



Sierra Wireless Inc.: Should You Buy Now or Bail Out?

Description

Shares of **Sierra Wireless Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) are down more than 30% since the beginning of the year, and investors are trying to decide if the pullback is a good opportunity to buy the stock.

Past performance

The company's shares have a long history of massive run-ups followed by equally spectacular crashes.

Back when the world was ringing in Y2K, shareholders of Sierra Wireless were toasting some phenomenal gains. In fact, the stock went from \$16 to \$200 between October 1999 and the end of February 2000.

Unfortunately, the hangover matched the size of the party and three months later the stock was back down to \$40. By October 2002 shareholders were unloading Sierra for less than \$3. Ouch!

The company survived and enjoyed another surge up to \$50 in July of 2004, but that fiesta also fizzled out and just seven months later the stock traded at \$10. The shares then bumped along in a narrower range for about a decade.

A new rally

Last summer Sierra caught a new tailwind and surged from \$20 to more than \$56 at the start of this year. The trend has been negative since then and the shares are now floating around the \$37 mark. Is this the beginning of another crash, or simply a pullback before the stock heads to new highs?

The Internet of Things

Sierra's recent rise to stardom is connected to its leadership position in a hot new sector called The Internet of Things (IoT). The basic idea is that every gadget, machine, or vehicle you can think of will eventually be connected to the Internet.

The company provides clients with machine-to-machine (M2M) communications solutions that use embedded 2G, 3G, and 4G wireless modules to track real-time data from remote locations. That technology is gaining traction in a wide range of automotive and industrial applications and growth estimates for the overall IoT space are staggering.

IDC says the global IoT market will hit \$7.1 trillion by 2020, up from \$1.9 trillion in 2013.

Sierra has enjoyed solid revenue growth of more than 20% over the past few years and the company continues to make strategic acquisitions to strengthen its leadership position in the market.

The balance sheet is healthy and the company is on the right track, but there is one issue that it can't do anything about—its size.

At the time of writing, Sierra has a market capitalization of just \$1.23 billion. With all the potential of the IoT market, nearly every big tech company is planning to stake its claim in the space. This poses a challenge to Sierra because it simply doesn't have the financial firepower to compete if the giants decide to set their sights on Sierra's niche.

As an example, **IBM** recently set aside \$3 billion to set up an IoT unit.

Should you buy Sierra Wireless?

Eventually, I think the company will be bought out and investors could get a nice premium when that happens. At the moment, the downward trend in the stock looks like it will continue. Given the stock's volatile history, I would sit on the sidelines until it becomes clear the pullback has run its course.

CATEGORY

1. Investing
2. Tech Stocks

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2. TSX:SW (Sierra Wireless)

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