



3 Reasons Why You Should Invest in Sierra Wireless Inc. Today

Description

Sierra Wireless Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)), the global leader in machine-to-machine (M2M) devices and cloud services, has been one of the market's most disappointing stocks in 2015 as it has fallen over 20% year-to-date, but I think it has the potential to be one of the top performing stocks from this point forward. Let's take a look at three of the top reasons why you should consider initiating a long-term position today.

1. Strong earnings growth to support a higher stock price

Sierra released better-than-expected fourth-quarter earnings results after the market closed on February 5, but its stock has responded by falling over 4% in the weeks since. Here's a breakdown of 10 of the most notable statistics and updates from the report compared to the year-ago period (all figures are in U.S. dollars):

1. Adjusted net income increased 193.5% to \$9.1 million
2. Adjusted earnings per share increased 190% to \$0.29
3. Revenue increased 25.7% to a record \$149.08 million
4. Adjusted gross profit increased 30% to \$50.14 million
5. Adjusted gross margin expanded 110 basis points to 33.6%
6. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 104.8% to \$12.73 million
7. Adjusted EBITDA margin expanded 330 basis points to 8.5%
8. Adjusted operating profit increased 286.9% \$10.03 million
9. Adjusted operating margin expanded 450 basis points to 6.7%
10. Generated \$7.89 million of free cash flow compared to negative free cash flow in the year-ago period

2. Inexpensive forward valuations

At current levels, Sierra's stock trades at just 39.1 times fiscal 2015's estimated earnings per share of \$1.11 and only 28.2 times fiscal 2016's estimated earnings per share of \$1.54, both of which are

inexpensive compared to its long-term growth potential, and very inexpensive compared to its five-year average price-to-earnings multiple of 298.5.

I think Sierra's stock could consistently command a fair multiple of around 50 for the next few years, which would place its shares upwards of \$55 by the conclusion of fiscal 2015 and around \$77 by the conclusion of fiscal 2016, representing an upside of more than 26% and 77% respectively from today's levels.

3. Ability to pursue further acquisitions

In fiscal 2014, Sierra completed the acquisitions In Motion Technology for \$21 million and AnyData's machine-to-machine (M2M) business for \$5.9 million, both of which contributed towards its record-setting revenue performance.

In January 2015 Sierra announced that it acquired Wireless Maingate AB, known in the industry simply as Maingate, for \$91.6 million, and this extended its industry-leading market share beyond the estimated 34% share it had in 2013.

At the conclusion of fiscal 2014, Sierra reported \$207.06 million in cash and cash equivalents on its balance sheet. If you subtract the \$91.6 million used to acquire Maingate in January, it likely still has over \$100 million to pursue further acquisitions to maximize its long-term growth potential.

Should you invest in Sierra Wireless today?

Sierra Wireless has been one of the most disappointing stocks in 2015, but it has the potential to be one of the top performers going forward because it has the support of strong earnings growth, because it trades at inexpensive valuations, and because it has ample cash on its balance sheet to pursue further acquisitions.

With all of the information provided above in mind, I think Foolish investors should take a closer look at Sierra Wireless and strongly consider establishing long-term positions today.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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