Celestica Inc. Shares Are Down 17.7% on Weak Results

Description

Celestica Inc. (TSX:CLS)(NYSE:CLS) had been on the come-back trail in the last few years, recovering from the loss of its biggest customer, **Blackberry**, which represented 20% of its revenue in 2012. After this loss the company embarked on a new strategic direction, focusing on diversification and value-added products with the goal of spurring revenue growth and increasing margins.

Let's look at the company's latest results to see how things are going.

The company has taken operating margins and increased them from lows in the high 2% range in 2012 to almost 4% in 2014 and early 2015. For the full-year 2015, margins of 3.5% were flat compared with 2014, which is a setback. Let's look at the quarter and the reasons for this setback.

Mixed results

Back when the company reported third-quarter 2015 results, management issued the following forecast for the fourth quarter: revenue was expected to be in the range of $1.375-1.475 billion with an operating margin of 3.7% and EPS in the range of $0.27-0.33 per share.

Actual 2015 fourth-quarter results were mixed with revenue coming in at $1.5 billion, which is at the high end of the guidance range, and EPS of $0.27, which is at the low end of expectations and below consensus expectations of $0.30. And margins of 3.5% were disappointing.

The biggest reason for the disappointing EPS and margin numbers is the delay in the ramp up of the solar business, which resulted in higher costs. There have been equipment delays in Thailand, so production is still ramping up and will take more time to hit optimal levels. Management has stated that they expect significant improvement by the end of the second quarter of 2016 and that they are confident in the solar business as they continue to see healthy demand.

Another reason for the disappointing numbers was because of a higher tax rate that also hit the bottom line.

Demand is still volatile and lacking visibility

While it is clear that the environment is challenging, volatile, and lacking visibility, it looks like the different end markets are behaving somewhat differently, and this makes for more even results despite the lack of visibility. But clearly, revenue growth needs to accelerate in order to see increasing margins.

On a brighter note

The balance sheet is healthy with $282 million in net cash, and cash flow generation is good at $76 million in operating cash flow and $60 million in free cash flow in the quarter.

Management gave guidance for the first quarter of 2016, forecasting revenue in the range of $1.3-1.4 billion (compared to $1.3 billion in the first quarter of 2015) and EPS between $0.19 and $0.25 (compared to $0.19 in the first quarter of 2015). So with flat to modest growth predicted, there is nothing to get too excited about.

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