Is Now the Prime Time to Buy Shares of Celestica Inc.?

Description

Celestica Inc. (TSX:CLS)(NYSE:CLS), a global leader in the delivery of end-to-end product lifecycle solutions, released first-quarter earnings results, announced a share repurchase program, and announced a deal with **Honeywell International Inc.** (NYSE:HON) all on the morning of April 21, and its stock responded by rising more than 4% in the trading session that followed. Let's take a closer look at all of this information to determine if we should consider buying in to the rally, or if we should wait for it to subside.

The weak first-quarter results

Here's a summary of Celestica's first-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q1 2015	Q1 2014
Adjusted Earnings Per Share	$0.19	$0.26
Revenue	$1.30 billion	$1.31 billion

Source: Celestica Inc.

Celestica's adjusted earnings per share decreased 26.9% and its revenue decreased 1.1% compared with the first quarter of fiscal 2014. The company noted that these weak results could be attributed to a "challenging demand environment," but it is very important to note that it had anticipated this, as its outlook on the first quarter called for revenue in the range of $1.275-1.375 billion and adjusted earning per share in the range of $0.18-0.24, both of which it achieved.

Here's a quick breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

1. Adjusted gross profit increased 1.3% to $95.8 million
2. Adjusted gross margin expanded 20 basis points to 7.4%
3. Adjusted operating profit decreased 1.7% to $40.5 million

4. Adjusted operating margin remained unchanged at 3.1%
5. Adjusted return on invested capital improved 70 basis points to 16.8%
6. Adjusted free cash flow of $22 million, compared to an adjusted cash use of $16.2 million in the year-ago period
7. Repurchased 6.1 million of its subordinate voting shares for approximately $69.8 million
8. Diluted shares outstanding decreased 4.5% to 174.3 million

The rally-igniting announcements

Even though Celestica's first-quarter results were weak, the sentiment turned positive when the company announced its intention to repurchase $350 million worth of its subordinate voting shares and announced that it reached an agreement with Honeywell Aerospace, the world's largest manufacturer of aircraft engines, to manage the assembly and test operations at its facility in Mississauga, Ontario, Canada. The new deal with Honeywell strengthens the relationship between the two companies and could lead Celestica to record revenues and profits over the next several years.

Should you be a buyer of Celestica today?

I think this is only the beginning of a sustained rally higher because Celestica's stock still trades at attractive valuations, including just 14.5 times fiscal 2015's estimated earnings per share of $1.01 and only 13.2 times fiscal 2016's estimated earnings per share of $1.11, both of which are inexpensive compared to its five-year average price-to-earnings multiple of 19.9. I also think these earnings estimates are conservative when you consider the new deal with Honeywell.

With all of the information provided above in mind, I think Celestica represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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