



A Contra Bet on This Canadian Tech Stock Can Give a 60% Return

Description

Tech companies can fall out of favour very quickly. One day they're king of the world and a couple of days later they're struggling to stay relevant. That's pretty much the position **Sierra Wireless** ([TSX:SW](#)) ([NASDAQ:SWIR](#)) finds itself in today. From a high of \$21.83 in December 2018, the stock is trading at \$11.84 today.

Sierra is a leading IoT (internet of things) solutions provider, connecting businesses to the cloud and helping them thrive in the new connected economy. However, Sierra is struggling to thrive in today's world.

The company [reported its results for the third quarter of 2019](#), and its revenues were \$174.0 million compared to \$203.4 million in the third quarter of 2018. Net earnings were \$1 million compared to net earnings of \$10.5 million in the third quarter of 2018.

Sierra is in transition as it tries to grow its IoT subscription business while the hardware segment slows down. Within the IoT Solutions segment, recurring subscription revenue was up 6.7%.

In the first nine months of this year, the company has added close to 300,000 net new connected devices and now has close to 3.5 million IoT connected devices globally, which is up 9% from the end of 2018.

Betting on Octave

Another challenge for Sierra is that the industrial IoT market has not grown as fast as market predictions. A major reason is that customers often lack the internal teams or capabilities to implement a fully integrated IoT deployment.

Sierra aims to address this problem with Octave, their all-in-one, edge-to-cloud solution for connecting IoT industrial assets.

Octave enables companies to get applications up and running within days instead of months, giving

them access to equipment data that allows them to maximize machine performance and uptime, reduce maintenance costs and transform their business models. In the third quarter, Sierra integrated Octave into the **Microsoft Azure** platform.

The initial response has been encouraging, with a report by Forrester Research estimating that companies can get their IoT deployments to market up to 12 months sooner and reduce their overall IoT project cost by more than 40% using Octave compared to sourcing discrete solutions.

Sierra has also signed an agreement to purchase the M2M Group in Australia for \$19.8 million to expand its IoT solutions business in the Asia Pacific region.

Slightly more than half of M2M's revenue comes from subscription-based recurring revenue. M2M gives Sierra a solid platform to increase its IoT services in Australia as well as expand into other markets like New Zealand and Southeast Asia.

Sierra is on track to meet its target of reducing the cost of sales and operating expenses by approximately \$40 million to \$50 million by the end of 2020.

The transformation process for Sierra will be painful, and most of the company's initiatives will take a couple of years to show results.

Sierra is a good contra bet to make. If it pays off, the gains will be immense.

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