



Will There Be Another Chance to Buy Sierra Wireless Inc. Shares for \$30?

Description

Shares of **Sierra Wireless Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)) have plummeted in 2015, closing below \$30 last week after trading above \$55 in early January.

There have been a couple of reasons for this. One has been weak guidance, which has dramatically reduced growth expectations. The other reason is that the stock had likely gotten ahead of itself at the beginning of this year.

In the days since, the shares have rebounded back into the low \$30s. With that in mind, was that your last chance to buy Sierra Wireless for less than \$30 per share?

A refresher on Sierra Wireless

Through a series of acquisitions, Sierra Wireless has become the market leader in machine-to-machine (M2M) communications, with about a one-third market share. This makes the company particularly exciting for investors, since M2M is an integral part of the fast-growing Internet of Things (IoT) marketplace. In fact, Sierra has been repeatedly referred to as a pure play on the IoT.

How much do you have to pay for this pure play?

Investors are very excited about the IoT, and unfortunately this shows up in Sierra's stock price. Even at \$30 per share, Sierra's stock trades at well over one times revenue (even after adjusting for its cash balance). This isn't cheap for a company that still posts net losses.

Furthermore, Sierra's growth isn't spectacular either. The company expects revenue to fall between US\$153 million and US\$156 million in the second quarter of this year, not much more than the US\$150 million achieved in the first quarter.

A couple of other worries

There are a couple of other things to worry about with Sierra Wireless. First of all, it is a hardware company. This exposes Sierra to intense competition from low-cost regions like China, and also

exposes it to commoditization. If you don't believe me, just remember what has happened to the personal computer and television businesses in the last 15 years. Even Sierra's previous business—making devices that connect computers to the Internet through their USB ports—also saw declining profit margins.

Secondly, Sierra is still a small company, and doesn't have the financial firepower of larger technology companies. So, if the tech giants decided to compete more directly with Sierra Wireless, it's hard to imagine the Richmond, B.C. company coming out on top. Worryingly, Sierra Wireless has actually cut its R&D spending over the past year.

A tough bet to make

The tech sector is a very difficult one to make money in. The industry changes so rapidly that market leaders can become irrelevant in just a few years, and it's practically impossible to predict the future precisely.

So, you should be extremely careful before buying Sierra Wireless's shares, even if they sink below \$30 again.

CATEGORY

1. Investing
2. Tech Stocks

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1. NASDAQ:SWIR (Sierra Wireless)
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