outstanding shares. CDPQ has been reducing its stake in CGI over the past several years with the company spending \$400 million to repurchase 3.97 million shares in February 2022, \$600 million to repurchase 6.01 million shares in February 2021, and \$500 million to repurchase 5.16 million Class A shares in June 2019.

Expect Free Cash Flow To Be Spent On Buybacks And M&A: We are forecasting \$1.5 billion in free cash flow in F2022E and expect it to be split between share repurchases and metro market acquisitions. Over the past several years the weighting had favoured share buybacks, with the company allocating \$1.5 billion to share buybacks and \$99 million to M&A in F2021. However, the weighting appears to be shifting towards more M&A, with CGI spending \$572 million on M&A YTD in F2022 and \$780 million on share repurchases. In an attractive M&A valuation environment, we expect CGI to continue to execute on metro market acquisitions and see a transformational deal as upside.

Outperformer

GIB.A-TSX, Sector: Information Technology

Current Price (8/1/22): C\$109.80

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

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

Price Target Calculation

We derive our price target of C\$135 based on 21.0x F2023E EPS. The multiple is supported by CGI's three-year average premium multiple to Business Services Peers. This is supported by a discounted cash flow (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.
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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.
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Overweight	O	Sector is expected to outperform the broader market averages.
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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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