



This Is Why Sierra Wireless Inc. (TSX:SW) Is a Tech Stock to Own

Description

Once a market darling providing investors with [sky-high returns](#) and trading similar to how marijuana stocks are trading these days, **Sierra Wireless Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) has seen its share of good days.

But it has also seen its share of bad days. Like these days.

Trading below \$20 at the time of writing, Sierra Wireless stock is trying desperately to break out, but it's clear that despite fundamentals that are looking better and enormous potential, the company is stuck.

This is what Sierra Wireless offers shareholders today:

A free cash flow business

Sierra Wireless has spent countless quarters burning through its cash, but in 2018 the company is generating healthy amounts of [free cash flow](#), which bodes well for everyone.

In the first nine months of 2018, Sierra generated almost \$10 million in free cash flow, which equates to \$0.31 per share.

Sierra Wireless has been performing ahead of expectations, with cash flows growing at faster than expected rates.

Acquisitions

Sierra has \$67 million in cash on its balance sheet and no debt, leaving the company with plenty of wiggle room and flexibility with regard to future acquisitions and capital spending.

Although the stock has been hit recently due to its Numerex acquisition, which will be mildly dilutive to earnings in 2018, acquisitions are a potentially big growth driver for the company and the stock.

Longer term, 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.

Huge Internet of Things market

The approximately \$10 billion Internet of Things (IoT) market is large and addressable by Sierra, who has a leading position in many business verticals such as automotive, healthcare, and energy.

Sierra is investing in product innovation in order to secure its leading position. Judging by its improving results, we can say that the company is achieving success.

Attractive valuation

Sierra Wireless stock is trading at less than half of 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, we have swung to a scenario in which the stock is grossly undervalued – especially if we consider the traction the company has made in the automotive business, a healthy IoT demand environment, and the company's strong balance sheet and free cash flow generation.

Sierra trades at a P/E multiple of 16 times next year's adjusted EPS estimate.

In summary, investors should at least keep their eye on Sierra Wireless stock, as it appears that it's setting up for a big upward move if things continue to improve.

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