



Contrarian Investors: Should Sierra Wireless, Inc. Be in Your Portfolio?

Description

The roller-coaster ride continues for investors in **Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)), but contrarian types with a nose for value are starting to see opportunity in the stock.

Let's take a look at the current situation to see if the Internet of Things (IoT) leader should be in your portfolio.

Bad numbers and missed guidance

Sierra Wireless has suffered the wrath of an impatient market.

The stock recently fell 30% in a massive sell-off triggered by Q4 2015 earnings that came up short of both analyst expectations and the company's own guidance. When you look at the actual numbers, the plunge is a bit of a head scratcher, but that's how things go in the tech sector.

Sierra Wireless reported Q4 2015 revenue of US\$144.8 million, down 2.8% compared with Q4 2014. Net earnings came in at US\$2.5 million, or \$0.08 per diluted share, down from US\$0.29 per share in the same period the year before.

Analysts were expecting earnings per share (EPS) of US\$0.10, and the company had provided guidance for US\$0.09-0.11 per share. That doesn't look so bad, but the market went nuts.

Why did the stock fall so much?

Sometimes companies miss their numbers, but Sierra Wireless keeps shooting itself in the foot by setting high expectations and then missing the bar. The Q3 2015 results also disappointed the market.

To make matters worse, Q1 2016 guidance was not overly optimistic with revenue expected to be US\$135-145 million and EPS to be "slightly negative to slightly positive."

As a result, investors decided to throw in the towel.

What's the good news?

The company working through a transition phase in the market, and the last 12 months might turn out to be just a period of growing pains for the company.

A string of acquisitions in 2015 has positioned the firm well to expand its leadership position in the global machine-to-machine (M2M) niche with strong offerings targeted at the automotive, health, logistics, and energy sectors.

Sierra Wireless is working hard to integrate all of the new assets, and investors should see stronger results begin to emerge in the back half of the year.

The company is also winning important new business.

LTE Advanced (LTE-A) is the newest 4G LTE standard that provides the additional capacity and throughput required to enable high-level M2M communication. As the IoT market continues to expand, more devices are being added to cellular networks, and that requires faster and more reliable technology.

Sierra Wireless is the first company to offer an embedded module to support LTE-A. The product, AirPrime EM7455, has been selected by Lenovo to be used in the company's next-generation notebooks, tablets, and two-in-one devices.

Financials

Sierra Wireless finished 2015 with cash and cash equivalents of \$93.9 million and has no long-term debt.

Management plans to buy back as much as 10% of the outstanding common stock, so there is a belief that the shares are undervalued.

Should you buy?

The stock has sold off so much that the upside potential probably far outweighs the downside risks at this point. The latest revenue guidance of US\$630-670 million for 2016 might actually turn out to be conservative, and I think a much larger player will eventually buy Sierra Wireless.

If you have a bit of cash sitting on the sidelines, it might be worthwhile to take a small position in the stock at the current level.

CATEGORY

1. Investing
2. Tech Stocks

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