



Better IoT Buy: BlackBerry (TSX:BB) vs. Sierra Wireless (TSX:SW)

Description

The Internet of Things (IoT) growth story is just about to begin. According to a Reuters report, the IoT market is expected to expand from \$190 billion in 2018 to \$1.11 trillion in 2026, indicating a compound annual growth rate of 24.7% in the forecast period.

So, which stocks are likely to benefit from this growth? Here we look at two Canada-based tech players that are starting to gain significant traction in the IoT segment. These companies are **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) and **Sierra Wireless** ([TSX:SW](#))([NASDAQ:SWIR](#)).

Revenue growth in IoT

BlackBerry's IoT revenue is part of the BlackBerry Technology Services business segment. In fiscal 2019 (ended in February), this business segment increased sales by 27.2% and accounted for 22.6% of total revenue, up from 17.5% of sales in 2018.

Comparatively, Sierra Wireless increase its IoT sales by 161% year over year in 2018. The IoT services business accounted for 11.4% of total sales, up from 5% in 2017.

Both these companies are looking to gain momentum in the connected car and automated vehicle segment. Several auto manufacturers are looking to add [smart technology features](#) in vehicles. This includes smart GPS, infotainment systems and hot-spot functionalities.

BlackBerry's QNX software has been a resounding success among auto manufacturers and the company is now looking to diversify into verticals such as medical, industrial automation and robotics.

There are some concerns over BlackBerry's slowing growth, as the firm missed analyst revenue estimates in the last quarter due to [weak sales from its IoT segment](#). While BlackBerry's enterprise software and technology solutions segment posted sales of \$134 million, it was below estimates of \$150 million.

Sierra Wireless has also looked to diversify its revenue base over the last year. It designs embedded

modules and communication devices to connect a range of other devices to the internet.

Valuation and upside potential for BlackBerry and Sierra

Analysts expect BlackBerry sales to rise by 20.1% to \$1.1 billion in fiscal 2020 and by 8.6% to \$1.19 billion in 2021. Though BlackBerry's earnings are estimated to fall by 79.2% in 2020, it is estimated to rise 180% in 2021. The stock is trading at a forward price to earnings multiple of 35.5 and is valued at \$2.72 billion or 2.5 times forward sales.

Analysts expect Sierra Wireless sales to fall by 5% to \$753.67 million in 2019 and rise by 10.4% to \$832 million in 2020. Though Sierra's earnings are estimated to fall by 64.4% in 2019, it is estimated to rise 143.8% in 2021. The stock is trading at a forward price to earnings multiple of 13.5 and is valued at \$380 million or 0.5 times forward sales.

We can see that Sierra Wireless is trading at a cheaper valuation but BlackBerry is poised for stellar growth. Though BlackBerry is struggling with profitability, Sierra Wireless is expected to grow earnings at a robust pace post-2019.

BlackBerry acquired Cylance for \$1.4 billion, the company's largest acquisition and one that will be a key revenue driver for BlackBerry in the upcoming quarters. On the other hand, Sierra has partnered with several companies over the last year, potentially driving revenue higher.

Both companies have lost significant market value in the last year. While BlackBerry is down 47%, Sierra has lost 44% in the last 12 months. BlackBerry is trading at a discount of 56% to analyst estimates. Comparatively, Sierra Wireless has an upside potential of 46% compared to analyst price targets.

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