2 Stocks + 2 Tailspins = 2 Great Investments

Description

Sierra Wireless, Inc. (TSX:SW)(NASDAQ:SWIR) and **Linamar Corporation** (TSX:LNR) are companies that Canadian investors can be proud to own. Both have been solid investments, but share prices have been beaten down recently.

Founded in 1993, Sierra is a Vancouver-based tech company and trades on the TSX. Investors may be wondering why the share price has dropped precipitously, down 8.2% in the days leading up to June.

This Canadian-made company has been a darling investment and touts itself to investors as a *pure play* on the Internet of Things (IoT). Certainly enticing!

Sierra's business revenue comes mostly from parts and equipment used by other companies, known as Original Equipment Manufacturer (OEM). OEM business accounted for $135 million in revenue, with a solid gross margin of 29%, in Q1 for 2018. By comparison, IoT services contributed less revenue at $22 million in Q1. IoT service is climbing consistently in recent quarters, however. Margins for its IoT service and that of Enterprise Solutions are generally high. The lesson here is that Sierra's business is growing more diverse, which is is a good thing.

However, competition is one of the biggest risks for Sierra shareholders. It's hard to forecast who will gain the best foothold as more devices are wired, tracked, and in the cloud. But Sierra is a small cap, with market cap of $754 million, and this alone makes it a riskier investment relative to the giants in its sector.

Sierra is still facing challenges. This is a stock that reached an all-time high of $56.94 back in early 2015. In February 2017, the stock popped 32% in one day after massively beating earnings estimates. The stock is now chopped in half, bottoming out in April at $20.63 per share. Going back to last summer, teachings from fellow Fool contributor provides a valuable history lesson.

Sierra's Q1 earnings-per-share (EPS) came in at $0.09, the worst quarter in two years, despite beating estimates. The silver lining is that Sierra tends to deliver on earnings, although this is a sector in which earnings may swing.

The rest of 2018 is looking pretty solid for earnings: from Q2 to Q4, the expected EPS are: $0.22, $0.25, and $0.31. Add Q1 for 2019 and you're looking at an EPS of around a buck. There is a margin of safety for this forecast because it puts the forward price-to-earnings ratio at under 20. This metric alone puts Sierra as undervalued by 33% compared to historical fwd P/E levels.

But there's still downward pressure for Sierra due to new uncertainty: CEO Jason Cohenour announced that he's stepping down after 12 years at the helm.

Switching gears to Linamar, a manufacturing company in the automotive sector and another Canadian company gem. I haven't pulled the trigger and purchased shares of Linamar, but now the price is definitely favourable after two weeks of the share price dropping. Fellow fool Will Ashworth's take on Linamar is spot on. Potential Linamar investors can read here to get good insight.

The bottom line

Investors who are enthusiastic about supporting great Canadian companies can look no further than Sierra and Linamar. Patriotism aside, these two have delivered growth (Sierra) and value (Linamar) to investors. Both face downward pressures, but I expect the price momentum to reverse handsomely by the end of the summer.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2. TSX:LNR (Linamar Corporation)
3. TSX:SW (Sierra Wireless)

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