



## Sierra Wireless (TSX:SW) Could Be an Undervalued IoT Bet

### Description

As one of the largest producers of embedded cellular modules, mobile broadband wireless modems, gateways, and routers in North America, **Sierra Wireless** ([TSX:SW](#)) ([NASDAQ:SWIR](#)) is one of the few pure-play Internet of Things (IoT) companies listed in Canada.

Over its 20-year history, Sierra Wireless has led the mobile internet revolution through multiple iterations, from 2G to 4G LTE. The company has focused on making the smallest possible internet-connected modems in the market — a strategy that was ahead of its time and has been massively successfully as phones got smaller and smarter.

Now this competitive advantage is being used to connect objects other than smartphones to the internet. Sierra's tiny modules can be embedded in e-bikes and smart scooters to help users track their journey; they can be built into smart pill boxes to help patients track their medication; and they can be integrated with autonomous vehicle systems to bolster driver safety.

In other words, Sierra's IoT technology gives it a stake in nearly every exciting digital trend that's emerging over the next few years, from self-driving cars to personalized healthcare. According to consulting giant Bain, the global IoT market was worth \$235 billion in 2017 and could grow to about \$520 billion by 2021.

Sierra's market capitalization, meanwhile, is a mere US\$538 million. Over the trailing 12 months, the company has generated US\$776 million in revenue and lost US\$24 million net. That means the price-to-sales ratio per share is 0.7. Meanwhile, the cash flow from operations has been positive over the past year and sales have expanded 17% year on year.

In its most recent quarter, the company reported 7.6% growth in Original Equipment Manufacturing solutions, 22% growth in Enterprise Solutions, and a whopping 172% expansion in IoT services. Management also deployed a third of gross profit in research and development, which implies that the company is consistently building a portfolio of intellectual property.

According to Fool contributor Demetris Afxentiou, breakthroughs in [5G wireless technology](#) could help companies like Sierra unleash the next wave of growth in the IoT industry.

With all this in mind, why is the stock down 24% over the past year? There's simply no reason why a high-growth company at the centre of an expanding industry with a 20-year track record of accumulating intellectual property should trade at such a low valuation.

I believe the market is overreacting to short-term volatility and the downturn in the wider technology sector. There's no doubt smartphone sales have been saturated and laptops shipments are in decline, but companies like Sierra Wireless are a long-term bet on a future, where everything from your weighing scale to your private jet has a tiny internet modem built in.

## Bottom line

Investors with an appetite for risk and an eye on the future will appreciate the promise of Sierra Wireless. The recent sell-off may present an excellent buying opportunity.

### CATEGORY

1. Investing
2. Tech Stocks

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1. NASDAQ:SWIR (Sierra Wireless)
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