



This IoT Stock Is Poised for Stupendous Growth

Description

Sierra Wireless ([TSX:SW](#))([NASDAQ:SWIR](#)) stock [fell off a cliff this week](#), as its quarterly reports turned out to be horrendous. Revenue fell 14.5%, while the adjusted net income per share was less than a third what Wall Street expected. As a consequence, the stock is down 21% in a single trading session.

But does this magnified correction present a buying opportunity for long-term investors seeking value in the technology industry? Let's take a closer look.

Semiconductors are the new industrial bellwether

In a world where everything is getting hooked up to the internet, a trend known as the Internet of Things (IoT), semiconductor chips are basic building blocks that everyone relies on.

In fact, the demand for chips is so great that since 2017, Chinese imports of semiconductors have been much greater than the country's imports of crude oil. Demand has been similarly high in the rest of the world. The mobile computing Sierra produces are in particularly high demand, considering the number of smartphones, tablets, and smart watches sold every year continues to expand.

So, any disruption in global economic activity and trade flow will have an immediate impact on the fortune of semiconductor companies like Sierra. The company's ongoing struggles on the top and bottom line are a direct reflection of the ongoing trade war between the U.S. and China and its impact on end consumers.

However, at some point, the economic cycle will inevitably turn. When that happens, investors can expect Sierra's chips to be in greater demand. In fact, the company is already developing new product lines that are much more encouraging for future growth.

Investing in the future

According to Sierra's management team, the company is in a transition phase and could transform into an integrated IoT Solutions company over the next few years. This means its core embedded solutions

— including routers, mobile networks equipment, and automotive products — will be less consequential over time.

The IoT solutions segment of the business is currently growing much faster than the embedded solutions segment. This younger part of the business also has wider gross margins (roughly 37.1%) and the potential for recurring revenue (up 6.7% this quarter).

As the business continues to enhance its core value proposition, investors must ask themselves if the current stock price reflects the underlying promise.

Valuation

After this recent correction, the company is worth \$425 million. That's roughly 11 times estimated earnings for next year and 79% of the firm's underlying book value.

The company is losing money on an accounting basis, but it is cash flow positive and has \$87 million in cash and cash equivalents on the books, which makes it much better than most of the younger tech startups that have listed on public markets this year.

In other words, Sierra looks like an underappreciated bet on a fairly certain future growth industry.

Bottom line

Investors who appreciate the transition and the long-term potential of the IoT industry could see the current downturn in Sierra's valuation as a buying opportunity.

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Date

2025/08/16

Date Created

2019/11/09

Author

vraisinghani

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