1 High-Risk Tech Bet on IoT

Description

One major complaint about investing in the Canadian stock market is the fact that, compared to the United States, there are very few companies that allow us to capitalize on the trend towards technologies like connected devices and the Internet of Things (IoT). When investors find these companies in Canada, they need to decide whether it is better to invest in the Canadian company or one of its American peers.

Sierra Wireless (TSX:SW)(NASDAQ:SWIR) seems to be a value investor’s dream. The stock is cheaply valued, especially when compared to its peers. It is currently trading at a forward price-to-earnings ratio of 13.1 and a price-to-book ratio of 1.3.

Besides the cheap valuation, why should investors consider Sierra? The company has two main businesses. Its legacy business involves the manufacturing of hardware such as modems and routers. The second business is more about managed solutions, where Sierra is involved in the monitoring and maintenance of wireless systems.

The company’s focus on the IoT technologies has led to some impressive results that might point to potential upside in the stock. Revenue from the third quarter of 2018 rose 17.9% over the same quarter of 2017. It is the growth in the Enterprise Solutions and IoT Services divisions that powered much of that growth. That business segment grew 172% year over year to become a significant 27% of total revenue.

Its solid balance sheet has a fair bit of cash and essentially no debt. Its progressive business focus makes the company appear to be a fantastic investment opportunity, but there is one glaring issue that gives me pause: if Sierra is such a great deal, why has the stock been stagnant for almost two decades now? With the exclusion of its rocketing share price in the dot.com bubble of the late 1990s and the occasional price spike, Sierra’s stock has gone nowhere, leaving long-term investors with dead money.

It also lacks a dividend, which makes it even more difficult to buy into the company. While I am not tied to dividends, having even a small yield makes long-term holding more palatable. Even when the stock is not moving, receiving a small yield makes it easier to watch your stock trade sideways for years.

Sierra might be an interesting opportunity for people looking to cash in on long-term growth of IoT technologies. It is cheap — much cheaper than many other technology companies that operate in the same space. If you buy this company, it because of the growth that it is experiencing in the Enterprise Solutions and IoT Services divisions. This is the attractive element in the company — a relatively new segment of the business that could push the stock higher if the growth continues.

The fact the stock has gone nowhere for years in addition to the lack of a dividend make this company a difficult one to buy into. But the stock is cheap and could experience explosive growth if its businesses continue to progress. If you believe that the stock is ready to take off soon, and you have an appetite for risk, you might want to take a swing at Sierra.

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Date
2025/07/03
Date Created
2019/02/14
Author

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