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HOW CGI BECAME A WORLD LEADER

By Gordon Pape, Editor and Publisher

For companies that don't pump oil or supply natural gas, 2022 was probably a tough year. Apart from energy, most TSX sub-indexes lost ground.

But some companies are thriving, despite the headwinds of inflation, rising interest rates, fractured supply chains, and the looming possibility of a recession.

One of them is a low-profile Quebec-based firm that many investors aren't familiar with: CGI Group (TSX: GIB.A, NYSE: GIB). If you haven't looked at it, now is the time. It's a classic example of one man's dream growing from modest beginnings to a global giant.

CGI (the initials stand for "Conseillers en gestion et informatique") was started by Serge Godin in Quebec City in 1976 (the head office is now in Montreal). He was only 27 years old at the time and CGI had only two employees.

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Today, it's one of the world's largest consulting firms. Mr. Godin remains the controlling shareholder of the company, is an Officer of the Order of Canada, and was inducted into the Canadian Business Hall of Fame in 2008.

The company's approach from the outset was to help clients achieve success, offer fulfilling career opportunities for employees, and provide long-term growth for shareholders. In short, win-win. It wasn't easy. IT was in its infancy at the time and demand for CGI's services evolved slowly. By 1986, a decade after it was founded, the company's annual revenue was only $25 million.

At that point, CGI embarked on a business strategy that eventually made it an international giant. The company acquired rival BST. To finance the deal, CGI went public, issuing 800,000 Class A shares at a price of $6.50.

As globalization took hold, the company extended its operations beyond Canada. By 1996, annual revenue had grown to $122 million.

But CGI was just getting going. Over the next few years, the company made a series of key acquisitions that transformed it into a global powerhouse. They included:

A 1998 merger with Bell Sygma that led to the signing of the largest Canadian outsourcing contract of that time, nearly doubling the size of the company.

A 2001 merger with IMRGlobal to add Indian operations to the portfolio, providing clients with expanded global delivery options.

A 2004 merger with American Management System (AMS). This transaction doubled the size of CGI in the United States and tripled the size of its presence in Europe. By 2006, annual revenue was up to $3.5 billion.

In 2012, CGI made its largest acquisition to date, merging with the Anglo-Dutch business and technology services company Logica. The acquisition increased the size of CGI's staff from 31,000 to 68,000 and offered greater presence, service capabilities and expertise for clients across the Americas, Europe, and Asia. This made CGI the world's fifth-largest independent IT and business consulting services firm.

By the end of fiscal 2016, CGI's annual revenue had reached $10.7 billion.

The company continues to grow, with at least one major acquisition every year. Revenue in the 2022 fiscal year was $12.87 billion. The company now employs 90,000 people worldwide.

And it's still growing. First quarter results for the 2023 fiscal year were released on Feb. 1 and they beat estimates. Revenue was $3.45 billion, up 12.3% on a constant currency basis over the year before. Net earnings were $382.4 million ($1.60 per diluted share). On a per share basis, that was up 7.4% over the same period of fiscal 2022.

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The company reported bookings of $4.04 billion, for a book-to-bill ratio of 117%. The backlog is just over $25 billion, or 1.9 times annual revenue.

CEO George D. Schindler commented: "Our ongoing investments continued to deliver value for all of our stakeholders, notably in our strong positioning as a trusted partner for clients' digitization priorities, which contributed to generating over $4 billion in bookings during the quarter, of which one-third were new business."

The only significant negative about this stock is that it does not pay a dividend, despite its healthy bottom line. The directors clearly prefer to use cash flow for more acquisitions, rather than distribute it to shareholders. However, CGI does reinvest in its own shares. During the latest quarter, the company spent $10.3 million to repurchase and cancel just over 100,000 shares at an average cost of $102.81. CGI renewed its normal course issuer bid for up to 18.8 million Class A shares.

We originally recommended buying CGI in 2012 at C$24.42, US$24.66. The stock closed Friday at C$122.05, US$91.09.

Action now: Buy.

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HIGH TECH STILL A DRAG

By Gordon Pape

High tech has been a drag on the US market for the past year, so it came as something of a shock when the shares of Meta Platforms Inc. (NDQ: META), better known as Facebook, jumped 23% on Thursday on better-than-expected results. The move helped to boost Nasdaq by 3.25% and prompted speculation that perhaps the long tech drought was over.

That enthusiasm lasted less than 24 hours. Investors took a closer look at Meta's numbers and realized that while they may have beaten analysts' projections, they were still grim. Revenue for fiscal 2022 was down by 1% - not a lot, but these are supposed to be growth companies. Net income was even worse. You'd have thought from the rise in the share price the company had produced a big gain. Nope. Profit was off 41% on a year-over-year basis.

Then came the other shoes. Apple, Amazon, and Alphabet all released their financial results on Thursday, and all fell short of expectations. Investors turned squeamish again and Nasdaq closed Friday with a loss of 1.59% on the day.

So, what happened with the three As of what were once known as FAANG stocks? Here's a quick look.

Apple Inc. NDQ: AAPL

HOLD

Originally recommended on April 13/20 (#22015) at $66.62 (split adjusted). Closed Friday at $154.50. (All figures in US dollars.)

Background: Apple's iPhones and iPads dominate the market, making it one of the most valuable companies in the world, with a market cap of $2.45 trillion.

Performance: The shares have seen some huge swings in the past year, trading as low as $124.25 about a month ago. They rallied in January but are well below the 52-week high of $179.61.

Recent developments: Apple's first quarter 2023 results showed a decline of 5% in revenue, to $117.5 billion. Net income was $35.6 billion ($1.88 per diluted share), down from $41.2 billion ($2.10 per share) in the same period the year before. CEO Tim Cook called it "a challenging environment". He tried to be upbeat by noting that Apple now has "more than two billion active devices as part of our growing installed base".

Dividend: The stock pays a quarterly dividend of $0.23 per share ($0.92 a year), to yield 0.6%.

Outlook: Challenging times indeed – and they will continue to be so for a while. But investors can be encouraged by the fact the stock is gradually moving higher. The p/e ratio is 25.29.

Action now: Hold.

Amazon.com NDQ: AMZN

HOLD

Originally recommended on Jan. 16/17 (#21703) at $40.86 (split-adjusted). Closed Friday at $103.39. (All figures in US dollars.)

Background: Amazon is the largest on-line retailer in the world, but the company is also involved in many other businesses including cloud storage, video streaming, film production, voice-activated software (Alexa), and more.

Performance: The shares hit a 52-week low in late December. They've regained some ground but we're a long way from the split-adjusted highs of around $166 reached in December 2021. That said, we still have a gain of 153% from our original recommendation.

Recent developments: Amazon stock fell $9.52 on Friday after the company reported disappointing fourth quarter and year-end results. Revenue for the quarter came in at $149.2 billion, up 12% on a constant currency basis, which beat analysts' estimates. But earnings were a different story. Fourth quarter profit was only $300

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Alphabet Inc. NDQ: GOOGL

HOLD

Originally recommended on June 16/14 (#21421) at $30.37 (split-adjusted). Closed Friday at $104.78. (All figures in US dollars.)

Background: Alphabet is the umbrella company that owns Google (which includes Android, Chrome, and YouTube), Nest (home automation), Calico (anti-aging research), Fiber (high-speed Internet), Google Ventures (new company investments), Sidewalk Labs (city infrastructure), and Waymo (driverless cars). Other services include Google Maps, Google Play, and cloud computing.

Share splits: The stock split 2 for 1 shortly after we recommended it. If you owned 100 shares at that time, that gave you a total of 100 each of GOOG (non-voting C shares) and 100 of GOOGL (voting A shares). We track only GOOGL, as it represents the original shares acquired, but GOOG trades at about the same price.

The company implemented another split on July 15, 2022. Investors received a special dividend of 19 shares for every share owned as of the July 1 record date. All classes of shares benefited. So, readers who bought at the time of my original recommendation now own 2,000 shares each of GOOGL and GOOG. The market price adjusted accordingly.

Performance: The stock has rallied recently and is trading at its highest level since early September, although it was down almost $3 on Friday.

Recent developments: The company missed estimates on both revenue and earnings in the fourth quarter. Revenue was $76 billion, up only 1% from the year before (7% in constant currency). For the full year, revenue was $282.8 billion, a 10% increase (14% in constant currency) from 2021.

Net income for the full year just under $60 billion ($4.56 per diluted share), down from $76 billion ($5.61 per share) in 2021.

The company said it expects severance charges of $1.9- $2.3 billion due to the lay-off of 12,000 employees. Most of these costs will be incurred in the first quarter of this year.

Dividend: The stock does not pay a dividend.

Outlook: Lay-offs, slow revenue growth, and a declining profit don't augur well for the coming year.

Action now: Hold.

To sum up, the tech sector still looks vulnerable. However, the recent increases in the prices of some of the major players is encouraging. I would not be a buyer at this point but if you currently have positions, I suggest you hold.

A VACCINE FOR EVERYTHING?

By Glenn Rogers, Contributing Editor

Just when we thought Covid was behind us, the World Health Organization announced that not only is it still killing thousands of people every day but probably will continue to do so for years to come. As with the flu, it appears people will be asked to roll up their sleeves for a booster every autumn, one that will have been updated to combat the latest variants.

In many countries, including Canada, a large percentage of the population has either had Covid or been vaccinated against it. That said, three of my friends who have been fully vaccinated and boosted have recently had a very rough version of the disease. Clearly, being vaccinated or having had it are not a guarantee that you won't get it again.

While this is bad news for most of us, it is good news for the vaccine makers. It will provide ongoing cash flow for years to come. Vaccines have tended to be a low margin business over time but one company on its own and in partnership with other major manufacturers is moving beyond Covid into other long-term cancer-based diseases, using the technology and techniques developed during the worst of the COVID outbreak.

That company is Moderna Inc. (NDQ: MRNA), which created one of the most successful vaccines developed during this period. The company continues to work on new variants as the virus continues to evolve but that is going to only be a small part of its business over the long term. The company has an extensive pipeline of products being developed by its own platforms and partnering with several large pharma companies.

Recently, the company announced a partnership with Merck that, in combination with one of Merck's key drugs Keytruda, has shown very promising results in treating melanoma. I live in Southern California, and I can tell you that trying to get an appointment with the dermatologist is almost impossible. Melanoma is one of the fastest spreading problems as people age and move to the sunbelt. An effective new treatment would be a huge money maker for the companies involved.

This is a significant development, but Moderna has many of these types of partnerships in its pipeline. People knowledgeable in biotech expect Moderna to be one of the most significant medical technology providers over the next couple of decades.

MRNA vaccines are a new approach to immunology. Both Moderna and Pfizer use this technology in their Covid vaccines. While they are not perfect and are still being improved, they are

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considered to be the best of their kind. Now Moderna, and others, are exploring ways to use mRNA to combat everything from allergies to strokes to cancer.

Moderna has 48 programs in development across 45 development candidates, of which 35 are in current active clinical trials. Of course, not all of these will bear fruit, but this is an indication of how important this technology is to developing new cures and pharmaceutical treatments.

Despite its strong prospects, the stock tends to be highly volatile, like most biotech companies. The latest quarterly earnings, issued last November, showed $13.6 billion in product sales through the first three quarters of the year (figures in US dollars). The company is expected to end 2022 with between $18 and $19 billion in sales. Moderna will release its fourth quarter and year-end earnings on Feb. 22.

Revenues declined year-over-year because of the reduction in Covid-19 vaccine sales, which were supercharged during the height of the outbreak. Despite that, the company still had cash to repurchase common stock, reducing the float by about 24 million shares at a cost of $2.9 billion. The company produced net income over that period of nearly $7 billion.

I think this is a long-term investment and the price is reasonable: the p/e ratio is a low 6.48. Take an initial position now and add to it on any price pullbacks. My expectation is that over the next several years we'll see a dramatic increase in the value of this company. Of course, it's always possible that a larger player could acquire it, but my guess is that it will stay independent for several years.

Action now: Buy with a target of $225. The shares closed Friday at $173.25.

Contributing editor Glenn Rogers has worked with private equity and venture groups on a variety of projects leading to successful exits for investors.

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million ($0.03 per diluted share), compared with $14.3 billion ($1.39 per share), in the fourth quarter of 2021.

For the full 2022 fiscal year, Amazon lost $2.7 billion ($0.27 per diluted share), compared with net income of $33.4 billion ($3.24 per share), in 2021. The loss includes a pre-tax valuation loss of $12.7 billion from the common stock investment in Rivian Automotive, Inc., compared to a pre-tax valuation gain of $11.8 billion from the investment in 2021.

Dividend: The stock does not pay a dividend.

Outlook: The company provided first quarter guidance. It expects revenue of $121-$126 billion (analysts estimate $125 billion) and operating income of zero to $4 billion, which compares to the consensus of just over $4 billion.

Action now: Hold. It's good to see the price pushing higher but the p/e ratio of 92.31 discourages new purchases.

GLENN ROGERS'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Bank of America NYSE: BAC

HOLD

Originally recommended on Sept. 20/10 (#20133) at $13.40. Closed Friday at $36.43. (All figures in US dollars.)

Background: Bank of America is one of the world's leading financial institutions, serving individual consumers, small and middle-market businesses, and large corporations. It provides a full range of banking, investing, asset management, and other financial and risk management products and services.

The company serves approximately 67 million consumer and small business clients with approximately 3,900 retail financial centers, approximately 16,000 ATMs, and digital banking with approximately 56 million active users. The company serves clients through operations across the United States, its territories, and in approximately 35 countries.

Performance: We recommended this bank way back in 2010 when it was trading at $13.40, and we updated it last January when it was trading at $45.87. It has since pulled back, although we are still up 172% from the original recommendation.

Recent developments: The entire story on this stock is wrapped around the Fed tightening. Normally when rates go up that's good for banks. It increases the spread on their loan portfolio and attracts deposits since the banks can pay higher rates on them.

However, in this cycle the Fed has tightened very hard very fast, since it was late in figuring out that inflation was getting out of control. At the same time, it began to unwind its massive balance sheet at the rate of about $100 billion a month. Banks have huge bond portfolios, even larger than normal given that we had a prolonged period of low inflation and low interest rates. Now these bond portfolios are marked to market at a discount. So, what should be a great period for banks has been something quite different. Combine this with a potential recession, which could spike loan delinquencies, and the bank stocks have collectively become a sad group.

In January, the bank reported fourth quarter net income of $57.1 billion ($0.85 per diluted share), slightly ahead of the $57 billion ($0.82 per share) profit earned in the year-before period. Revenue, net of interest expense, increased 11% to $24.5 billion. However, the bank increased its provision for credit losses by $1.6 billion, and indicated that it expects a recession in 2023. That said, of all US banks I like Bank of America the best. It is trading below the market p/e and pays a very safe dividend of $0.22

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Crown Castle International NYSE: CCI

Originally recommended on Oct. 26/15 (#21538) at $85.32. Closed Friday at $145.97. (All figures in US dollars.)

Background: Crown Castle owns, operates, and leases more than 40,000 cell towers and approximately 85,000 route miles of fiber supporting small cells and fiber solutions across every major US market and in Puerto Rico. It is based in Houston.

Performance: We recommended this cell tower REIT in October 2015 when it was trading at $85.32 and updated it last year when it was trading at $192.68. It closed Friday at $145.97 for a very nice gain from the original recommendation but, like the rest of the market, it did not perform well last year.

Recent developments: The company recently reported fourth quarter and year-end 2022 results, and they were strong. Revenue came in at $6.3 billion for the year, up 10% from $5.7 billion in 2021. Adjusted funds from operations (the key measure of a REIT's profitability) were $3.2 billion ($7.38 per share) compared to just over $3 billion ($6.95 per share) in the prior year.

Distribution: The REIT increased its payout by 6.5%, effective with the December distribution. It's now $1.565 per quarter ($6.26 a year) to yield 4.3% at the current price.

Discussion: This stock along with its main competitors, American Tower (NYSE: AMT) and SBA Corp. (NDQ: SBAC), sold off along with the rest of the market last year, providing a nice opportunity to either buy or add to your position.

These stocks provide the backbone for cell service not only in America but globally as well. They've generally been expensive on a p/e basis but have always shown steady growth for the obvious reason that we seem to have an insatiable demand for more data through our mobile devices.

Generally, CCI has underperformed American Tower and SBA despite being less expensive and paying a higher dividend. I think this is because the company is focused on North America whereas the other two have more of a global footprint.

Additionally, small cell deployment has been hampered by slow approvals from the municipalities, but over time will be a great investment for the company since it allows better service in dense urban areas.

Right now, on a p/e basis Crown Castle is inexpensive relative to its historical values, although a ratio of 37.82 is not cheap. It is also trading well below its 52-week high of $199.97. I think this is a good entry point for long term holders.

Action now: Buy with a target of $200.

Generac Holdings NYSE: GNRC

HOLD

Originally recommended on July 26/21 (#22128) at $449.64. Closed Friday at $122.44. (All figures in US dollars.)

Background: The company started out providing power generation equipment for construction applications and residential power back-up. As time went by, it got into providing heavy industrial systems. More recently it has begun to add a large solar component to its offerings by way of backup batteries.

Performance: I recommended the stock in 2021 when it was trading at $449.64 and updated at last March when it was at $317.49. Since then, it has had a nasty sell-off, closing Friday at $122.44. This company manufactures backup generators and battery backup equipment to protect critical infrastructure during power blackouts caused by inclement weather and other problems. So, they have the equipment to protect your house, but the stock has done nothing to protect your portfolio.

Recent developments: Generac will report full year 2022 results on Feb. 15. For the third quarter, the company reported revenue of $1.09 billion, up 15% from the same period in 2021. However, adjusted net income was $112 million ($1.75 per share), as compared to $151 million ($2.35 per share), in the third quarter of 2021.

"Despite net sales growing at a strong mid-teens rate, third quarter results fell short of our prior expectations," said CEO Aaron Jagdfeld. "Commercial and Industrial product sales continued to experience strong growth during the quarter, but Residential product sales began to slow as installation capacity constraints in our distribution network led to higher field inventory levels for home standby generators. This has resulted in lower orders than expected from our channel partners even as we've seen sequential improvements in several key metrics for the home standby category. Additionally in the quarter, shipments of clean energy products were negatively impacted by a large clean energy product customer which ceased operations during the quarter."

Mr. Jagdfeld said these headwinds are expected to persist through the first half of 2023, but insisted the secular growth themes and mega-trends supporting the company's strategy are still intact.

"As reliance on electricity grows and supply and demand imbalances increase further, Generac will continue to invest in technologies and solutions to lead the evolution to the next generation grid," he said.

Discussion: The company has made several acquisitions over the last couple of years to position it as part of the evolving smart grid and it provides backup for more than half the cell tower companies. So, in theory this company

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Raytheon Technologies Corp. NYSE: RTX

HOLD

Originally recommended on June 6/22 (#22222) at $96.33. Closed Friday at $96.48. (All figures in US dollars.)

Background: The company was created by a merger between Raytheon and United Technologies back in 2020. These were two giant companies on their own and it has taken time to fully integrate these businesses. That work is mostly done now, and the company can now focus on growing it's varied divisions rather than figuring out how to integrate them.

Performance: We recommended this stock last June when it was trading at $96.33 and it has basically traded sideways since then, closing Friday at $96.48. I know you're thinking that with the war in Ukraine why have the defense stocks in general not done better? Actually, they have outperformed the market and held up very well during the sell-off last year. But I think part of the hesitancy to embrace this sector is fear over government spending constraints, which personally I would bet against every time.

Recent developments. Financially, the company is doing fine. On Jan. 24, Raytheon released fourth quarter and year-end results that showed decent growth. Sales for 2022 were just over $67 billion, up 4% from the year before. Net income was $5.2 billion ($3.51 a share) compared to $3.9 billion ($2.58 per share) the year before. On a per share basis, the gain was 36%. Revenue was slightly below estimates but the company is projecting sales of $72-$73 billion this year with earnings per share in the range of $4.90-$5.05. Based on these numbers, the company can easily afford to continue to maintain and raise the dividend.

Dividend and buybacks: The stock pays a quarterly dividend of $0.55 a share ($2.20 a year), to yield 2.3% at the current price. I expect a small dividend hike in the first half of this year. The company is actively repurchasing stock and spent $2.8 billion to do so in 2022. For 2023, Raytheon plans to spend $3 billion on buybacks.

Discussion: About 48% of Raytheon's business is tied to the government. The rest comes from commercial applications like aerospace and aviation through their Pratt and Whitney division and their Collins aerospace division. This business is solid and demand for commercial aircraft should continue to grow for years to come. The war in the Ukraine provides the company with considerable upside since it's a key supplier of defense weapons like Stingers, Javelins, and the Patriot air defense systems. These products will not only be used in Ukraine. Countries around the world, particularly in Europe, are looking to invest more heavily in defense than they have previously.

Action now: Given the uncertainty of market conditions, I would wait to add to my position if we get a pullback in the stock price. I think this is a great long-term hold.

Palo Alto Networks Inc. NYSE: PANW

HOLD

Originally recommended on Jan. 26/15 (#21504) at $126.81. Closed Friday at $159.72. (All figures in US dollars.)

Background: The company is one of the leading cyber security businesses in the US and serves thousands of clients worldwide.

Performance: We recommended PANW at $126.81 back in 2015 and last updated it in December 2021 after it traded up to $531.85. Since then, it's come back to earth along with the rest of the market, although we're still showing a profit on the trade.

Recent developments: The company recently released first quarter 2023 results (to Oct. 31). They showed significant improvement over the prior year but despite that, shareholders sold. Revenue for the quarter was almost $1.6 billion, compared to about $1.2 billion the year before. Net income was $20 million ($0.06 per diluted share). That may not seem like much, but it compares favourably with a loss of $103.6 million (-$0.35 a share) the year before.

Discussion: Palo Alto Networks has historically been a good performer. Like a lot of these tech high-flyers, the question is whether it's time to give the stock another look? JPMorgan certainly thinks so. It just initiated coverage with an overweight rating. The stock is maintained as a buy by Deutsche Bank, albeit at a lower price level. The analysts are calling for a target in the low $200s.

Those recommendations are coming off a price decline of 23% last year and that's despite revenues in the most recent quarter growing by 25%. The company is still not very profitable, which is surprising given that it's been around long enough to have figured things out. That said, it's a solid contender in this dynamic marketplace and historically it's reasonably valued.

Action now: Hold.

Generac—continued from page 10...

should be doing great since we've had multiple adverse weather alerts and high demand for solar roof backups. But its market capitalization has collapsed from over $30 billion to approximately $6 billion, which has generated massive number of class action lawsuits. Management explains this by citing the shortage of electricians and supply chain issues, and they overbuilt inventory, so they have a lot of excess supply to work off. Additionally, high shipping costs and delayed inventory installations have hurt margins and slowed revenue growth. Long story short, this is either a great buying opportunity or a value trap. We should know the difference after the next earnings release.

Action now: Hold.

Bank of America—continued from page 8...

per quarter ($0.88 a year) to yield 2.4%. The stock is trading below its 52-week high of $50.11 so the bad news is baked in.

Action now: Hold. Add to your position if the shares dip below $33.