



Which Is the Better Buy: Sierra Wireless, Inc. or Constellation Software Inc.?

Description

Tech stocks usually have a lot of growth and upside, and today I'll be looking at two big players on the TSX.

Constellation Software Inc. ([TSX:CSU](#)) operates in more than 100 countries worldwide and claims to have over 125,000 customers. The company is heavily involved in many acquisitions, and this allows it to more easily expand its services and grow its sales. Constellation divides its operations into public sector vs. private sector operations, with the public sector accounting for typically ~66% of Constellation's total revenue.

Within those segments, the bulk of the company's sales are made from maintenance and other recurring revenue. This is a good trend that any company would like to see, since it creates a good foundation to build on and makes it easier to grow sales.

Sierra Wireless, Inc. ([TSX:SW](#))([NASDAQ:SWIR](#)) provides Internet of Things (IoT) solutions for businesses to help connect products and service to the cloud. One of the applications of the company's services involves connecting cars to applications. Earlier this year, Volkswagen selected Sierra for its newest connected cars. According to the release, Sierra would work with the Volkswagen Car-Net Platform and allow "a variety of in-vehicle internet-based services, including remote vehicle access, roadside assistance, diagnostics and maintenance, and the ability to set speed and boundary alerts."

Neither company has shown tremendous growth

Sierra's growth has been a bit underwhelming with its most recent quarter showing a year-over-year rise in sales of just 11%. Although this is not bad by any means, you might expect more from a tech company in what normally is a high-growth industry. However, this is an improving trend, as in its last fiscal year, Sierra saw revenue growth of just 1%, but previous to that it saw sales rise by 11% in 2015. More importantly, the company was able to turn a profit in 2016 after seeing losses the two previous years. Without strong growth, investors will definitely want to see a more consistent and healthier bottom line.

Constellation saw 14% sales growth last quarter, and in fiscal 2016 revenues were up 16% year over year as the company continues to build on its already strong sales and customer base. In just three years, Constellation has seen its sales increase 76% while more than doubling its bottom line. The company has been able to grow its free cash in each of the past four years, and with almost \$500 million accumulated in the past 12 months, Constellation is in a strong position to take on more acquisitions.

Which stock should you buy today?

Both companies have strong growth prospects, but I'm not a fan of a company that grows mainly through acquisitions. Sierra may not be showing significant growth yet, but the IoT industry is still growing, and, especially as self-driving software starts to take off, it may see greater opportunities come its way. From a valuation approach, Constellation's price-to-earnings multiple of 65 is much higher than Sierra's, which trades at just 43 times its earnings. If we look at book value, the discrepancy is even higher, with Constellation trading at a whopping 29 times its book value, while Sierra is at a multiple of just 2.3.

Sierra has a more promising future, a simpler approach that doesn't require many acquisitions to be successful, and it's also a better value at its current price. For those reasons, Sierra is the better investment today.

CATEGORY

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Author

djagielski

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