Sierra Wireless, Inc.: Is it Still the Opportunity of a Lifetime?

Description

Last week, I wrote about how investors had the opportunity of a lifetime to get into **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR) at good valuation levels. With the company reporting better than expected fourth-quarter results yesterday, the stock is up a whopping 25% at the time of writing today. So, is it still the opportunity of a lifetime?

Let's review where I think we stand and what investors should do at this point.

Not only did the company beat expectations in the fourth quarter, it knocked them out of the park. GAAP EPS was $0.49 per share, but this included a one-time royalty accrual adjustment. Adjusting for this, EPS came in at $0.27 versus consensus analyst expectations of $0.16. That's still 69% above expectations!

Lower cost of goods sold (gross margin of 42.2% versus 31.1% in the same quarter last year), reduced royalty accruals, and lower operating expenses contributed to the EPS. Also, and very importantly, organic growth was 9%, and this is the first time the company has experienced organic growth in five quarters.

After all is said and done, the bottom line is that EPS estimates are being ratcheted up big time, and when estimates are on the rise, that is always a good thing for a stock. So, 2017 and 2018 could reasonably see EPS growth of over 20%.

Strong balance sheet and cash flow

Sierra's balance sheet still looks stellar with negligible debt and a cash balance of US$102 million. Furthermore, the company has been generating healthy cash flows with each quarter. In 2016, Sierra reported cash flow from operations of $47 million and free cash flow of $31 million. This represents a 181% year-over-year increase in operating cash flow and a $27 million increase in free cash flow.

Valuation

Just to review where we are coming from and why there is still opportunity for investors to get in to the shares, let's look at valuation.

After a long period of being priced for perfection, trading at P/E levels (on adjusted EPS) in excess of 60 times, the stock's valuation keeps coming down. The valuation came down because the stock price came down. That makes sense.

But today, we are seeing valuation come down in the best possible way. The stock price is rising, but estimates are rising too, so it's the denominator of the P/E equation — i.e., the earnings — driving it. The stock trades at a significantly lower level than recent history, a P/E ratio of 35 times this year's EPS, and 29 times next year's consensus EPS expectations. Given the massive opportunities ahead of this company and the improvements we are seeing, the risk/reward on the stock still looks good to me.

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