Attention Investors: Sierra Wireless, Inc. Is on Sale Today

Description

In some ways, the **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR) of late 2014/early 2015 reminds me of certain stocks today that are trading at very high, wildly optimistic levels, namely marijuana stocks such as **Canopy Growth Corp.** (TSX:WEED), which is trading at over 65 times sales.

History

Sierra had risen 600% from January 2013 to the end of the 2014 level of over $56 in a frenzy that was all about the Internet of Things and connected cars. But the facts behind these exciting times don't look as good. The company was reporting net losses, if we include extraordinary items, and while revenue was growing, the stock had a hard time living up to its multiple and the corresponding expectations.

So, the stock proceeded to plummet to lows of under $15 in January 2016, as the company did not, in fact, live up to market expectations and hit a speed bump in the form of slower than expected revenue and EPS growth.

Lower than expected demand from PC OEMs and automotive customers actually brought the company's revenue growth rate to negative at a certain point in 2016.

Solid business, attractive valuation

At this point, the stock is trading at over $26, or a P/E multiple of 30 times trailing EPS and 26 times next year's consensus expected EPS. This is a far cry from the multiples of over 60 times that the stock was trading at back in 2015 — a big improvement. Now that Sierra's valuation incorporates more realistic expectations, the stock looks like a much better bet.

These days, with the company reporting better than expected third-quarter results recently, and in fact, better than expected results in the last few quarters, we can continue to be impressed, as they show clear growth as well as margin improvements.

With revenue growth of 12.8%, a 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 and machine connectivity opportunity.

Lastly, Sierra's balance sheet still looks stellar, with negligible debt and a cash balance of US$74.2 million.

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'm keeping my eye on the long term.

And long term, this is a good decision, because the opportunities facing Sierra in the automotive, healthcare, and energy sector are still very much alive and well, and Sierra is still very well positioned to capitalize on them.

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1. Investing
2. Tech Stocks

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Author

karenjennifer