

EQUITY RESEARCH

November 8, 2023

Earnings Update

CGI INC.

Adjusting To A Weaker Consulting Environment

Our Conclusion

CGI continues to record solid bookings, with a book to bill (1.14x) that remains well above its historical average (1.08x). However, we expect CGI could see a few quarters of slower revenue growth, as managed services bookings take time to translate into revenue and demand for consulting services slows in the current macro environment. We have reduced our F2024 revenue growth estimate to 2% (from 4%), and expect revenue growth to improve gradually over F2024 as contracts come on line. In the current environment, CGI is prioritizing cost optimization and our F2024 EBIT margins are up 20 bps Y/Y as the company focuses on real estate optimization and automation/global delivery. CGI remains well run and we see potential upside from AI (bookings of ~\$175MM in FQ4) and M&A (\$3.1B in available liquidity). We retain our Outperformer rating, with our price target increasing to \$155 (prior \$150) as we roll over our valuation year to F2025.

Key Points

Managed Services & Government Drive Bookings: CGI continues to see strong bookings, with a book to bill of 1.14x in FQ4 and TTM. The bookings have become more weighted towards managed services (60%) as customers prioritize cost savings and efficiencies, with global delivery models seeing increased customer interest. Deal cycles remain elongated in the current environment, and we expect that bookings strength could pause in FQ1 with the holidays leading to slower decision-making on larger contracts. The public sector remains a bright spot in the demand environment, with government bookings up more than 25% Y/Y in FQ4. The public sector is somewhat countercyclical and continues to spend on a range of policy initiatives including cloud, data analytics, defense, cybersecurity and AI.

Clients In Early Stages Of AI Adoption: Clients are focused on consulting engagements as they look at targeted use cases for AI technology. CGI noted over 600 active projects with an AI component and AI bookings of over \$175 million in FQ4. We see upside from AI as CGI works with clients to develop use cases, with several U.S. regional banks upgrading to AI-enabled Collections IP in the quarter. CGI continues to expand its AI partnerships, announcing a Google partnership last week that will see CGI leverage the Google Cloud Platform to enhance the capabilities of its AI-driven decision engine platform (PulseAI).

M&A Valuations Becoming More Reasonable: In the current macro environment, valuations appear to becoming more reasonable. CGI curbed its M&A activity in F2023 (spending only \$13 million), but restarted M&A post year-end, spending \$50 million on the acquisition of Momentum Consulting, which brings 175 consultants and strengthens CGI's operations in Miami. In addition to metro-market acquisitions, we expect that CGI will opportunistically look for acquisitions that include some IP (especially AI related) that CGI can cross-sell into its wider customer base.

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Outperformer

GIB.A-TSX, Sector: Information Technology

Current Price (11/8/23): C\$136.66

Price Target (12-18 mos.): ↑ C\$155.00

Previous: C\$150.00

CIBC Estimates and Valuation

(Sep. 30)	2022	2023	2024	2025
Adj. EPS	6.10A	7.07A	7.78E	8.60E
Prior		7.02E	7.44E	

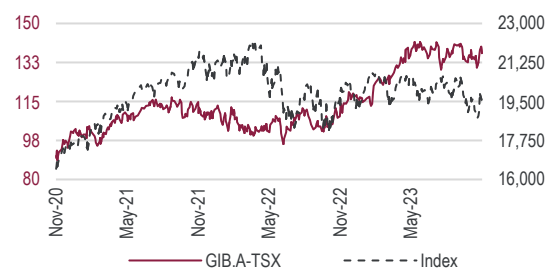
Adj. EPS	Q1	Q2	Q3	Q4
2024	1.84E	1.99E	1.98E	1.97E
Prior	1.78E	1.91E	1.87E	1.88E
2023	1.66A	1.82A	1.80A	1.79A
Prior				1.74E

Valuation	2022	2023	2024	2025
P/E	22.4x	19.3x	17.6x	15.9x

Stock Performance and Key Indicators

Enterprise Value	C\$30,212M	Shares O/S:	208.6M
Market Cap.:	C\$28,503M	Float:	204.9M
52-wk Range:	C\$108.79 - C\$141.62	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 (11/8/23) C\$136.66 12-18 mo. Price Target C\$155.00

Sector: Information Technology

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Peer Comparison	2022	2023	2024E	2025E
P/E - Business Services	18.3x	17.1x	15.8x	-
P/E - CGI	21.9x	19.0x	17.3x	-
EV/EBITDA - Business Services	12.4x	11.8x	11.2x	-
EV/EBITDA - CGI	13.3x	12.1x	11.7x	-
Key Financial Metrics	2022	2023	2024E	2025E
Sales Growth	6.1%	11.1%	2.3%	3.3%
Per Share Data	2022	2023	2024E	2025E
FCFPS	6.21	7.91	8.83	9.87
Adj. EPS Dil.	6.10	7.07	7.78	8.60
Wgt Avg # of Shares	239.3	234.0	216.5	205.2
FD Number of Shares	242.9	237.7	220.0	208.6
Income Statement	2022	2023	2024E	2025E
Revenue	12,867	14,296	14,625	15,106
Tot Operating Exp	10,306	11,464	11,700	12,084
OpEx (% of Revenue)	80.09%	80.19%	80.00%	80.00%
EBITDA	2,561	2,832	2,925	3,021
EBITDA Margin	19.91%	19.81%	20.00%	20.00%
D&A	475	520	534	522
EBIT	2,087	2,313	2,391	2,499
Interest Expense	92	52	93	93
Other Pretax Income	28	62	0	0
Pretax profit	1,967	2,198	2,298	2,406
Tax Expense	501	567	586	614
Adjusted Net Income	1,486	1,680	1,712	1,792
Adjusted Net Margin	11.5%	11.8%	11.7%	11.9%
Cash Flow Statement	2022	2023	2024E	2025E
Net CFO	1,865	2,112	2,191	2,306
Capex	(156)	(160)	(120)	(120)
Free Cash Flow	1,709	1,952	2,071	2,186
Balance Sheet	2022	2023	2024E	2025E
Cash & ST Investment	966	1,568	2,729	4,005
Intangible Assets	616	623	623	623
Goodwill	8,481	8,724	8,724	8,724
Total Assets	15,175	15,799	17,574	18,690
ST Int-Bearing Debt	93	1,159	1,359	1,559
LT Int-Bearing Debt	3,174	1,941	1,741	1,541
Total Liabilities	7,903	7,489	8,302	8,375
Shareholders' Equity	7,273	8,310	9,273	10,315

Source: FactSet, company reports, 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), the U.S. (~30%), Europe (40%-50%), and rest of world (~10%), and split between outsourcing (~54% of revenue) and systems integration/consulting (~46% of revenue). The company generates strong profitability and cash flow, to date used on debt repayment, share buybacks, and acquisitions.

Price Target (Base Case): C\$155.00

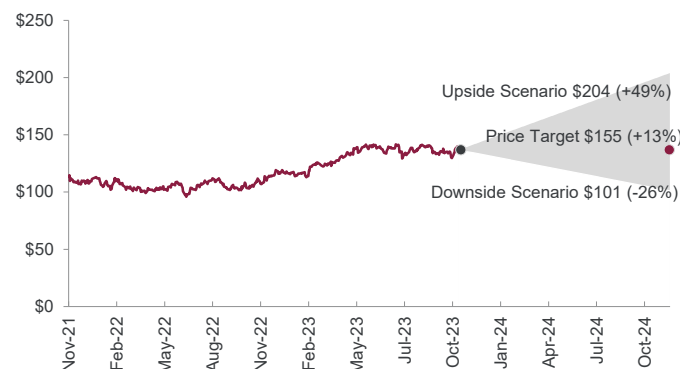
Our price target of \$155 is based on 3% revenue growth, 12% net margins and 18x EPS.

Upside Scenario: C\$204.00

Our upside scenario of \$204 is based on 10% revenue growth, 12.5% net margins and 23.5x EPS.

Downside Scenario: C\$101.00

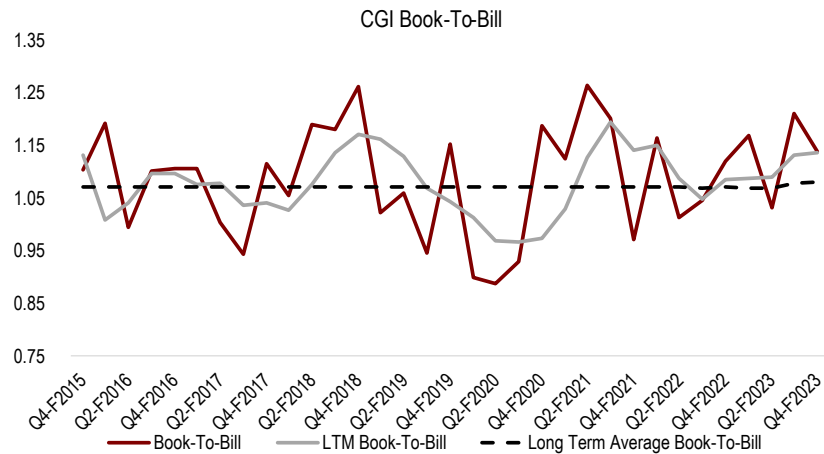
Our downside scenario of \$101 is based on 3% revenue growth, 10.50% net margin and 15x EPS.

Scenario Analysis:

Q4/F23 Results In Line: CGI reported revenue of \$3.51B, (consensus of \$3.54B) and adjusted EPS of \$1.79 (\$1.76 including cost-optimization program costs) versus consensus of \$1.77. Constant currency revenue growth was 2.2% in the quarter, down sequentially from 6.3%. The adjusted EBIT margin of 16.3% was in line with consensus, and adjusted EBIT of \$573M was 1% below consensus of \$580MM and in line with our estimate of \$575MM. FCF of \$522MM was above our estimate of \$469MM.

Bookings: Contract signings of \$4.00B resulted in a book-to-bill ratio of 1.14x in FQ4 (TTM 1.14x), down from 1.21x in FQ3 (as shown in the line chart in Exhibit 1). TTM book-to-bill was driven by U.S. Federal (TTM 1.48x) and U.K. and Canada (TTM 1.13x). CGI's backlog ended the quarter at \$26.1B or 1.8x annual revenue.

Exhibit 1: CGI – Book-to-bill Ratio, Q4/F15 - Q4/F23



Source: Company reports and CIBC World Markets Inc.

Updates To Our Model: We have updated our model to reflect FQ4 results and add F2025E. We have reduced our F2024 revenue growth expectation to 2% (prior 4%) and have increased our F2024E EBIT margin by 20 bps to reflect ongoing cost optimization. We have rolled our model over to F2025 and expect 3% revenue growth and 10 bps of margin expansion, as noted in the table in Exhibit 2.

Exhibit 2: CGI – Changes To Our Model, F2023 - F2025E

	Revenues (\$MM)	EBIT (\$MM)	Adjusted EPS (Continuing Operations) (\$)	CFO (\$MM.)
2023A	14,296	2,313	7.07	2,112
2024E				
CIBC est. – new	14,625	2,391	7.78	2,191
CIBC est. – prior	14,949	2,420	7.44	2,279
Consensus	14,998	2,471	7.68	2,249
2025E				
CIBC est. – new	15,106	2,499	8.60	2,306
Consensus	15,820	2,652	8.49	2,403

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

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

CIBC ESG Metrics

Governance Metrics	2018	2019	2020	2021	2022
Insider Ownership	11%	12%	12%	11%	12%
Board Gender Diversity	28.6%	31.3%	31.3%	29%	31%
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	2018	2019	2020	2021	2022
CEO Comp./Mkt Cap*	\$0.5	\$0.5	\$0.2	\$0.6	\$0.5
Diversity Targets	YES	YES	YES	YES	YES
Women Managers	12%	14%	19%	33%	28%
Environmental Metrics	2018	2019	2020	2021	2022
Emissions Intensity**	NA	5	4	3	3
Net-zero Targets?	NO	YES	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

15.4 +0.1 Low Risk

Updated on
Nov 2, 2023

Momentum



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1 st = lowest risk)	(1 st = 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 Score Category	ESG Risk Management Score Category	ESG Risk Rating Score Category	Contribution to ESG Risk Rating
Corporate Governance	9.0 High	54.6 Strong	4.1 Medium	26.5%
Human Capital	7.6 Medium	59.2 Strong	3.3 Low	21.5%
Product Governance	2.2 Low	31.0 Average	1.5 Negligible	9.8%
Resource Use	1.9 Low	21.4 Weak	1.6 Negligible	10.2%
Business Ethics	4.8 Medium	73.8 Strong	1.4 Negligible	9.2%
Data Privacy and Security	7.4 Medium	75.0 Strong	2.9 Low	19.1%
Carbon -Own Operations	1.9 Low	70.5 Strong	0.6 Negligible	3.6%
Overall	34.7 Low	59.8 Strong	15.4 Low	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	5	0	Value	136	+1
Momentum	3	0	Momentum	14	+19
Quality	2	0	Quality	8	0
Market	3	0	Market	34	0
Low Volatility	1	0	Low Volatility	4	+6
Growth	8	0	Growth	119	+5

Note: Ranking out of 11 stocks

Note: Ranking out of 227 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	0.98	MACD	D
Volatility	↗	Alpha (Sector)	D
Trend	↓	Alpha (Index)	D
RSI	Oversold		

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\$155 based on 18.0x F2025E 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 8%, 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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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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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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Neutral	131	43%	Neutral	130	99%
Underperformer	6	2%	Underperformer	6	100%
Tender	0	0%	Tender	0	0%
Restricted	6	2%	Restricted	6	100%

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