Sierra Wireless, Inc. (TSX:SW) Stock Is Crazy Cheap: Is it Time to Buy?

Description

Uncertainty has been weighing on certain previously beloved technology stocks.

Sierra Wireless (TSX:SW)(NASDAQ:SWIR) is trading at $24.10, less than half what it was trading at back in 2015, and at multiples that are a far cry from the good old days of overvaluation.

In fact, now we have swung to a situation where the stock may be grossly undervalued — especially if we consider the traction that has been made by the company in the auto business, a healthy “internet of things” demand environment, and the company’s strong balance sheet and free cash flow generation.

Sierra Wireless stock has seen a huge contraction of its multiple, in accordance with company-specific issues related to its Numerex acquisition, which will be mildly dilutive to earnings in 2018, uncertainty with regard to who the new CEO will be, and disappointing organic growth rates.

But longer term, this tech stock is a bargain buy at these levels for the following reasons:

First, the Numerex acquisition will give the company exposure to higher-margin (54% versus 34% gross margin for Sierra’s core revenue) recurring revenue on a go-forward basis.

Second, the company is well positioned in the auto industry, with the company’s connected car wins with Volkswagon and other large OEMs boosting revenue in the second half of the year and certainly over the long term as well.

The market for connected cars remains big, and although it’s a competitive market, Sierra has an increasingly strong position due to its technology.

In the second quarter of 2018, revenue growth was 16% (9% organic growth), free cash flows were strong, and the company maintained its stellar balance sheet with negligible debt and $74 million cash.

Sierra Wireless has a bright future as the leader in machine-to-machine, or M2M, connectivity, and is positioned extremely well to continue on its trajectory of growth.

And with estimates calling for a four-fold increase in the number of connected machines by 2020, there is plenty of growth to be had.

A ramping up in the automotive business, stabilizing results out of Numerex, and Sierra's number-one position in the M2M market translate into a great opportunity.

Trading at $13.18 at the time of writing, **BlackBerry** (TSX:BB)(NYSE:BB) stock has also been very volatile, as investors try to deal with high levels of uncertainty. But unlike Sierra, BlackBerry stock is trading at very elevated multiples, leaving no room for error.

Revenue is still declining, there is a real lack of visibility with regard to its transition from IP licensing to SaaS, and recent contract wins appear to be priced into the stock.

On the flip side, I like that the company's recurring revenue is increasing as a percentage of total revenue.

In the first quarter of fiscal 2018, recurring revenue accounted for 86% of total revenue, with management expecting this number to increase to over 90% within a year.

Lastly, BlackBerry still has a very strong balance sheet, with more than $2 billion in cash, leaving the door open for strong future growth organically or via acquisitions.

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