From Self-Driving Cars to Solar Energy, This Company Is Driving Innovation

Description

Technology hardware is an incredibly difficult industry. Things change quickly, margins are thin, and competitors are everywhere. That's probably one of the reasons a major technology company decided to spin off its Canadian hardware subsidiary in the early 2000s.

Since then, the company has re-branded itself as **Celestica** (TSX:CLS)(NYSE:CLS) and narrowed its focus on hardware-related design and supply-chain management services. Now the company helps major equipment makers manufacture their products efficiently.

According to the company's website, it can help a company handle any part of their product-centric business from the drawing board to aftermarket care services. Celestica can help companies design, manufacture, transport, and repair hardware across the global electronics supply chain.

This puts the company at the forefront of every major technology revolution at any given time. Engineers and designers from the team have helped companies create the radar systems self-driving cars use, deploy WiFi in airplanes, design solar panels, deploy precision medical tools, and manufacture sensors for artificial intelligence (AI) systems in the smart cities of the future.

The company's core operations are focused on delivering solutions for the aerospace, defence, and healthcare industries. Also, in recent years the company has expanded its portfolio to offer connectivity and cloud solutions to enterprises.

These new programs are growing at a faster rate than the legacy business because of a shift towards to customized server hardware in cloud storage. The joint design and manufacturing segment of the business expanded by 30% over the past year alone.

Meanwhile, the company promises to transform its business by acquiring and integrating smaller companies to drive growth over the long term. It recently acquired electro-mechanical integrated solutions provider Atrenne Integrated Solutions and large-format, high-mix manufacturing solutions provider Impakt Holdings to augment its capital equipment and aerospace and defence segments.

In other words, Celestica has transformed its business into a hardware consulting hub and manufacturing partner for innovators driving technology forward. However, this remains a business with minimal margins.

According to the company's estimates, the advanced technology segment could reach operating margins of 5-6% and communications and storage segment margin could be somewhere between 2% and 3%. The firm's average margin will be between 3.75% and 4.5% by the first half of 2020.

That doesn't leave much room for error. Considering the fact that Celestica carries $0.59 of debt for every $1 in equity, the business could be riskier than it first appears.

Nevertheless, investors seem to have priced this risk profile into the market value. Celestica trades at 19% of sales, 91% of book value, and a price-to-earnings ratio of just 7.65. In other words, it's trading at a bargain for investors with the right mix of optimism, industry knowledge, and risk appetite.

Bottom line

Celestica isn't a stock for everyone. It's got a long track record and a seemingly robust business model. However, the razor-thin margins, growing debt, and industry volatility leave little room for error.

For investors who understand the risks and appreciate the growth-by-acquisition turnaround strategy, the stock is well priced. For everyone else, this is best left untouched.

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