



You Might Want to Sell These Semiconductor Stocks Right Now

Description

Raised chip inventory levels have prompted **Morgan Stanley** to drop its rating for the semiconductor sector to “cautious” for the industry. To cite analyst Joseph Moore: “The semiconductor cycle is showing signs of overheating. Cyclical indicators are flashing red and any contraction in lead times and/or demand slowdown could lead to a significant inventory correction.”

Does this mean that it's time for Canadian investors to get out? Which domestic stocks could suffer? Let's take a closer look.

What's behind the “overheated” evaluation?

There's an oft-told maxim that when the U.S. stock exchanges sneeze, the TSX catches a cold, and it may well be the case today that if global semiconductor markets are overheated then Canadian suppliers could likewise feel the squeeze.

The problem with the semiconductor market at the moment is that companies that use the chips in question have stockpiled them to such a degree that demand has been lowered to alarming levels. To put a figure on it, Morgan Stanley have gone so far as to say that chip stockpiling is at a 10-year high.

That's bad news at any time, but if it coincides with stretched-out lead times, then the industry could be in for a rough ride. Domestic investors may want to check their exposure to semiconductor stocks and adjust that section of their investment portfolio to avoid hemorrhaging profits as well as any undue risk.

Which Canadian stocks might be at risk?

Overvalued by around 40% compared to its future cash flow value, [Celestica](#) ([TSX:CLS](#))([NYSE:CLS](#)) is not good value at the moment, and that doesn't pair well with the fact that it is in the direct line of fire when it comes to a super-heated semiconductor market.

Celestica is good value based on its P/E at the moment, however, with a ratio of 22.3 times earnings. A PEG of 0.5 times growth is further indication of how reasonably priced this stock is if you take its fundamentals into account. Looking at Celestica's P/B of 1.3 times book, we see a ratio that beats both

the Canadian electronics industry average, as well as the TSX itself. A 43% expected annual growth in earnings is great news for growth investors looking to double their profits, though a 13.2% expected return on equity over the next one to three years does mark this stock out as one strictly for long-term capital gains investors (and yes, that does mean that Celestica doesn't pay dividends).

The bottom line

Following the U.S. trend, it may be wise to start thinking about selling off any semiconductor stock you currently own, with a view to buying it back cheaper when the market is more favourable. If you were thinking of getting into this side of the [Canadian tech sector](#), it may be a good idea to hold off for now, though the domestic stock listed above might be your best bet when you do get around to it.

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