Should You Buy This Soaring Technology Company?

Description

It’s been a great run for shareholders of **Sierra Wireless** (TSX: SW)(Nasdaq: SWIR). The market leader in wireless machine-to-machine (M2M) modules saw its share price more than triple last year. But so far in 2014 the shares are down a little more than 20% in what has been a weak year for technology stocks. Has that created an opportunity?

The growth of M2M

M2M, also known as the Internet of Things, has gained a lot of momentum in recent years. The term simply refers to allowing devices other than smartphones and tablets to speak to each other through a wireless connection.

For example, cars have started to be connected to the internet, which allows them to do all sorts of things that were previously impossible. On a cold winter’s day, you could warm up your car in advance using a smartphone app. Or you could stream music and movies during a long drive with the kids. You could get a warning when your car needs gas or maintenance.

There are other uses for M2M technology, like appliances, security systems, traffic systems, vending machines, and so on. It seems inevitable that M2M technology will be everywhere before too long.

The growth of Sierra Wireless

Sierra has done a fantastic job of growing in this industry through acquisitions, and is now the market leader. Last year was a pivotal year, with the divestiture of its AirCard assets, which has allowed the company to focus more exclusively on the M2M market.

And the future looks just as bright. **Cisco Systems** (Nasdaq: CSCO) is estimating that 50 billion devices will be connected to the internet by 2020, four times as many as in 2010. If Sierra is able to ride this wave successfully, then its shareholders should continue to do well.

Are the shares a good deal?

At first glance, it seems that the shares are not expensive at all. Earnings per share came in at $1.79 last year, so with the shares trading in the low $20s, you're not paying too much. But don't let the numbers fool you. The earnings from "continuing operations" lost nearly $16 million. And despite the strong prospects of M2M, Sierra's revenue only grew 11% last year.

If you're looking to make a bet on the future of connected devices, Cisco looks like a much safer bet. The company has much deeper pockets, is far more profitable (its operating margin was 23% last year), trades at only 11 times forward earnings, and even sports a 3% dividend yield.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:CSCO (Cisco Systems Inc.)
2. NASDAQ:SWIR (Sierra Wireless)
3. TSX:SW (Sierra Wireless)

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