5 Reasons Why the Best Is Yet to Come for Celestica Inc.

Description

Celestica Inc.'s (TSX:CLS)(NYSE:CLS) shares have been on a tear in the last few years with a 39% three-year return and a 132% five-year return. This has come after a period of great uncertainty and hardship for the company.

Celestica has 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.

And in fact, since 2013, revenue and margins have been steadily rising.

Here's why I believe the company's best is yet to come.

Firstly, the company continues to beat expectations, thus sending the stock higher for a very good reason. There is a very strong correlation between a company beating expectations and outperformance of its shares.

In the latest quarter, the first quarter of 2017, the company beat consensus EPS expectations by $0.01, but in the prior two quarters the beat was even more significant. In the fourth quarter of 2016, the company beat expectations by $0.09, or 28%, and in the third quarter of 2016, the company beat expectations by $0.13, or 43%.

Clearly, the company has operational momentum working for it. This, combined with its low valuation, has meant big returns for shareholders.

Secondly, the company has been improving its margins steadily over the last few years. And although margins have been stuck at just below 4% for a few quarters now, the company maintains that it can get them back up to the +4% long-term potential.

Recall that margins were at their lows of the mid-2% range back in 2012, so the company has done a respectable job increasing them from those levels.

Thirdly, the company has maintained its strong balance sheet throughout the years, and its debt-to-total capitalization currently stands at a healthy 15.1%. This gives management the flexibility to make attractive acquisitions, which management has stated is in their plans.

Fourthly, in the first quarter of 2017, the company reported cash from operations of $36 million and free cash flow of $10 million. And in 2016, free cash flow came in at $109 million.

Lastly, trading at a P/E ratio of 14.7 times, valuation on the shares are attractive, in my view, especially considering the company's healthy balance sheet, record of beating expectations, and its strong return on equity of 11.2%. At 1.5 times, the shares also trade at an attractive P/B ratio.

The company will report second-quarter 2017 results on July 25.

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