



3 Small-Cap Stocks With Big-Cap Potential

Description

Though large- and mega-cap stocks may dominate headlines, this doesn't mean good investments can't be found in the small-cap space, as well. Small-cap stocks, defined as stocks with market capitalizations between \$300 million and \$2 billion, are often more volatile than their larger peers. But when shares of these companies can be bought at good prices, greater volatility is sometimes a worthy price to pay for the chance of meaningful share-price appreciation over the long haul.

Three small-cap stocks with solid financials relative to their valuations are wireless-solutions company **Sierra Wireless** ([NASDAQ: SWIR](#)), mobile game developer **Glu Mobile** ([NASDAQ: GLUU](#)), and online real estate specialist **Redfin** ([NASDAQ: RDFN](#)).

All three of these stocks have struggled over the last year. Shares of Sierra Wireless, Glu Mobile, and Redfin have fallen 47%, 31%, and 11%, respectively, over the last 12 months. This makes it a good time to take a look at these companies to see if they've been oversold.

Sierra Wireless

With a market capitalization of \$411 million, Sierra Wireless is the smallest of these companies. But investors shouldn't count it out because of its size.

Declining revenue growth recently has spooked investors, sparking a sell-off in the company's stock. Its top-line decline comes as Sierra's embedded-broadband segment has been facing headwinds due to weaker demand from mobile computing. Revenue in the segment for the six-month period ending June 30, 2019 fell 17% year over year, weighing on the company's consolidated results. Sierra's total revenue over this same time frame decreased 6% year over year.

But the company's Internet of Things (IoT) business is seeing promising growth. This segment's revenue increased 6% year over year during this time frame. More importantly, management indicated in Sierra Wireless' second-quarter update that the opportunity for the segment's future is bright. "We are building a strong and growing funnel of customer opportunities in IoT Solutions and are continuing to make good progress as we transform the business," said Sierra Wireless CEO Kent Thexton.

The company is barely profitable on a [non-GAAP](#) (adjusted) basis, with non-GAAP earnings of \$2.5 million in Q2, but Sierra's meaty gross profit margin of 31% could help the company begin growing its bottom line rapidly if it can return to meaningful strong top-line growth.

Glu Mobile

Unlike Sierra Wireless, Glu Mobile is serving investors strong top- and bottom-line growth. But investors will have to pay up for this growth story. The [tech company](#) has a \$762 million market capitalization — well above Sierra's.

To capture Glu Mobile's momentum, consider its second-quarter results. The company's revenue increased from \$90.2 million in the year-ago period to \$95.5 million, gross profit margin improved from 62.5% to 64.6%, and net income swung from a loss of \$4.4 million to a profit \$2.5 million.

"In the second quarter, Glu had its highest bookings quarter ever driven by double digit year-over-year growth in all three of our Growth Games and we launched two exciting new titles — *WWE Universe* and *Diner DASH Adventures*," explained Glu Mobile CEO Nick Earl in the company's second-quarter earnings release.

For the full year, management expects revenue to be between \$406 million and \$410 million. This is up from \$367 million in 2018.

Redfin

Redfin is by far the fastest-growing company of these three. Of course, it has the largest market cap — at \$1.6 billion.

The company's revenue is surging, rising 39% year over year in its second quarter. Further, with a solid gross margin of 24%, the company raked in \$48.3 million of profit on its \$197.8 million in second-quarter revenue. Redfin CEO Glenn Kelman asserts that the company is at "a turning point."

"Year-over-year growth in website traffic, brokerage sales, and revenues overall accelerated for the second straight quarter," explained Kelman. "Our new businesses have built the infrastructure and delivered the results needed for more rapid expansion, with significant margin gains in mortgage and title, and integrated field execution for instant-offers and the brokerage."

Also worth noting, the company is gaining market share. Redfin brokered 0.94% of U.S. existing home sales during the quarter, up 0.11 percentage points from the first quarter of 2019 and also up 0.11 percentage points from the year-ago period.

While Redfin has been losing money recently as the company invests heavily in its business in order to realize growth opportunities, management's guidance for its third quarter of 2019 suggests its bottom line is about to turn upward. Redfin guided for third-quarter net income to be between \$3.4 million and \$6.4 million. This compares to net income of \$3.5 million in the third quarter of 2018.

While Sierra Wireless, Glu Mobile, and Redfin stocks will likely continue to see significant volatility, investors who buy and hold these shares for the long haul have a good chance of one day being able to call these stocks large caps.

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1. NASDAQ:RDFN (Redfin Corporation)
2. NASDAQ:SWIR (Sierra Wireless)

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