

## Benefit from the low CAD/USD rate with CGI Group Inc.

For nearly two years, the Canadian dollar has been depreciating at a steady rate vs the American dollar. The CAD/USD currency pair has dropped from a high of 1.02 at the beginning of 2013 to 0.77 in July 2015. The bear market in commodities - falling prices of both raw materials and crude oil – has put Canada on the verge of a recession.

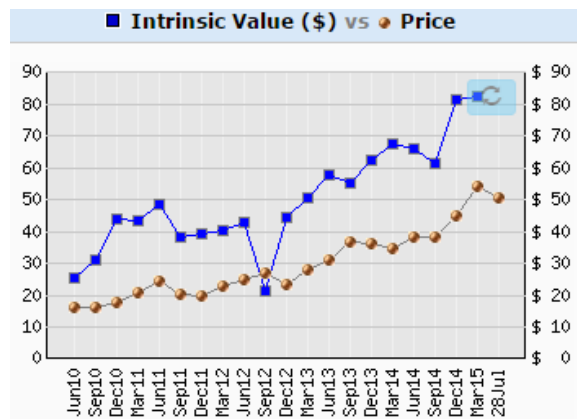
Investors should view this period of economic weakness as an opportunity to add to positions in major Canadian companies due to the depressed Canadian dollar. Given the current period of economic instability, many companies are currently trading at a discount far below their fair market value. Our strategy is to build a portfolio comprised of sector leaders. We feel strongly that, once the dust settles and the current pessimistic outlook becomes more positive, these companies will maintain their respective leadership status and will be poised to grow.

CGI Group Inc. (GIB.A) is one of the largest IT companies in Canada. CGI offers services in information technology, consultation, system integration and business solution management. Given CGI's annual sales growth of 30% per year over the past 5 years, CGI is poised to benefit from the weak Canadian dollar due to the fact that a large portion of their revenue is derived from the United States. Currently, 30% of their revenues are generated in American dollars, and their expenses are paid in Canadian dollars. Given the current exchange rate, CGI should see its profit and operating margins increase, thereby increasing its return on invested capital.

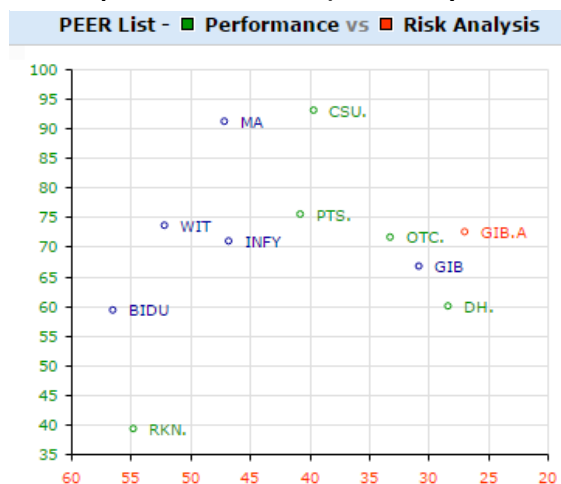
### As we can see on StockPointer's Scorecard:

- CGI is currently trading at reasonable P/E ratio of 16.7x. This is below the American and Canadian markets averages, which are 18.8x and 20.11x respectively.
- The ROE of 16.8% is also compelling compared to the rest of the sector. CGI generates 12.7% in Free Cash-Flow in regards to its invested capital, demonstrating healthy liquidity management.
- CGI's current Debt/Invested Capital ratio is at 18.6%, which is low, and this could allow CGI to eventually make more acquisitions.
- Based on our EVA model, CGI has an intrinsic value of about \$82. With the current market price being around \$48.5 this clearly show us a potential capital gain of 69%.
- CGI's SPscore of 72% is indicative of its favorable position on the StockPointer Performance/Risk graph. Furthermore, the company's return on capital of 14.7% is far greater than its cost of capital of 5.9%, which means that the company is creating wealth for its shareholders.

**Graphic 1: Price/Intrinsic Value Analysis**



**Graphic 2: Performance / Risk Analysis**



CGI is one of the few technology companies that has a comparative advantage in Canada. One third of CGI's revenues is derived from government contracts and their retention rate is 98%. The company also has a share buyback program which is a great way to reward shareholders for holding their stock. Management is planning on buying back approximately six million shares which represents a value of approximately \$300M.

In summation, Canadian companies who receive a significant portion of their revenues in US dollars are poised to benefit from the low Canadian dollar versus the greenback. Sophisticated investors recognize this and stand to benefit by adjusting their portfolios accordingly. CGI Group Inc. is the leader in the technology industry within Canada with a total market capitalization of \$14.3B. Its stock is currently attractively priced given its capital generating capability and its high growth rate. Despite the fact that the stock is currently sitting near its all-time high, we believe that CGI's stock is certainly worth keeping an eye on.

Please note that this article was written on July 20th, 2015 and the ideas and facts must in no way be interpreted as advice or trade recommendations.

*Jean-Daniel Thibodeau, Portfolio Manager, Alpha Fund.*