Sierra Wireless, Inc. Stumbles

Description

In my last article about **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR) back in the spring, I commented on how I really like the company and believe that it will thrive in the long term. I also said that the stock was trading at overly optimistic levels, with it being "priced for perfection." At that time the stock was trading at a P/E ratio, on adjusted EPS, of over 40 times expected 2015 EPS. Fast forward to today and we can see a different picture emerging.

Estimates are being revised downward after the company reported second-quarter results that were below expectations. Revenue grew 7.9% to $154.58 million compared to expectations that were calling for revenue growth of over 10%. The EPS number of $0.23 was only $0.02 shy of expectations, but nonetheless, with overly richly valued stocks, when they fall, they fall hard. The stock is down 30% since the earnings release and 55% year-to-date.

The culprit for the disappointing results is the lower-than-expected demand from PC OEMs because of delays related to the Intel Skylake processor refresh. To add to this, unfortunately, is the fact that fourth quarter will also come in below expectations due to a large automotive customer reducing inventory levels to more normalized levels. As a result, fourth-quarter revenue will come in closer to $150 million compared to expectations of closer to $165 million. This implies a negative revenue growth rate.

What does this mean?

There is a lot to digest here. How should investors look at this new reality? Well, there are a few points to remember.

Firstly, the long-term thesis of this company and this investment remains the same. The company still has a solid positioning in a market that is experiencing strong secular growth, and the fact that the company has hit a speed bump does not change this fact.

Machine-to-machine communication is an industry that is growing fast. It is a fragmented market that Sierra Wireless is well positioned to consolidate as we are at the beginning of a secular trend that is here to stay. Long term, it is reasonable to expect that most machines will be connected because it will provides financial, service, and lifestyle benefits to users of these machines.

Secondly, Sierra's balance sheet still looks good, with no debt and a cash balance of $88 million (down from $96 million last quarter).

And lastly, the opportunities facing Sierra in the automotive, healthcare, and energy sectors are still very much alive and well, and Sierra is still very well positioned to capitalize on them.

At this point in time, I think that investors should remain patient and wait out this short-term weakness in the shares, but I would ready myself to step in as the shares get more attractively valued.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

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1. NASDAQ:SWIR (Sierra Wireless)
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