



Why Is Sierra Wireless, Inc. Soaring Almost 10% Today?

Description

With **Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) shares soaring almost 10% today at the time of writing, I thought it a useful exercise to review why I think this stock is still a [good long-term buy](#) for investors.

Year to date, the stock has risen 36%. But, currently at \$28.86, it has fallen from highs of over \$40 that were hit this summer as a result of the company's acquisition of Numerex.

But while the Numerex acquisition is expected to be dilutive in 2018, it increases Sierra's cloud revenue to over 10% of revenue from less than 5% of revenue. This is an important point, because this revenue is higher margin (54% versus 34% gross margin for Sierra's core revenue) and recurring.

So, longer term, despite the dilution, this is a good deal.

Attractive valuation

The stock price represents valuation levels that are far below historical valuation levels for the stock. At a P/E ratio of 27 times this year's expected earnings and 25 times next year's consensus earnings, the valuation is a far cry from what the stock used to trade at when it was [priced for perfection a few years ago](#).

Back then, the stock traded at over 40 times earnings, even as the company was experiencing some hiccups in its results.

But now, with the company reporting better than expected third-quarter results last month, we can continue to be impressed, as they show clear growth as well as margin improvements.

With revenue growth of 12.8%, gross margin of 33.3% compared to 32.1% in the same period last year, and adjusted EPS of \$0.23 compared to \$0.13 in the same period last year for an increase of almost 100%, we can see that despite the volatility of the stock, the company is still thriving.

And with organic growth returning after four quarters of contraction, and despite running below Sierra's

medium-term organic growth target of 10-15%, Sierra remains well positioned to benefit from the Internet of Things machine connectivity opportunity.

Lastly, Sierra's balance sheet looks stellar, with negligible debt and a cash balance of US\$74.2 million. This is a key advantage, as it will enable the company to continue to be flexible and to respond to market conditions in a measured, strategically sound manner.

Although Sierra remains the global leader, management has decided to expand its sales force and investment in product innovation, as the market remains highly competitive. As a result, margins will suffer in the short term, but, again, I am keeping my eye on the long term.

And long term, this is a good decision.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:SWIR (Sierra Wireless)
2. TSX:SW (Sierra Wireless)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date

2025/08/25

Date Created

2017/11/27

Author

karenjennifer

default watermark

default watermark