



Should Investors Consider Sierra Wireless After Giant Run-Up?

Description

After years struggling in the cellular network adapter business, **Sierra Wireless** (TSX:SW, NASDAQ:SWIR) changed its strategy by selling its AirCard business. It is now a pure “machine to machine” (M2M) company. The stock market *really* likes the new Sierra Wireless as evidenced by the run the stock has had this year. Revenue growth is set to reach double digits and profit margins are set to rise as the company aims to be an M2M leader. With the market this bullish on Sierra Wireless, is it too late to consider this company as a long term investment?

What is M2M, anyway?

M2M is just another catch phrase to describe connecting devices to other devices. Sierra Wireless offers OEM embedded wireless modules, gateway and modems, and solutions that connect devices to the cloud. In the second quarter, Sierra Wireless grew revenue in each of these segments. Devices supporting 4G and LTE are the next areas experiencing stronger demand. Solutions made by Sierra Wireless support this, but this is not the only reason why investors are bullish.

The cloud solutions platform is unique, and holds the promise for growth. Sierra Wireless sells these solutions under the *AirVantage* brand. An example of an offering is its service for utilities like water purification companies that monitor their equipment in real-time. These firms require system uptime for water treatment services. Sierra Wireless helped customers monitor water purification levels by using *AirVantage* to monitor water quality through the cloud.

Strong Balance Sheet Excites Investors

Sierra Wireless plans to grow by acquiring other companies, thanks to plentiful cash levels and no debt. The divestiture of AirCard added \$120.7 million in the second quarter to Sierra Wireless's balance sheet, up from \$55.9 million in Q1.

Widening Moat

Sierra Wireless improved its margin profile in the last 5 years. Organic growth and acquisitions helped the company grow revenue from \$158 million in 2008 to \$421 million in the last 12 months. The moat

will get bigger through merger and acquisition activities. The competitive edge is improving in North America, but Europe continues to be a challenge. The PC OEM market is also another area of continued difficulty. Year-over-year, this segment declined, although Sierra Wireless benefited from enterprise launches for PC OEM in Japan in 2012.

Valuation Risk not meaningful

Looking at Sierra Wireless stock at 52-week highs is scary, because it appears to be an expensive investment. Revenue is expected to grow a respectable 15% in the future. Even with weaknesses in Europe accounted for, the company could win deals with carriers, which would help boost sales even more. The sale of AirCard removed the volatility in its business substantially. This leaves the company free to manage the M2M business with greater focus.

Bottom Line: Bigger catalyst needed

Sierra Wireless should be added to the watch list. It is a more stable company than it was a year earlier, but given the huge run-up recently, patience would be advised. Investors need a bigger catalyst, such as Sierra Wireless winning a few high volume deals for AirVantage. This would offset the risks of weak sales from the PC OEM segment.

Sierra's M2M technology is disrupting the industrial manufacturing space. For a look at 3 more companies that have completely altered their respective industries [click here now](#) and download our special **FREE** report "**3 U.S. Companies That Every Canadian Should Own**".

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Fool contributor Chris Lau does not own shares of any of the companies mentioned at this time. David Gardner owns shares of Sierra Wireless. The Motley Fool has no positions in the stocks mentioned above.

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1. Investing

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2. TSX:SW (Sierra Wireless)

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