Celestica (TSX:CLS) Stock Soars 10%: Time to Buy?

Description

Celestica (TSX:CLS)(NYSE:CLS) has been bucking the trend of late, powering higher amid the brutal market selloff that's been aimed at the tech sector. The electronics manufacturing services company is flirting with 52-week highs and may continue powering higher, despite the tables turned against its sector. Thanks to a robust fourth-quarter earnings result, shares of CLS look poised to turn a corner.

While I'm no fan of chasing stocks after sudden upside moves, I think that shares of CLS may deserve a pass amid the latest market plunge.

Why?

The numbers were not only solid, but Celestica stock may be a hint of value in an otherwise frothy tech sector. Currently, the stock goes for just 14.2 times trailing earnings. Indeed, the multi-year bear market looks to be in the rear-view mirror. As things look up for the $1.45 billion company, I think the name may be poised for a comeback. Though, I would be a bigger fan if shares were to retreat after such a powerful post-earnings upside move.

A solid quarter could keep the stock continue bucking the trend, as tech's fragility continues

Celestica clocked in revenue of $1.512 billion, up around 9% year over year. Gross profit came in at $146 million, up a whopping 26% year over year. EPS surged a staggering 71% year over year to $0.44. Indeed, things are finally looking up for the firm. The ATS segment, one of the most intriguing parts of Celestica's business, really had a chance to flex its muscles, with 23% in year-over-year growth. Looking ahead, ATS is expected to continue being a compelling growth driver, given robust demand trends.

Management sees the firm having liquidity of around $1 billion. With such a robust balance sheet, the firm has plenty of growth options with its financial flexibility. Personally, I think the firm could go on the hunt for an attractive acquisition. Should the right deal be met at the right price, I'd look for CLS shares to continue marching higher.

With all the pain in the tech sector, I wouldn’t at all be surprised if an acquisition target becomes too cheap to ignore for Celestica. In any case, having too much cash on the balance sheet is a nice problem to have, especially in times like these, when profitability and value matter.

Management has done an excellent job of executing. And while the stock is modestly valued, with real profits and cash flow to go by, there’s a bit of uncertainty ahead as we head into a hazy pandemic-plagued 2022. The company is moving on from **Cisco**, and pandemic woes are far from over. At 0.2 times sales and 5.9 times cash flow, Celestica strikes me as a deep-value name that may not be right for those seeking to rid their portfolios of excess beta.

Should Canadian investors look at buying the stock?

I’d wait for a better entry point and see no need to rush into a name that just flew by around 10% in a single day. Things are getting better, but the patient investor may get another shot to pick up the name in the $12 range again.

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