



## Could Sierra Wireless, Inc. Double in 2016?

### Description

**Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) is down 60% in 2015, and investors are wondering if next year will bring better results.

### High expectations

The company began 2015 riding a wave of high expectations. Investors pushed the stock up more than 100% in the back half of last year as revenue growth came in above 20% and the market got excited about companies that are carving out a niche position in the new Internet of Things (IoT) sector.

Fans also praised the company's strategic acquisitions of other IoT players, including Sweden's Wireless Maingate, as Sierra Wireless positioned itself to expand its global reach in the machine-to-machine (M2M) IoT space.

Unfortunately, the rally quickly reversed course as Sierra Wireless hit a few speed bumps, and it quickly became evident that the outstanding revenue growth wasn't going to continue, at least in the short term.

### Earnings

The stock slid through most of 2015, but the big drop came when Sierra Wireless reported its third-quarter results.

Earnings for Q3 were \$0.23 per share, certainly respectable, but below the \$0.25 per share that analysts had been expecting. Year-over-year revenue rose 7.9% to \$154.6 million, which was just shy of the \$159 million the market had anticipated.

The company's Q4 guidance also disappointed investors as management said earnings would be just \$0.09-0.11 per share in the last three months of the year.

The earnings miss coupled with the low guidance caused a stampede out of the stock, dropping the shares by more than 40% in the first two weeks of November.

### **An opportunity for investors?**

The company said the slowdown in revenue is due to lower demand for 4G-enabled notebooks. An industry transition to a new processor platform appears to be the culprit, and when that process is complete, management believes sales will get back on track. Assuming the revenue slide is a short-term issue, it looks like the selloff could be an opportunity to buy the stock.

### **Sierra's strengths**

The company remains a leading player in the M2M niche. If Sierra Wireless were targeting the consumer market, I would be more concerned, but the company's products are designed to help commercial clients in the automotive, health, logistics, and energy industries improve their businesses.

Gathering data with the aim of boosting productivity and operating efficiency is a core focus for many companies, and Sierra Wireless has some of the best M2M products available.

### **Could the stock double?**

If revenue growth ramps back up in the first half of 2016, Sierra Wireless could easily double from the current level. At some point, I think the company will become a takeover target, and that could also put a nice tailwind behind the stock.

### **Should you buy?**

The upside potential probably outweighs the downside risk at this point, and contrarian investors might want to start a small position at the current price. I tend to be a bit more conservative and would wait until the Q4 numbers come out before stepping in, just in case another surprise is in the cards.

### **CATEGORY**

1. Investing
2. Tech Stocks

### **TICKERS GLOBAL**

1. NASDAQ:SWIR (Sierra Wireless)
2. TSX:SW (Sierra Wireless)

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### **Date**

2025/08/24

### **Date Created**

2015/12/30

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