Sierra Wireless, Inc.: Time to Buy?

Description

Sierra Wireless, Inc. (TSX:SW)(NASDAQ:SWIR) has pulled back after the massive rally in May, and investors are wondering if this is the right moment to buy the stock.

Let's take a look at Canada's leading Internet of Things (IoT) player to see if it deserves to be in your portfolio.

Rocky ride

Sierra Wireless isn't for the faint of heart. The stock has a history of making fantastic runs only to be followed by equally painful plunges. The tech space is always volatile, but Sierra Wireless has really been on some wild rides.

The latest surge started in the middle of 2014 as investors rallied behind the company's prospects to be a global leader in the emerging IoT market. Revenue was growing at 20% per year, and everything looked great. In just six months the stock rose from $20 per share to above $55.

Unfortunately, the market was expecting revenue growth to continue at the same pace through 2015, but things didn't work out that way, and the stock pretty much took the elevator back down through all of last year.

Sierra Wireless didn't help its cause. The company consistently missed its own guidance as well as analyst estimates.

Today the stock is trading at $22 per share, roughly in line with where it began the year, but it's up 50% from the February low.

What's new?

Sierra Wireless delivered better-than-expected Q1 revenue and earnings.

The number were not overly impressive compared with the previous year, but investors had gotten so used to being disappointed that the good news brought a wave of buyers back into the stock.

First-quarter revenue was US$142.8 million, or 5.1% lower than the same period last year.

The OEM solutions business saw revenue drop 9.1% year over year to US$120.9 million. The Enterprise Solutions group fared better with revenue coming in at US$15 million, up 9% compared with Q1 2015. The company's Cloud and Connectivity Services operation was the standout with a 92% increase in revenue from US$3.6 million to US$6.9 million.

Gross margins nudged up to 32.8% from 32.5%.

Guidance

Sierra Wireless said Q2 revenue would be US$150-160 million and full-year revenue is targeted at US$630-670 million. The company expects to earn US$0.60-0.90 per share this year, which is in line with the guidance provided back in February.

Should you buy?

Sierra Wireless remains a leading IoT solutions provider in the machine-to-machine (M2M) niche with strong products targeting opportunities in the automotive, transport, and health sectors.

The stock is now trading at a level where there should be limited downside risk as long as the company makes good on its guidance, and I suspect Sierra Wireless will eventually be bought out by one of the tech giants.

However, given the rocky history of revenue misses, I would probably wait for the Q2 numbers to come out before buying the stock.

CATEGORY

1. Investing
2. Tech Stocks

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