



Is Sierra Wireless, Inc. a Top Turnaround Pick?

Description

Sierra Wireless, Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)) is having a tough year, but the recent upswing in the stock has some investors wondering if the sell-off is finally over.

A painful year

The company had a strong run in the back half of 2014 as investors bought Sierra Wireless on the hopes of strong revenue growth through 2015. There was reason to be optimistic given the 20% revenue growth up to that point and the fact that management was making smart tuck-in acquisitions.

The company isn't having a particularly bad year, but the performance has not panned out the way the market or the company expected, and a number of disappointing quarterly reports have resulted in a broad exodus out of the stock.

The huge plunge in the stock at the beginning of November came as a result of a small earnings miss and revised guidance. The company reported Q3 earnings of \$0.23 per share, slightly lower than the \$0.25 expected by analysts. Year-over-year revenue grew by 7.9% to \$154.6 million, below estimates of \$159 million.

Management also said Q4 earnings would only be \$0.09-0.11 per share.

Sierra Wireless is up nearly 25% in recent days on bets that the sell-off is overdone, but the shares are still down more than 50% on the year.

The opportunity

Sierra Wireless remains a key player in the emerging Internet of Things (IoT) space. The company has carved out a leadership position in the machine-to-machine (M2M) niche, and there is no shortage of research reports that suggest the overall IoT market is set to boom. IDC predicts it could be as big as \$1.7 trillion by 2020, while McKinsey is even more optimistic, claiming the IoT market could grow to \$11 trillion by 2025.

Sierra Wireless is focusing on the commercial side of the IoT play, with applications targeted at clients in the automotive, health, logistics, and energy sectors. These industries can benefit greatly from M2M capabilities, and there is substantial potential for using the data that is gathered to improve operations and efficiency.

A turnaround play

Sierra Wireless has been around for a long time. The company survived the tech crash as well as the financial crisis. Management is doing a good job of identifying strategic acquisitions to help expand the company's global footprint, and the balance sheet is very healthy.

The company says revenue came up short in the past quarter due to lower demand for 4G-enabled notebooks. The slowdown was caused by an industry transition to a new processor platform, but Sierra Wireless expects the mobile computing segment to move back to expected demand levels in the coming months.

Takeover target

Sierra Wireless is a leader in the IoT space, but it is still a very small company. With an enterprise value of about \$800 million, the stock would be an easy buy for a company that is looking to get into the M2M game.

Should you buy?

At this point, the upside potential probably outweighs the downside risk. If you believe the IoT market is destined to be as big as the pundits project, it might be worthwhile to start a small position in the stock.

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1. Editor's Choice

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