Has Sierra Wireless, Inc. Hit a Limit?

Description

I've long been a fan of **Sierra Wireless, Inc.** (TSX:SW)(NASDAQ:SWIR). The manufacturer of embedded modules and components necessary to bring about an IoT-enabled world has long represented one of the best long-term plays in the market.

For those unaware of what the IoT vision is, imagine a world where billions of things, ranging from alarm clocks to thermostats, are interconnected to us and each other, constantly feeding information and updates. Industry experts speculate that the number of connected things and the use for them will skyrocket over the next few years, hitting 50 billion within a decade.

Sierra is currently responsible for nearly five billion of those devices' connectivity and plans to push that number to 15 billion within the next four years. The opportunity that Sierra represents is beginning to materialize.

Can Sierra continue growing?

After a period of transition, Sierra has morphed over the past few quarters into a pure-play IoT company. In the initial quarters of that transition, Sierra reported weaker than expected results, but the company has since bounced back; it's up impressively by over 60% year-to-date and over 90% over the course of the past 12 months.

Some critics argue that Sierra may have grown a little too fast and that much of the long-term potential is already priced into the stock.

Sierra recently announced a string of contract wins in the automotive sector. While this stands to boost revenue and profit for the long term, critics point to the fact that some of those new contracts come with lower margins and may not even impact Sierra's balance sheet until next year or later.

It's all a matter of perspective

To put everything into focus, keep in mind that during the transition I mentioned earlier, Sierra's stock dropped considerably. In fact, when including all the great growth for 2017, the stock is still 15% lower than it was just two years ago.

Much of Sierra's growth over the past few years stems from growth in the enterprise segment and the lucrative recurring revenue it can represent. Year over year, revenue from that segment increased by 27%. Assuming Sierra can continue down the same path, that growth looks set to continue in the near future.

The automotive sector represents one of the best long-term plays for Sierra. Manufacturers are increasingly looking at connectivity options as standard equipment in systems that were not even available until recently.

Sierra has already forged agreements with Russian, German, and Chinese manufacturers; the company will likely spill over into other regions in the future.

In my opinion, Sierra remains a great long-term investment opportunity for investors looking to diversify their portfolios.

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