Should Sierra Wireless, Inc. Be a Top Pick for 2016?

Description

It's amazing how much fortunes can change in one year.

Last December **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR) was on a roll as investors piled into the stock, hoping the Internet of Things (IoT) superstar would deliver some blowout gains in 2015.

The stock rallied from a low of about $21 per share in July 2014 to more than $55 at the end of the year. Investors were partying like it was early 2000 again, but the hangover kicked in quickly and has lasted more than 11 months.

Now, Sierra Wireless is back to $21 per share and the stock's fans are wondering what's in store for 2016.

Why has the stock crashed?

Sierra Wireless was delivering revenue growth of better than 20%, and the market thought that pace would be sustainable.

Hindsight is always 20/20, but it looks like the stock was priced for perfection at the start of 2015, and as things often turn out in the tech space, the company hit a few speed bumps during the year.

The interesting thing is that management hasn't really messed up, other than getting caught out on some overly optimistic guidance. The company continues to make small strategic acquisitions to expand its reach in the machine-to-machine (M2M) sector of the IoT market, and the products are leading edge for the applications they serve.

The latest leg down began in November when the company reported Q3 earnings of $0.23 per share, just two cents short of analyst estimates for $0.25 per share. Year-over-year revenue increased 7.9% to $154.6 million, slightly below estimates for $159 million.

That normally wouldn't set off a 40% plunge in the stock, but management also said Q4 earnings would come in at just $0.09-0.11 per share, which caused another wave of fans to simply throw in the towel and move on.

A turnaround play

Sierra Wireless is one of the tech sector's great survivors, and investors shouldn't count the name out just yet.

The company remains a leader in the emerging IoT space, and research reports are predicting insane growth numbers for the market over the next five to 10 years.

IDC thinks the IoT market could be $1.7 trillion by 2020, and McKinsey says it could hit $11 trillion by 2025.

Sierra Wireless operates in a very specific niche, targeting automotive, health, energy, and logistics companies. The commercial sector can certainly benefit from M2M capabilities, and there is a lot that can be done to improve operating efficiency if all the data is analyzed properly.

Management says the weak Q3 and Q4 results are due to lower demand for 4G-enabled notebooks, which has been caused by an industry transition to a new processor platform. If the issue truly is short term in nature, the sell-off might be overdone.

Should you buy?

At this point, the upside potential probably outweighs further downside risks. A strong quarter would bring investors back into the stock and I think Sierra Wireless could become a takeover target if the shares fall much further.

If you have a bit of cash on the sidelines and like to bet on turnaround plays, Sierra Wireless might be worth a shot at the current price.

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1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

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