It’s Time to Buy This Cheap Tech Stock

Description

Portfolio manager Peter Hodson of 5i Research appeared on *BNN Bloomberg* June 5 talking about the benefits of owning **Celestica Inc.** (TSX:CLS)(NYSE:CLS), one of the most unheralded tech stocks trading on the TSX.

“It’s kind of a low-tech way to play the tech sector,” Hodson stated. “The valuation is there, the balance sheet is there, and the earnings to leverage is very good because they have fixed-price facilities so the more they can put through their facilities, the higher their earnings leverage.”

Hodson also appeared on *BNN Bloomberg* a month earlier, this time on its “Top Picks” segment, again touting the merits of owning Celestica.

His rationale: it trades at 10 times forward earnings; it’s bought back 30% of its stock over the past decade; and it acquired Atrenne Integrated Solutions Inc. for US$139 million in April.

This last point gives Celestica a stronger position within the aerospace and defence industries in the U.S.

Shopify is very expensive

So, although I’m generally on board the **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) growth story, it does have a nosebleed valuation at 22 times sales, while Celestica, the ugly duckling of Canadian tech stocks, trades at less than one times sales.

Although I wouldn’t go as far as recommend you sell SHOP and buy CLS with the proceeds, I do think that Hodson makes a good point about the valuation.

A quick stock screen of the 13 TSX tech stocks with a market cap greater than $1 billion shows me that Celestica is the cheapest of the group based on the price-to-sales (P/S) ratio; in fact, take out the highest and lowest — Shopify and Celestica — and you get an average P/S of 4.7, about 10 times Celestica’s multiple.

Strong balance sheet

Last July, Fool contributor Karen Thomas gave five reasons why the best was yet to come for Celestica stock. It hasn't turned out exactly as she'd imagined, as it's down slightly over the past year, but her third point about Celestica's strong balance sheet echoes Peter Hodson's sentiment about its fixed-cost facilities having been bought and paid for.

Any uptick in new manufacturing work simply adds to the bottom line. If the economy in the U.S. continues in hyperdrive, Celestica is going to be very busy indeed.

The bottom line on Celestica stock

It's not a glamourous tech stock handling excess production for other electronics manufacturers, but it's catching fire in 2018, up 23% year to date and threatening to rebound into the high teens — a level it's only seen twice in last 13 years.

Sometimes stocks are cheap because they're lousy companies, and sometimes they're cheap because they've largely gone unnoticed.

Celestica is the latter.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CLS (Celestica Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:CLS (Celestica Inc.)
4. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date
2025/06/28
Date Created
2018/06/14
Author
washworth