Why Celestica (TSX:CLS) Is up 50% in 3 Months

Description

Electronics manufacturer **Celestica** (TSX:CLS)(NYSE:CLS) has had a stunning rebound in recent months. The stock is up 50% since late July. Investors who'd bought the stock last year at the height of the pandemic have *more than tripled* their investment.

This time, a solid third-quarter earnings report is the reason for the rebound. The stock spiked by as much as 11%, as Q3 earnings came above consensus estimates, affirming the company's ability to generate shareholder value.

Here's a closer look at Celestica's recent performance and whether the company can sustain this momentum in the near future.

Solid Q3

Celestica stock is up by about 17% year to date, having registered a new 52-week high this week. The strong third-quarter performance underscores the resiliency of the business. Celestica seems to have cemented its position as a leader in design manufacturing and supply chain solutions.

While revenue in the quarter was down 5% year over year to $1.47 billion, it came above consensus estimates with operating margin improving to 4.2% from 3.9% a year ago in the same quarter. Additionally, the company posted an adjusted EPS of $0.35, an improvement from $0.32 a year ago. Free cash flow nearly doubled to $27.1 million from $15.8 million in the third quarter of last year.

These strong results were surprising given the ongoing supply chain crisis. The global consumer tech sector has faced a crippling shortage of computer chips for months. Meanwhile, container ships that carry critical components from Asia continue to face a backlog on American and Canadian ports of entry.

Celestica's robust performance despite these global headwinds is noteworthy.

Celestica's outlook

Celestica has already hinted that 2021 is on course to be a successful year, as the company makes significant progress towards achieving its long-term strategic objectives. Recent acquisitions, such as that of Singapore-based firm PCI Limited, could be the reason for the team's optimism.

Consequently, Celestica expects revenue to increase by 27% year over year to $1.24 billion, with operating margin coming in at 4% compared to 3.5% as of the end of last year.

Amid the expected growth, Celestica is trading at a discount with a price-to-earnings multiple of about seven. With the stock starting to bounce back after the recent selloff, this might be the best time to buy it at a discount.

Bottom line

For much of 2021, investors remained pessimistic about the consumer electronics sector. Parts manufacturer Celestica was a key victim of this shift in sentiment. The stock lost 10% of its value through the first half of 2021.

However, the company seems to have surpassed expectations. Revenue, net income, and cash flows are all above Bay Street targets in the third quarter. The company's management team is now forecasting even stronger performance in the months ahead.

With this in mind, the stock seems undervalued. Investors seeking growth at a reasonable and fair valuation should consider adding Celestica to their watch lists.

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