



Will Sierra Wireless Continue to Dominate the IoT Space?

Description

Sierra Wireless Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)) has spent 18 years developing solutions designed to help its customers harness the power of machine-to-machine (M2M) wireless communications. Today, the company is the king of the Internet of Things (IoT), but investors want to know if it will continue to reign.

Let's take a look at Sierra to see if it can maintain its IoT leadership position.

Products

Sierra's path to IoT stardom initially began back in 1997 when it launched the world's first cellular embedded module. Since then, the company has shipped more than 100 million devices to help connect what is now known as the Internet of Things.

Through a series of acquisitions, Sierra has built a strong product portfolio that includes wireless modules, gateways, modems, and cloud services designed to meet any M2M communication need.

The AirPrime 2G, 3G, and 4G wireless modules are designed for mobile computing, industrial, and automotive applications. The AirLink wireless gateways are used in remote outdoor and in-vehicle applications to securely connect people, equipment, and services. The AirVantage M2M Cloud platform automatically connects the company's other products, as well as third party devices, to securely transmit data to the cloud.

Sierra also just acquired Sweden-based Wireless Maingate, a company that provides managed M2M connectivity with leading-edge over-the-air subscription provisioning.

The strong suite of products and extensive client list give Sierra a leg up on new competitors because the company has proven solutions already being used in various industries all around the world.

Growth and market share

Sierra has delivered impressive sales growth over the past two years. The company reported Q4 2014

earnings of US\$149 million, a 25% increase over Q4 2013. Year-over-year organic growth was about 20%.

According to a report published by ABI Research, Sierra Wireless controlled 34% of the global M2M market in 2013. With the acquisition of Maingate and the company's strong growth over the past two years, the market share number could be higher in 2015.

Risks

Sierra Wireless is the dominant player in a rapidly expanding new market. Estimates vary widely regarding the potential size of the opportunity, but research agency International Data Corporation (IDC) suggests the global IoT market could hit \$7.1 trillion by 2020. Other estimates put the number much higher.

With all the potential money to be made, the world's largest IT firms are planning to stake their claim. Sierra Wireless is still a relatively small company, with less than 1,000 employees and a market capitalization of about \$1.3 billion. As the competition heats up, the hungry IT goliaths could eat Sierra's lunch.

Should you buy?

Sierra's stock price had a phenomenal run from \$20 per share last summer to above \$55 per share at the end of December.

In 2015 the stock is trending lower and the shares currently trade just above the \$40 mark, which is a critical point for the technical traders. If the stock breaks below \$40, it could slide back to \$30 very quickly to complete what is referred to as a head-and-shoulders pattern.

On the fundamentals side, the market opportunities are compelling, but Sierra must continue to deliver above 20% growth to sustain the upward movement in the stock.

At this point, I would wait for two more quarters of sales figures to see if the rapid growth is maintained before buying the stock. The shares could bounce off the current level, but trying to pick the bottom of the pullback is risky.

CATEGORY

1. Investing
2. Tech Stocks

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