Why Sierra Wireless (TSX:SW) Stock Slumped 21% Yesterday

Description

Shares of **Sierra Wireless** (TSX:SW)(NASDAQ:SWIR) fell by a staggering 21% on November 6, 2019. The company announced its third-quarter results yesterday and reported sales of $174 million and adjusted earnings per share (EPS) of $0.03.

Analysts estimated the firm to report revenue of $191.15 million and EPS of $0.11 in the September quarter. While Sierra Wireless failed to beat consensus estimates in Q3, it also lowered forecast for the December quarter, resulting in the sell-off.

The company forecast fiscal 2019 sales between $708 million and $712 million, significantly lower than consensus estimates of $753.67 million. This lower guidance expectedly resulted in analyst downgrades.

According to multiple reports from *The Fly,* RBC Capital lowered Sierra's price target from $14 to $12 and reiterated a "Sector Perform" rating. Raymond James downgraded the stock from "Outperform" to "Market Perform," and it revised the price target from $20 to $12.

Sierra Wireless stock is currently trading at $8.92.

What impacted sales in Q3?

Sales fell 14.5% year over year in the third quarter, driven by lower demand for hardware products. Sierra has two reporting business segments: IoT Solutions and Embedded Broadband.

The IoT segment focuses on providing differentiated device-to-cloud offerings that are high-margin and high-value services. In this business, sales rose 5% year over year, and subscription sales in the segment rose 7% in the third quarter. The enterprise gateway vertical experienced sales growth of 14% but was below company expectations due to project delays by large-scale customers.

IoT sales accounted for 54% of total revenue. The embedded broadband segment saw sales fall by 25% year over year to $80.6 million. This massive decline was due to weak demand from mobile computing and networking customers.

Sierra Wireless aims to target recurring sales of $200 million by mid-2022 and recurring sales of $400 million by mid-2024. It wants to create a subscription-based revenue model that results in greater predictability and lower cyclicality.

During the earnings call, Sierra Wireless CEO Kent Thexton stated, “In the first nine months of this year, we have added close to 300,000 net new connected devices and now have close to 3.5 million IoT connected devices globally which is up 9% from the end of 2018.”

He added, “The major contributor to that growth has been the uptake of our Sierra Smart SIM, which has really accelerated this year and reflects our higher-value customer wins with device plus services. The Smart SIM connection rate is driving our strong overall growth despite some attrition in devices in our legacy vertical businesses as expected.”

What next for Sierra Wireless and investors?

We have seen that Sierra is heavily investing to gain traction in the high-growth IoT segment. However, it accepted that the growth in industrial IoT has been lower than market expectations. The company remains optimistic for its fully integrated end-to-end solution that includes the IoT device, cloud management, connectivity, and security to be scalable as the market expands.

Sierra Wireless stock is currently trading at a forward price-to-earnings multiple of 11. It’s valued at $324 million (in terms of market cap), or 0.45 times forward sales. The stock has lost 43% in market value since February 2019. It is trading at a cheap valuation for a reason. Sierra’s IoT segment is failing to drive expected growth, while it’s broadband business is part of a mature business.

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