

Sierra Wireless, Inc.: Overpriced or Huge Potential?

Description

Sierra Wireless, Inc. (<u>TSX:SW</u>)(<u>NASDAQ:SWIR</u>) is often touted as a company that holds an immense amount of potential in the growing Internet of Things (IoT) market.

The IoT refers to the concept of having everyday devices connected to each other and to the internet, feeding information, diagnostics, and updates to us in real time. The potential uses for this technology are limitless, as current "dumb devices" (those that lack connectivity) that suddenly have a connection could be used to accomplish mundane tasks, such as connecting an alarm clock to the coffee machine, or having your refrigerator ping your car to stop at the grocery store for eggs.

Sierra is a pure play in the IoT field. Industry experts peg the market value reaching half a trillion dollars within the next five years. That vision is contingent on having billions of interconnected devices, and as Sierra holds nearly a third of the M2M embedded module market that is responsible for that connectivity, the potential is there.

Sierra has an impressive list of accomplishments that few investors realize. Sierra was the first company to introduce LTE devices, which have since become a hallmark of nearly every current communications device. Sierra also has an impressive portfolio of over 400 wireless patents, and Sierra's embedded modules and hardware are used on over 80 networks around the world.

Moving forward, Sierra is actively working with carriers to develop 5G devices. Tests are already well underway, despite the final specification for 5G not due until sometime next year.

How is Sierra doing?

While Sierra was transitioning into a pure play, the company developed a reputation for frequently missing guidance targets. Fortunately, that's no longer the case, and Sierra's business has improved immensely.

In the most recent quarter, Sierra reported revenues of US\$161.8 million, representing an increase of 13.3% over the same quarter last year. The OEM Solutions segment saw a 10% increase over last year, coming in at US\$133 million. The Enterprise Solutions segment also saw an increase, hitting

US\$21.7 million — an impressive 44.8% improvement over the same guarter last year. The Cloud and Connectivity Services segment realized a 2.1% improvement over last year, coming in at \$7.1 million.

In terms of growth, Sierra's stock has taken off this year, appreciating by 77% year to date.

Is Sierra overpriced?

One of the often-mentioned criticisms of Sierra of late is that the company is overpriced with much of the IoT long-term benefit already priced into the stock. There is something to be said about that argument, as the stock's price of just over \$37 has a P/E of 68.82, far surpassing other companies operating in the same sector.

Still, the potential for further growth is still there. Sierra isn't sitting on its laurels waiting for the IoT prophecy to unfold; the company is working on 5G technology and has made impressive strides into another segment of the economy: the connected auto space.

Sierra has already completed several agreements with automotive manufacturers that will see Sierra's embedded modules at the core of the growing number of connected automobiles.

In my opinion, Sierra remains a great investment option. While the stock may seem expensive compared to peers, Sierra's unique opportunity and a mix of industries ensure that the company will continue to grow and report favourable results for some time. default Wat

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2025/08/25 Date Created 2017/07/25 Author dafxentiou

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