Sierra Wireless, Inc.: Full Speed Ahead

Description

Sierra Wireless, Inc. (TSX:SW)(NASDAQ:SWIR) climbed a whopping 56% this month following an absolutely fantastic Q4 2016 earnings beat. The company had solid guidance going into 2017 and is well positioned to profit from the fast-growing Internet of Things (IoT) market. Future growth prospects are promising, but does it make sense to buy shares after its amazing rally?

Fantastic quarter launched the stock into the atmosphere

The company crushed analyst Q4 2016 expectations by reporting EPS of $0.27, which was $0.11 more than expectations, and revenue of US$163 million, which was up 12.6% year over year and beat the expectations by US$1.94 million. The outstanding beat was due to strong gross margins and the management team's expense-management initiatives. Gross margins were at 42.2%, which was 10.1% more than Q4 2015.

OEM Solutions revenue grew by 11.2% year over year to US$163 million. Enterprise Solutions revenue grew by a whopping 27.1% year over year. And Cloud & Connectivity Services revenue was in line with the same quarter last year.

The IoT space is the place to be if you want a ridiculous amount of growth. According to Gartner, there will be approximately 25 billion devices connected to the internet, and they may provide incremental revenue of US$300 billion. I believe Sierra Wireless is in a very good spot to capture a large chunk of this market and potentially become a global leader in device-to-cloud solutions down the road. This could mean astronomical returns for shareholders over the long term.

For Q1 2017, the management team expects revenue between US$152 million and US$161 million with EPS between $0.13 and $0.20. There's no question that the Q4 results caught analysts off guard, so it's likely that analysts will expect quite a bit more from the company going forward, as many firms upgraded the stock following the earnings beat.

What about value?

The stock currently trades at a 2.5 price-to-book multiple and a 1.5 price-to-sales multiple, both of which are higher than the company's five-year historical average multiples of 1.7 and 1.1, respectively. The stock definitely looks pricey when looking at these metrics, but the price-to-cash flow multiple is at an attractive 15, which is much lower than the company's historical average multiple of 27.

The stock isn't a huge value play anymore, but I still think the stock is a great buy if you've got a long-term investment horizon. The company just won another 4G connected-car program, and there are many other huge opportunities that will be coming Sierra's way.

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