



The Stock Picker's Guide to Celestica in 2014

Description

Electronics manufacturing services (EMS) companies are facing a changing environment. **Celestica** ([TSX:CLS](#)) is moving away from the traditional role of the EMS provider, and is instead focusing on joint design manufacturer (JDM) contracts, which means that the company will be involved in the early stages of product design, thereby adding value to customers through innovation.

2013: A year of transition

Bottom line results for 2013 were in line with the company's guidance, while revenue was slightly disappointing, reflecting the still challenging and volatile demand environment. Full-year revenue of \$5.8 billion in 2013 decreased 11% due to the loss of the **Blackberry** contract but decreased 1% excluding Blackberry.

But things are looking up. Celestica is going beyond manufacturing to offer increased value to its customers. For example, it is stepping up its investment in data analytics in order to provide additional value for its customers. Also, starting in 2014, year-over-year comparisons will not include Blackberry anymore, which is good for investor sentiment toward the stock.

Celestica's storage segment, which accounted for 14% of 2013 revenue, is experiencing strong revenue growth due to new customers, new program wins and an increase in JDM business. Investors should expect to see this in the company's results this year, as the company cited its expectations for up to 30% revenue growth in the storage segment in the first quarter of 2014 based on new customer wins.

We can also expect to see improved margin growth. In the first quarter of 2014, the company expects a 50 basis point improvement in operating margins, to 3%. And by the end of the year, margins have room to improve to 3.5%.

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 the business segments that it is involved in. This is an attractive proposition for investors concerned with managing risk.

Share buyback to return capital to shareholders

Celestica has bought back 4.1 million shares and can buy back up to 5% of shares outstanding. The company has \$544 million cash on hand and \$400 million undrawn on its credit facility.

Foolish bottom line

Celestica is well positioned to benefit from the changing dynamics in the EMS industry. With a strong balance sheet, and good progress so far on its strategy of shifting to more value-added business, diversification and winning new customers, the company is looking forward to an exciting 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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