Sierra Wireless Inc.: Does the Earnings-Induced Sell-Off Represent a Buying Opportunity?

Description

Sierra Wireless Inc. (TSX:SW)(NASDAQ:SWIR), one of the world's leading providers of intelligent wireless solutions, announced second-quarter earnings results after the market closed on August 6, and its stock responded by falling over 8% in the trading session that followed. Let's take a closer look at the results to determine if a sell-off of this magnitude was warranted, or if it represents a long-term buying opportunity.

Acquisitions lead to record revenues

Here's a summary of Sierra Wireless's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Diluted Share	$0.26	$0.25	$0.08
Revenue	$157.97 million	$156.83 million	$135.01 million

Source: Financial Times

Sierra Wireless's adjusted earnings per diluted share increased 225% and its revenue increased 17% compared with the second quarter of fiscal 2014. Its very strong earnings-per-share growth can be attributed to its adjusted net income increasing 20.3% to $8.64 million, helped by a foreign exchange gain of $1.58 million.

The company's record-setting revenue can be attributed to revenues increasing 18.5% to $138.13 million in its OEM Solutions segment, driven by growth in its automotive, transportation, energy, and enterprise networking sub-segments, as well as contributions from Maingate, which it acquired in the first quarter.

Here’s a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Revenue increased 7.6% to $19.83 million in its Enterprise Solutions segment
2. Adjusted gross profit increased 17.6% to $51.09 million
3. Adjusted gross margin expanded 20 basis points to 32.4%
4. Adjusted earnings before interest, taxes, depreciation, and amortization increased 93% to $13.15 million
5. Adjusted earnings from operations increased 193% to $10.73 million
6. Cash flows from operating activities increased 9% to $12.94 million
7. Free cash flow decreased 4.6% to $8.68 million
8. Ended the quarter with $96.47 million in cash and cash equivalents, a decrease of 3.1% from the beginning of the quarter

Sierra Wireless also provided its outlook on the third quarter of fiscal 2015. It is calling for the following results:

- Adjusted net income in the range of $7.5-9.0 million
- Adjusted earnings per share in the range of $0.23-0.27
- Revenue in the range of $157-160 million
- Earnings from operations in the range of $9.5-11.0 million

Should you buy or avoid Sierra Wireless today?

It was a great quarter for Sierra Wireless, and the results surpassed analysts’ expectations, so I do not think the post-earnings drop in its stock was warranted. With this being said, I think the decline represents a great long-term buying opportunity, especially because the stock now trades at very inexpensive forward valuations, including just 27.5 times fiscal 2015’s estimated earnings per share of $1.06 and only 20.2 times fiscal 2016’s estimated earnings per share of $1.44.

I think the company’s stock could consistently command a fair multiple of at least 30, which would place its shares upwards of $31.75 by the conclusion of fiscal 2015 and upwards of $43 by the conclusion of fiscal 2016, representing upside of more than 9% and 47%, respectively, from today’s levels.

With all of the information above in mind, I think Sierra Wireless represents one of the best investment opportunities in the tech sector. Foolish investors should take a closer look and strongly consider beginning to scale in to positions today.

CATEGORY

1. Investing
2. Tech Stocks

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2. TSX:SW (Sierra Wireless)

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jsolitro