

CGI Inc.

## A few moving parts in F1Q print

Reiterate Rating: UNDERPERFORM | PO: 96.00 USD | Price: 113.74 USD

## We are somewhat surprised to see shares trading higher

Earlier, GIB reported another quarter of mixed results, with const-curr revs growth below BofAe/Street and adj. EPS in-line with consensus driven partially by lower net financing costs. GIB cited strength in managed services and IP bookings but remains cautious on SI&C near term. Given continued malaise in parts of the demand environment, which will likely weigh on GIB's organic const-curr growth, and current valuation at ~18x C24 P/E, we believe current risk/reward is skewed to the downside; reiterate Underperform.

## Demand for managed services and IP remains solid

Mgmt. commentary suggests demand for both IP (22% of total revs, up 4.2% y/y cc) and managed services deals (55% of total revs) remains robust particularly in gov't vertical, with GIB seeing contract duration extend as clients continue to focus on cost-takeout initiatives over SI&C projects. Additionally, while visibility into 2024 client budget decisions remains somewhat muted, GIB anticipates some demand reacceleration in 2H.

## Cost optimization plan expanded

Following larger than expected restructuring costs in F1Q, GIB announced an additional C\$26M in restructuring costs (now expected to total C\$91M), of which C\$43M will be incurred in F2Q focused mostly on SG&A leverage, with mgmt. anticipating margin improvement in 2H24.

## Bookings trends remain stable

F1Q bookings grew 3.8% y/y to C\$4,187M, reflecting a book-to-bill of 1.16x vs. 1.14x in F4Q23. On an LTM basis, GIB reported bookings of C\$16,411M (stable book-to-bill of 1.14x). Contract extensions and renewals represented 67% of total bookings, up 400bps q/q but down 100bps y/y. By service type, SI&C accounted for 43% of bookings, and by segment, all but one segment reported an LTM book-to-bill >1.0x, led by US Federal at 1.42x. Global backlog increased 6.2% y/y to C\$26,573M (1.84x of LTM revs).

## Adjust PO to \$96; see inside for more on F1Q print

Following F1Q results and management commentary, we adjust our PO to \$96/CAD 129 from \$89/CAD 122 prior, based on 18x C24 P/E (17x prior) and our DCF, due to an increase in comp group multiples. **See inside for more on F1Q results.**

Estimates (Sep) (C\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.13	7.07	7.69	8.14	8.71
GAAP EPS	6.04	6.87	7.39	8.14	8.71
EPS Change (YoY)	12.9%	15.3%	8.8%	5.9%	7.0%
DPS	0	0	0	0	0
EPS (YGIBA - C\$)	6.13	7.07	7.69	8.14	8.71
DPS (YGIBA - C\$)	0	0	0	0	0
Valuation (Sep)					
P/E	25.5x	21.8x	19.9x	18.8x	17.5x
GAAP P/E	25.9x	22.4x	20.7x	18.8x	17.5x
EV / EBITDA*	12.9x	11.6x	10.9x	10.2x	9.8x
Free Cash Flow Yield*	5.7%	6.2%	7.4%	7.7%	8.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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Timestamp: 31 January 2024 01:05PM EST

31 January 2024

## Equity

## Key Changes

(C\$)	Previous	Current
Price Obj.	US\$89.00	US\$96.00
2024E Rev (m)	14,974.0	14,935.6
2025E Rev (m)	15,573.0	15,533.1
2026E Rev (m)	16,195.9	16,154.4
2024E EPS	7.62	7.69
2025E EPS	8.15	8.14
2026E EPS	8.72	8.71

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## Stock Data

Price (NYS / TOR)	113.74 USD / 152.71 CAD
Price Objective	96.00 USD / 129.00 CAD
Date Established	31-Jan-2024 / 31-Jan-2024
Investment Opinion	B-3-9 / A-3-9
52-Week Range	84.89 USD - 111.42 USD
Market Value (mn)	23,446 USD
Free Float	99.3%
Average Daily Value	14.45 USD
Shares Outstanding (mn)	206.1 / 206.1
BofA Ticker / Exchange	GIB / NYS
BofA Ticker / Exchange	YGIBA / TOR
Bloomberg / Reuters	GIB US / GIB.N
ROE (2024E)	20.4%
Net Dbt to Eqty (Sep-2023A)	18.4%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> CGI Inc.

## iQmethod<sup>SM</sup> – Bus Performance\*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.4%	14.3%	14.6%	14.7%	14.1%
Return on Equity	20.9%	21.6%	20.4%	18.7%	16.8%
Operating Margin	16.0%	15.7%	15.8%	16.7%	16.7%
Free Cash Flow	1,713	1,952	2,341	2,434	2,536

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.3x	1.4x	1.4x	1.4x
Asset Replacement Ratio	0.3x	0.3x	0.2x	0.2x	0.2x
Tax Rate	25.5%	25.8%	25.6%	25.5%	25.5%
Net Debt-to-Equity Ratio	31.6%	18.4%	4.8%	-8.0%	-22.6%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Sep)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,867	14,296	14,936	15,533	16,154
% Change	6.1%	11.1%	4.5%	4.0%	4.0%
Gross Profit	12,867	14,296	14,936	15,533	16,154
% Change	6.1%	11.1%	4.5%	4.0%	4.0%
EBITDA	2,561	2,832	3,036	3,219	3,348
% Change	4.0%	10.6%	7.2%	6.0%	4.0%
Net Interest & Other Income	4	1	0	0	0
<b>Net Income (Adjusted)</b>	<b>1,488</b>	<b>1,680</b>	<b>1,781</b>	<b>1,831</b>	<b>1,905</b>
<b>% Change</b>	<b>8.2%</b>	<b>12.9%</b>	<b>6.0%</b>	<b>2.9%</b>	<b>4.0%</b>

## Free Cash Flow Data (Sep)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,466	1,631	1,711	1,831	1,905
Depreciation & Amortization	475	520	587	621	646
Change in Working Capital	(117)	13	166	43	54
Deferred Taxation Charge	(7)	(109)	(55)	8	9
Other Adjustments, Net	49	57	71	75	75
Capital Expenditure	(152)	(160)	(137)	(146)	(152)
<b>Free Cash Flow</b>	<b>1,713</b>	<b>1,952</b>	<b>2,341</b>	<b>2,434</b>	<b>2,536</b>
<b>% Change</b>	<b>-14.1%</b>	<b>14.0%</b>	<b>19.9%</b>	<b>3.9%</b>	<b>4.2%</b>
Share / Issue Repurchase	(929)	(899)	(526)	(640)	(640)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(669)	(296)	(865)	(212)	(212)

## Balance Sheet Data (Sep)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	966	1,568	1,939	3,051	4,255
Trade Receivables	1,364	1,425	1,572	1,635	1,700
Other Current Assets	2,019	1,940	2,000	2,031	2,062
Property, Plant & Equipment	370	389	378	378	378
Other Non-Current Assets	10,457	10,476	10,625	10,631	10,637
<b>Total Assets</b>	<b>15,175</b>	<b>15,799</b>	<b>16,514</b>	<b>17,726</b>	<b>19,033</b>
Short-Term Debt	93	1,159	468	468	468
Other Current Liabilities	3,556	3,487	3,904	4,041	4,192
Long-Term Debt	3,174	1,941	1,909	1,747	997
Other Non-Current Liabilities	1,080	902	1,045	1,051	1,058
<b>Total Liabilities</b>	<b>7,903</b>	<b>7,489</b>	<b>7,325</b>	<b>7,306</b>	<b>6,715</b>
<b>Total Equity</b>	<b>7,273</b>	<b>8,310</b>	<b>9,189</b>	<b>10,420</b>	<b>12,318</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,175</b>	<b>15,799</b>	<b>16,514</b>	<b>17,726</b>	<b>19,033</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Computer Services

## Company Description

Headquartered in Montreal, Canada, CGI is one of the largest global information technology and business consulting services firms, serving both commercial and government clients. CGI delivers end-to-end portfolio of capabilities, including IT and business consulting, systems integration, and outsourcing. This is supported by the company's intellectual property solutions, industry expertise, and a mix of client proximity and global delivery model. CGI employs around 90,500 professionals globally.

## Investment Rationale

We have an Underperform rating on GIB. We see further acceleration in const-curr revenue growth as challenging without increased M&A, as parts of the business continue to weigh on growth and the company has limited exposure to Digital. While we do not view expectations as too high, we see future upside potential as already priced in.

## Stock Data

Average Daily Volume	127,075
Shares / Common - Dual Listed	1.00

## Quarterly Earnings Estimates

	2023	2024
Q1	1.66A	1.83A
Q2	1.82A	1.96E
Q3	1.80A	1.95E
Q4	1.79A	1.95E

## Key Changes

(C\$)	Previous	Current
Price Obj.	122.00	129.00
2024E EPS	7.62	7.69
2025E EPS	8.15	8.14
2026E EPS	8.72	8.71

## More on F1Q results

- In F1Q, revs increased 4.4% y/y to C\$3,603M vs. BofAe/Street at C\$3,623M/C\$3,579M. Const-curr growth of 1.5% y/y was 150bps/40bps below BofAe/Street, respectively.
- By service type, managed IT continued to represent the majority of revs (55% of total), in-line with F4Q23.
- By vertical market, Government remained the largest at 36% of total revs, followed by MRD (Manufacturing, Retail, & Distribution) which represented 23% of total.
- By geographic segment, six of the eight reported positive const-curr growth during the quarter, led by Northwest and Central-East Europe, which increased 8.6% y/y to C\$193M (prior to FX), due to growth across most vertical markets and favorable client settlement. Western and Southern Europe remained the largest at C\$616M (prior to FX), but declined 1.9% y/y in const-curr.
- Adj. EBIT of C\$584M increased 5.4% y/y, and was modestly below BofAe/Street at C\$594M/C\$586M. Adj. EBIT margin of 16.2% was 20bps below BofAe/Street.
- Adj. EPS of C\$1.83 was modestly ahead of BofAe at C\$1.97 and in-line with consensus of C\$1.82. FCF/revs of 13.6% was ahead of consensus at 11.6%, but modestly below the long-term target of 15%.
- Global headcount declined ~1,000 q/q to 90,500 (mostly non-billable functions), with 38% of employees based global delivery locations.
- Following F1Q results and management commentary, we adjust our PO to \$96 from \$89 prior, based on 18x C24 P/E (17x prior) and our DCF due to an increase in comp group multiples. Our DCF assumes a WACC of 9.6% (9.9% prior) and terminal growth rate of 3% (unchanged).



## Price objective basis & risk

### CGI Inc. (GIB / YGIBA)

We use a 50/50 blend of 18x C24E EPS and our DCF model to calculate our 12-month PO of CAD129 (\$96). Our target multiple reflects a mild premium to GIB's closest comps which, along with GIB, maintain annualized total shareholder return profiles in the high single digit/low double digit range. Moreover, unlike a majority of its peers in the IT Outsourcing space, GIB is projected to modestly increase its margins y/y in the coming years. Also, over the last several years, GIB has been able to successfully acquire and integrate several companies. GIB currently derives only around 23% of Digital revenues compared to its closest peers which derive around 60%. Digital is a faster growing segment of the overall IT services end-market. That said, we believe over the last few years, GIB has materially improved its Digital/consulting capabilities. Our discounted cash flow (DCF) analysis assumes a weighted average cost of capital (WACC) of 9.6% and a terminal growth rate of 3%.

Downside risks are 1) war for talent and elevated attrition levels, 2) lack of formal guidance, 3) potential implications of Brexit, 4) risks related to M&A, 5) potential slowdown in US Government spending, 5) FX.

Upside risks are 1) better-than-expected bookings and top-line growth trends, 2) extended period of greater-than-expected margin expansion, 3) stronger hiring and quicker to higher-growth Digital services.

## Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg

**US - Payments, Processors, Specialty Finance and IT services Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

**UNDERPERFORM**

	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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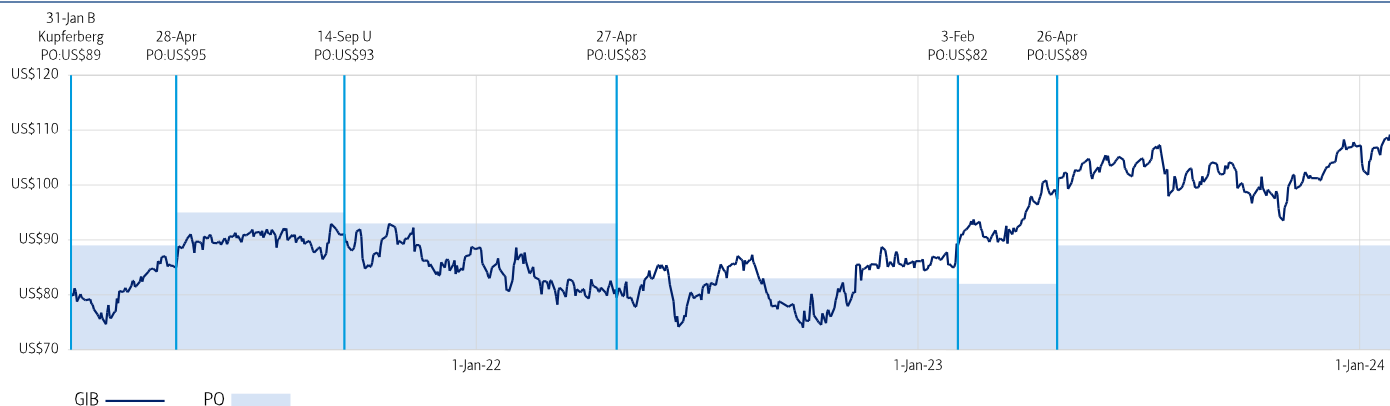
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# Disclosures

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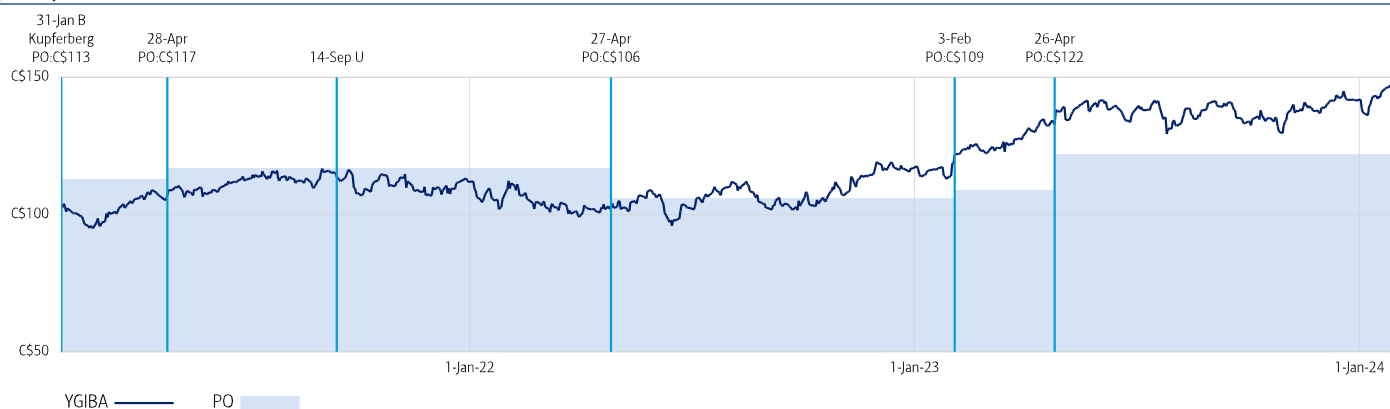
### CGI (GIB) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### CGI (YGIBA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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