



BlackBerry Ltd. or Sierra Wireless, Inc.: Which Is the Better Buy?

Description

BlackBerry Ltd.'s ([TSX:BB](#))([NYSE:BB](#)) shares have more than doubled in the last year, while **Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) shares have risen 13% in the last year.

This performance notwithstanding, which is the better buy for 2018?

Increasingly focused on [technology](#) for the self-driving vehicle market, BlackBerry has much to gain from the North American Auto Show that company executives are attending this year.

And while the market is still emerging, and competition is fierce, with many players pursuing this market, BlackBerry is showing strong early signs.

The company has engaged in different partnerships with automakers and suppliers, such as **Ford Motor Company** ([NYSE:F](#)), which has expanded its use of BlackBerry's QNX software for connected and autonomous cars.

And consistent with CEO John Chen's plan, the licensing and the enterprise software and solutions segments of the company are accounting for an increasingly bigger part of revenue, with licensing revenue accounting for 22% of revenue, and enterprise software and services revenue accounting for 43% of revenue.

The balance sheet remains strong, with cash plus short-term investments of more than \$2 billion. An increasingly larger percentage of revenues are recurring, and the company's cash flow generation and minimal debt has set it up to continue to invest in the business and grow organically and/or through acquisitions.

BlackBerry is a different company than it was — a stronger company. And while the success has been undeniable, the stock's valuation seems to be reflecting this success, although an acquisition would change the playing field.

Also benefiting from the drive toward car connectivity is Sierra Wireless.

Sierra is trading at under \$25 and is coming off a period of stock price weakness after hitting highs of just under \$40 in mid-2017. The company is beating analyst EPS expectations and seeing a return of organic growth.

So, why has the stock stumbled, and what does this mean for shareholders?

The culprit is Sierra's \$107 million acquisition of Numerex, a leading provider of managed enterprise solutions that enable the Internet of Things, which will be dilutive to 2018 EPS.

But the merits of this acquisition are good, albeit long term. The acquisition increases higher-margin recurring revenue and gives the company a bigger presence in enterprise solutions that enable the Internet of Things. Sierra's cloud revenue increases to 10% of total revenue from 5% as a result of this acquisition.

So, even after the dilution is accounted for, the [stock is trading at attractive](#) P/E ratios of 23 times this year's expected earnings and 21 times next year's earnings.

With a healthy balance sheet, strong cash flow generation, and \$27 million in free cash flow last quarter, Sierra Wireless has emerged as one of the top opportunities for 2018.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2. NYSE:BB (BlackBerry)
3. NYSE:F (Ford Motor Company)
4. TSX:BB (BlackBerry)
5. TSX:SW (Sierra Wireless)

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Author

karenjennifer

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