



Sierra Wireless, Inc.: Buy the Dip or Throw In the Towel?

Description

Sierra Wireless, Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)) is a small-cap tech company that's in arguably one of the hottest sectors in the market today. The Internet of Things (IoT) industry is expected to surge over the next few years as everything from toasters to refrigerators are connected to the internet.

The magnitude of the IoT market is set to be worth trillions, and the number of devices that will come online over the next few years will be in the billions. We're living in a connected age, and in a decade from now, the lowest-tech item you can think of will be connected to the internet or other devices within your vicinity.

For many investors interested in doubling down on the IoT market, Sierra Wireless is a solid long-term bet.

Numerex acquisition beefs up Sierra's CCS business

The company recently acquired Numerex, a machine-to-machine enterprise solution which makes IoT possible. The acquisition is expected to scale Sierra Wireless's Cloud and Connectivity Services (CCS) segment, which is expected to surge in sync with the number of new devices that will come online over the next few years.

There will be a huge demand for device-to-cloud connectivity and I think the Numerex acquisition will fit in nicely; however, the management team will be presented with the challenge of integrating a business that has been exhibiting sub-par performance of late. There's definitely room for improvement when it comes to EBITDA margins (just 2.9% over the past year), but I think Sierra is up to the task, so I'm not overly concerned about potential issues that may arise in the integration process.

If the management team can successfully integrate Numerex, a considerable amount of synergies can be realized from the acquisition, which could propel the stock to much higher levels over the medium term. Unfortunately, Sierra didn't reveal too much in the way of potential synergies from the deal, but I think the company will shed more light on the topic sometime down the road. The deal is set to close January 2018.

Bottom line

Sierra Wireless is going to be busy integrating Numerex in an efficient manner. If all goes well, shares of SW could spike, like they did earlier in the year. Don't bet the farm on it though, as the spike could go in the opposite direction if integration issues arise.

Sierra Wireless currently trades at a hefty 37.3 price-to-earnings multiple, which is definitely on the expensive side. I'm not a fan of the valuation, so if you're keen on owning shares, I'd wait for a sell-off to the mid to low \$20 levels first.

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Date

2025/08/14

Date Created

2017/10/06

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