



## 4 Reasons Why Celestica Inc.'s Price Decline Is a Buying Opportunity

### Description

After **Celestica Inc.** ([TSX:CLS](#))([NYSE:CLS](#)) reported its third-quarter 2015 results this week, the stock fell more than 15%. It has since come back a bit, but, in my view, it still represents a good entry point because Celestica is managing well in a difficult environment.

Although revenue declined marginally in the quarter versus last year, and earnings were slightly below expectations, Celestica has many redeeming characteristics that give me confidence in the company. So, while revenue growth will continue to be a challenge for the remainder of the year, investors who are willing to be patient can take advantage of this difficult time by buying a good company on the cheap.

Here are the reasons why I think that the stock decline has led to a good buying opportunity.

### Strong balance sheet

Net cash on the balance sheet is \$227 million and the debt-to-capitalization ratio is only 20%.

### Free cash flow positive

Regardless of the fact that free cash flow was also depressed this quarter due to late demand changes and the consequent inventory increase (i.e. inventory increased \$31 million sequentially), the company is still free cash flow positive, which is a big deal.

Free cash flow this quarter was \$13 million versus \$93 million in the same quarter last year. Free cash flow generated in the first nine months was \$65 million, and management is cautiously optimistic that they can still achieve their goal of free cash flow of \$100 million for the year.

### Slow and steady margin improvements

The company's operating margin was 3.1% in the first quarter of 2015, 3.4% in the second quarter, and 3.8% in the third quarter. Operating margins in the fourth quarter are expected to be similar to the third. The company is continuing to work on securing higher-margin business.

### **Low expectations for the company means an attractive valuation**

The company's book value is currently over \$10, which means it trades at a mere 1.5 times book value. Furthermore, I think we can reasonably expect an increase in demand from the company's different segments, yet valuation does not reflect this. True, visibility is limited, but this is what makes buying the stock now even more appealing. In 2016, current consensus expectations are for EPS to increase over 20%, and the stock currently trades at a P/E ratio of 15 times 2015 EPS.

So, we have a company with a strong balance sheet (which the company will likely soon take advantage of by making an acquisition), strengthening margins, free cash flow, a very attractive valuation, and a growth profile that can be expected to pick up in the next year or so.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

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

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