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Celestica Shares are Soaring – What You Need to Know

Description

Celestica has been on a roll lately, and yesterday the company reported results that beat expectations for the fourth quarter in a row. The stock is up over 7% today and over 43% year to date. Celestica reported EPS of $0.22, which is at the high end of where the company was guiding. Here's what you need to know about the quarter.

Impressive Operating Margin Expansion

Operating margin continues to expand. In the third quarter the company achieved an operating margin of 3.2% versus a margin of 2.9% in the third quarter of 2012. This comes as the company is focusing on higher margin end markets, and as they are achieving cost efficiencies. We can expect more margin improvements in the fourth quarter.

Big Success in New Markets

Celestica's Diversified business segment, which accounted for 26% of revenue this quarter and includes the healthcare, industrial, aerospace and defence end-markets, saw revenues increase 16% versus last year and 6% sequentially. This was due to new programs and higher demand across a broad range of customers.

Demand is Still Volatile and Lacking Visibility

While management stated on their conference call that they still view the environment as challenging, volatile, and lacking visibility, it looks like their different end markets are behaving somewhat differently and this makes for more evened out results despite the lack of visibility.

Diversification Continues

The top 10 customers this quarter represented 65% of revenues, compared to 70%+ in 2012. Celestica has diversified its customer base as well as its business segments that it is involved in. This is an attractive proposition for us investors who are concerned with managing risk.

Blackberry Who?

Celestica has done an outstanding job of overcoming the loss of Blackberry as its most important customer. Overall revenue this quarter decreased 5.3% compared to the same quarter last year, which is impressive showing considering that Blackberry accounted for 20% of revenue in 2012. If we exclude Blackberry, revenue increased 5% this quarter.

Share Buyback to Return Capital to Shareholders

This quarter, the company bought back 1.7 million shares as it continues on its strategy to return capital to its shareholders. By the third quarter of 2014, the company will have bought back up to 10 million shares, thus strengthening EPS numbers.

Bottom Line

Celestica is doing all the right things recently and is recovering beautifully from the blow of losing Blackberry as its most important customer. Management has done an impressive job and the future is looking bright.

Fool contributor Karen Thomas owns shares of Celestica. The Motley Fool has no positions in the stocks mentioned above at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CLS (Celestica Inc.)
2. TSX:CLS (Celestica Inc.)

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Date
2025/09/27
Date Created
2013/10/23
Author

karenjennifer