



Why You Should Buy These 2 Technology Stocks on October Weakness

Description

The following two [tech stocks](#) will benefit greatly from the internet of things revolution, and as such, investors should consider them for their portfolios.

BlackBerry Ltd. ([TSX:BB](#))([NYSE:BB](#)) stock has been characterized by extreme volatility this year, and while the stock has been a volatile one in the past, this year has shown volatility in the high-end of its history.

Today, BlackBerry stock is down 20% year-to-date and is up 45% from 2016 lows.

There are three major reasons why I'm a buyer of BlackBerry stock at these levels.

The first relates to the fact that the company's recurring revenue is increasing as a percent of total revenue.

In the first quarter of 2018, recurring revenue accounted for 86% of total revenue; in the second quarter, it accounted for 81%, and management expects this number to increase to over 90% within a year.

The second reason that I'm bullish on the stock is that BlackBerry has won a number of design wins in the automotive software business, an emerging business that has a lot of growth ahead of it.

This was evident in the second quarter of 2018, as growth in BlackBerry Technology Solutions revenue was at a record high, driven by growth in the automotive segment.

Finally, 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.

Sierra Wireless Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)) is trading at \$24.12, 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 is 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 been hit due to its Numerex acquisition, which will be mildly dilutive to earnings in 2018, uncertainty with regard to the new CEO (now solved), and disappointing organic growth rates.

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

The company is well-positioned in the auto industry, with the company’s connect car wins with Volkswagen 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.

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.

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.

CATEGORY

1. Investing
2. Tech Stocks

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2. NYSE:BB (BlackBerry)
3. TSX:BB (BlackBerry)
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