Sierra Wireless Inc.: Why Now Is a Golden Buying Opportunity

Description

It hasn't been a good year thus far for **Sierra Wireless Inc.** (TSX:SW)(NASDAQ:SWIR) shareholders. After shares trading on the TSX peaked at approximately $55 back in early January, the company's shares have gone on a steady march downwards, currently trading at approximately $27.50, good enough for a 50% drop.

Is this the beginning of a greater trend downwards? Or should investors start loading up on shares at this level? Let's take a closer look at the company.

The bull case

Sierra Wireless is right in the middle of the burgeoning Internet of Things (IoT) market, which connects all of those smart devices we're seeing come to market with the Internet, allowing people to do things like set their thermostat from their smartphone, or to record a television show on their PVR without being at home.

The size of the potential market is almost mind-boggling. According to a recent report by research firm IDC, the market for connected devices will be worth $1.7 trillion by 2020, compared with $655 billion in 2014. Or to put it another way, there are expected to be 26 billion Internet-connected devices on the planet by the year 2020, at least according to a report from **Ericsson**. And by 2022, the folks at **Cisco** think the IoT market will be worth a collective $14.4 trillion. That's a lot of potential in just one market.

Sierra Wireless is poised to capture this in a few different ways. It's the industry leader in devices called embedded wireless modules, which are essentially tiny modems that allow a device to communicate online. It also builds intelligent wireless gateways, which allow Internet connectivity in places you wouldn't normally expect.

And finally, it has a cloud computing division. It is the global market leader in cellular connected devices, and boasts an enviable customer list, supplying everyone from the large car companies to the large industrial companies with parts and support.

As you can imagine, this has led to some pretty explosive revenue growth. Compared with the same quarter last year, recent second-quarter results showed revenue increasing by 17% to US$158 million. Adjusted EBITDA rose 93% to US$13.1 million, with earnings from operations increasing to US$10.7 million. The company even eked out a small profit of $0.12 per share.

The interesting wild card for Sierra Wireless is its potential to be acquired. Everyone knows the future of the sector is strong, and there are some deep-pocketed tech companies out there. Perhaps the most interesting potential suitor is **BlackBerry,** which has quietly become a leader in smart-device software. It would be an interesting marriage, that's for sure.

The bear case

Although Sierra Wireless has a pristine balance sheet with nearly US$100 million in cash and not a nickel of debt, investors are still concerned with the company's inability to consistently earn profits. And with those solid second-quarter numbers came softer guidance through the third quarter, with an expectation of revenue between US$157-160 million and earnings per share of US$0.23-0.27, both which are under analyst expectations. It's never good news with a growth company can't grow as much as the market assumes.

There are also some heavyweight competitors getting into some of Sierra's markets. Cisco has announced it plans to open eight Innovation Centers around the world, which will focus on expanding its presence in the IoT world.

If another of the tech heavyweights decides they're looking to get into the space, it could be very bad news for Sierra.

Should you buy?

Although there are concerns with competitors and Sierra's profits in the short term, it's clear there's a long-term bull market in the IoT space, and Sierra is certainly poised to capture a piece of it. Add in the possibility of the company being bought out by one of its competitors, its clean balance sheet, and its expected long-term profitability, and it's easy to paint a pretty bullish picture.

Some investors might look at the share price alone and decide to stay away. But investors who buy now are getting the same potential as investors were in January, but at a 50% discount. If you're a believer, now is the time to be getting in, not when the stock is making new all-time highs.

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2. Tech Stocks

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