



## Sierra Wireless, Inc. Shares Are Soaring as it Continues its Comeback

### Description

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 after the company reported its fourth-quarter 2016 results. The company reported better than expected fourth-quarter results, and the stock was up over 20% in a single day.

Let's fast forward to today.

The company has just reported its first-quarter 2017 results, and we are seeing more of the same, as the stock is up over 15% today at the time of writing. And the shares are up 78% since January 2016 after falling from grace in January 2015 to lows of \$14.37.

So, results were in the high end of the company's guidance, and organic growth was a strong 11% compared to 9% last quarter for the second consecutive quarter of organic growth. Furthermore, the company has also released its expectations for the year which are above expectations.

Given all this, I would like to review where I think we stand and what investors should do at this point. Is it still the opportunity of a lifetime to get into Sierra Wireless? I would say, definitely.

Not only did the company beat expectations again in the first quarter, they knocked it out of the park and increased guidance for the year pretty significantly.

Adjusted EPS came in at \$0.24 compared to \$0.08 in the same period last year, and full year 2017 EPS is now expected to be north of \$1 compared to \$0.68 in 2016 for a growth rate of 47%.

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.

### Strong balance sheet and cash flow

Sierra's balance sheet still looks stellar with negligible debt and a cash balance of US\$92 million. Furthermore, the company continues to generate healthy cash flows with each quarter.

In the first quarter of 2017, Sierra reported cash flow from operations (before changes in working capital) of \$11 million and free cash flow of \$8 million.

## 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. Up until now, the valuation had come down because the stock price came down.

But today, we are seeing the 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) that is driving it.

The stock trades at a significantly lower level than in recent history — a P/E ratio of 27 times this year's earnings expectations, which is a far cry from the levels it had been trading at a couple of years ago.

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