Better Buy: Shopify Inc. or Sierra Wireless, Inc.?

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) and **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR) share prices are both moving in the right direction. Shopify shares have rallied 151% since the beginning of the year, and Sierra Wireless shares have risen a more modest 27%.

Let's take a closer look at the two to determine where they are headed from here and which is the better buy.

Shopify is in the early stages of its business development. The stock has been trading mostly on revenue growth and potential, which has been super impressive. The latest quarter saw a 75% increase in revenue versus the second quarter of 2016.

Shopify is in the stage of trying to actually turn a profit from what is and has been a booming business. We can make educated guesses as to where we believe margins will settle and where Shopify will end up in its very competitive market.

Losses at the company are lessening, with the second quarter reporting an operating loss of $15.9 million, but investors are still waiting for the company to turn a profit.

While the company has made impressive strides in its business, we as investors must be careful and refrain from buying into hype.

The stock seems to be in the euphoric optimism range. At over $144 at the time of writing, the stock trades at 23 times sales and 12 times book value. The stock is pricing in all of the good news related to the company, and then some.

The balance sheet has $965 million in cash and short-term investments to take the company through its period of losses, but as an investor, I prefer to stay on the sidelines and wait this one out.

As the global leader in the M2M market, Sierra Wireless remains well positioned to take advantage of this movement, which is expected to expand to in excess of 27 billion connected devices and to a +US$3 trillion market by 2025.

Organic revenue growth has strengthened to just over 11% in the latest quarter to $173 million, as the company is recovering from the weakness it experienced in 2015 and 2016, when it saw lower demand from certain large automotive OEMs.

There was a time when Sierra was also a stock that was priced for perfection. And after a period of being priced for perfection, trading at P/E levels (on adjusted EPS) in excess of 60 times, the stock's valuation began to fall.

At first, valuation came down because the stock price got killed, tumbling 75% from the beginning of 2015 to the beginning of 2016. But then valuation came down because the company started to beat estimates and earnings began to rise faster than expected.

Currently trading at a P/E of 27 times this year's earnings and after four consecutive quarters of handily beating expectations, I believe Sierra now represents good value to get exposure to the very lucrative M2M industry.

CATEGORY

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TICKERS GLOBAL

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)
4. TSX:SW (Sierra Wireless)

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