



Is Sierra Wireless Inc. About to Plunge?

Description

Sierra Wireless Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)) is down 15% in the past month and investors are wondering if the stock has further to fall.

Let's take a look at the current situation to see if you should buy, sell, or hold Sierra right now.

Earnings and balance sheet

In its Q1 2015 earnings statement Sierra Wireless reported non-GAAP net earnings of \$7.2 million, or \$0.22 per share, compared with \$0.5 million, or \$0.02 per share, a year earlier.

Revenue hit \$150.4 million, a 24.1% increase over Q1 2014 and about flat compared with the fourth quarter. The company finished Q1 with \$99.6 million in cash and cash equivalents.

For Q2 Sierra expects revenues to be as high as \$156 million and the company is targeting net earnings of \$0.21 to \$0.24 per share.

The market initially reacted positively to the May 7 earnings statement, but then took the stock down almost 10%.

Sierra has been delivering better-than-20% revenue growth for the past couple of years, and the trend will have to continue for the stock to remain at its lofty levels.

Acquisitions

In the first quarter Sierra closed its purchase of Wireless Maingate. The Sweden-based company is an important part of Sierra's strategy to expand its leadership position in the emerging Internet of Things (IoT) space. Maingate brings more than 500 European machine-to-machine (M2M) customers and adds connectivity and managed services to complement Sierra's device-to-cloud products.

Sierra also just announced a US\$9.3 million deal to purchase Accel Networks, a leading provider of 4G LTE managed connectivity services. Accel has more than 300 enterprise clients spread out across a

number of sectors, including finance, security, energy, and hospitality.

Sierra plans to continue growing its business organically and through strategic acquisitions.

Threats

Sierra Wireless is the industry leader in the IoT space, but several companies have their eye on this market and a few of them are giants. Sierra is doing well in its niche areas and that trend should continue in the near term. If the big guns decide to take over, I think Sierra will be acquired, but there is a risk that it simply gets pushed aside. Size matters in the tech industry, and Sierra only has a market capitalization of \$1.3 billion. As an example of the challenges Sierra faces, **IBM** recently announced a \$3 billion IoT project.

Should you buy?

Sierra is doing well and making the right acquisitions to expand its dominant position. The stock has rallied significantly in the past couple of years and the market might be in “wait and see” mode for a while before sending the stock higher.

From a technical perspective, the stock is at a pivotal point on the TSX. The shares hit a high above \$56 back in January, and fell back toward \$40 where they found support in early February, and again near the end of March. At the time of writing, the shares are trading below \$41.

If the \$40 mark holds, Sierra could run higher, but a break below the support point could see the shares drop all the way back to \$30.

At this point, the stock is probably a hold.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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