

Navellier Growth

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The Best Tech Stock You've Never Heard Of: TSRA

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This earnings season there are three key ingredients that make for a stellar earnings report and subsequent run-up in stock price: increasing sales, earnings growth and positive earnings surprises. One stock I expect to deliver all three when it reports this Thursday is Tessera Technologies (TSRA).

Tessera is one of the most powerful tech stocks you've likely never heard of, yet chances are you're using a device right now that utilizes Tessera's technology. You see TSRA helps tech companies make smaller, more nimble mobile phones, PDAs, PCs and other electronic products thanks to smaller semiconductors, micro-optic cameras and the like.

The technology is very sophisticated, but all you really need to understand is that TSRA's innovations (in micro-electronics and optics) are vital to the creation of next-generation hand-held devices. Without Tessera's patented technologies, companies would struggle to make smaller, faster, more portable electronics, like your cell phone or Blackberry. I like to think of Tessera's intellectual property as the holy grail of technology.

When the company reports earnings this Thursday, October 29, after the market close, I expect we'll see a strong report thanks to increased sales numbers and operating margins.

TSRA's partners include big chip makers such as Hitachi, Intel and Toshiba, so you can look to some of them to get insight into what is in store for Tessera this quarter. As you know, Intel (INTC) already reported earnings this season and surprised Wall Street with 17% higher-than-expected earnings.
Expect a Nice Surprise

If you think that's impressive, consider that TSRA has beaten expectations by more than 39% in the last three quarters—and yet Wall Street continues to underestimate the company. Third-quarter expectations have been revised 90% higher over the last 90 days, but I think that's still too low. I think TSRA can do 3 cents over the current 21 cents per share estimate and that the 14% surprise will be a big positive for the stock price.

The one wild card here is forward guidance. The earnings numbers will push the stock higher, but it will be the company's outlook for Q4 that will get some real momentum behind the stock. Given the extreme popularity of smaller personal electronics in all demographics, the number of chips used in consumer products is expected to grow exponentially in the coming years. So I don't see any reason to worry about Tessera's upcoming quarters or future growth prospects. According to my 8-point fundamental screen, Tessera is a good buy for investors looking for a strong earnings pick this season and beyond.

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