Forget Alibaba: Why Investors Should Buy This Tech Stock Instead

Description

I don't know about any of you, but I throughly enjoyed following the **Alibaba Group Holding Ltd.** (NYSE: BABA) initial public offering extravaganza. I enjoyed everything from the roadshow leading up to the big day to the actual IPO day itself, wondering if the New York Stock Exchange could have possibly used technology to speed up the process of matching the buy and sell orders. You'd think it wouldn't take so long, but I have to admit the anticipation was pretty fun.

As exciting as the latest tech IPO is, though, the fact is most investors should avoid them like the plague. Most trade lower right after the issue, partly because of pressure caused from the investors who got allocated shares in the first place selling their shares, booking a quick profit. Remember, these investors got in at $68, where the price was set. They were all but certain to book a fat profit, since hot IPOs are usually underpriced to create demand. It's a nice game, assuming you can get in on it.

But, alas, most of us are mere investing mortals. We get access to the IPO after it pops, which is exactly the wrong time to be looking at it. It's literally the point of maximum investor exuberance. The time to buy certainly isn't when you're fighting against a bunch of other people to get a stock. You're better off to wait a few months and let it settle.

Let's forget about Alibaba. There's a much better investment in the sector, a Canadian tech company that has a stellar balance sheet, trades at a very reasonable multiple, and is aggressively buying back its own shares. Let's take a look at **Celestica Inc.** (TSX: CLS)(NYSE: CLS).

The skinny

Celestica is in the electronics manufacturing business. It assists companies with everything from design to production to providing warranty services after the sale. It even will deliver the product to the retailer.

Ironically, Celestica is perhaps best known for one of its previous customers — **BlackBerry Ltd.** (TSX: BB)(NASDAQ: BBRY). BlackBerry moved its production to Foxconn, one of Celestica's competitors. This caused a bit of a decline for Celestica, as revenue fell from $6.5 billion in 2012 to $5.8 billion in 2013. Profit was up, though, rising from $0.56 per share to $0.64.

Why it's a buy

Even though Celestica is a tech company, it's priced attractively. The company has a terrific balance sheet. It has no debt, $520 million (or about $3 per share) in cash, and sits at just 1.4 times book value.

It trades at a pretty reasonable valuation, too. The company earned $0.92 per share over the last 12 months, putting it at a price-to-earnings ratio of just a little over 12 times. Analysts expect earnings to be flat next year. But once you strip out the cash, it looks downright cheap. Excluding cash, the P/E ratio is just 9.2 times.

The company has a plan for all that cash: It's aggressively buying back shares. Since the end of 2010, the company has used more than $330 million worth of cash just for share repurchases, buying back more than 17% of outstanding shares. It just issued a new share repurchase plan, getting authorization to buy back another 6.5% of shares outstanding by September, 2015.

Considering the large amount of cash on hand and the absence of a dividend, there's every indication these buybacks should continue.

Celestica is a typical value stock. It needs a catalyst to push it higher. What could that be?

There are a couple of things that could happen. The company could institute a dividend, which would not only be a useful thing to do with the cash, but it would also put the company on dividend investors' radar. It has nearly $3 per share in cash. A dividend of $0.50 per share would certainly make the stock attractive to income investors. Or it could use that cash to make an acquisition.

Investors looking for a tech company to put in their portfolio should take a look at Celestica. It's cheap on both a price-to-earnings and a price-to-book perspective, is buying back stock aggressively, and is trading at a near 52-week low. It looks to me like a great entry point.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. NYSE:CLS (Celestica Inc.)
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4. TSX:CLS (Celestica Inc.)

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