1 TSX Stock That Can Gain Big In 2020

Description

Markets are still volatile, causing much uncertainty among investors. However, there are also quality stocks in oversold territory. Smart investors can hunt for companies that have been battered by the markets in the last two months. They can make investments that will pay off in 12 to 18 months as the pandemic hopefully starts to recede.

Celestica (TSX:CLS)(NYSE:CLS) is a design, manufacturing, hardware platform, and supply chain solutions provider that operates in Canada and internationally. Shares of this firm have rebounded to its current price of $8.51 after falling to a low of $4.18 on March 16. I believe there is still some upside left in the stock and it could move higher in the upcoming months.

Celestica reported its first-quarter results for 2020, and revenue came in $1.32 billion, a decrease of 8% compared to the same period in 2019. This figure was lower than expected, mainly due to an $85 million hit because of COVID-19. Celestica experienced a reduction in order volumes due to the coronavirus pandemic.

Advanced Technology Solutions (ATS) revenue came in lower by 5%, while Connectivity & Cloud Solutions (CCS) revenue decreased 10% compared to Q1 2019. ATS accounts for 41% of Celestica's revenue while CCS represents 59% of the revenue.

For a company operating in dire situations, it has done quite well for itself. Celestica has repaid over $60 million of long-term debt and has access to over $900 million in cash ($450 million revolver facility and over $470 million in cash/cash equivalents) that it can use to tide over the pandemic.

It helps that most of the company's operations are classified as essential services and its global network is operating at 80% – 85% of normal workforce levels.

What's next for Celestica?

While Celestica hasn't issued any guidance for Q2, management has said that it expects results to remain "largely in line with our Q1 2020 results should conditions neither improve, nor deteriorate further."

A major challenge for Celestica is in its ability to access the material. It impacted the firm in the first quarter and the same can be expected in Q2 as well. Material shortages increased by around 50% in Q1 2020 as compared to Q4 of 2019. While Celestica is trying to resolve these issues, there's still a lot of uncertainty in the air.

Other challenges are reduced demand and operational inefficiencies. The company expects demand to largely return to normal in the second half of the year and is working on reducing the inefficiencies.

Celestica's capital equipment business is running at about 60% to 70% capacity and is the most impacted of its businesses. The San Francisco Bay Area and Malaysia are the ones most impacted here. China is almost back to normal levels, and Europe and Thailand are over 90%.

Once Malaysia gets back up and running, this segment will be operating close to peak capacity. That said, Celestica's capital equipment business posted profits for the first time in five quarters.

Fellow Fools Mat Litalien and Ambrose O'Callaghan believe that Celestica is a good buy, and after the Q1 numbers, I tend to agree.

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