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DragonWave's Greek order bolsters stock amid uncertainty about tier-one wins



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A new win for DragonWave Inc. (TSX:DWI) in Greece provided a brief boost to the company's stock after some volatility on speculation that it may have lost a key AT&T contract.

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Ottawa-based DragonWave, which makes packet microwave radio systems that support mobile and access networks, said Monday that it had been chosen as the exclusive backhaul provider for Greek telco Cosmoline's new national 4G WiMAX network.

Cosmoline will use DragonWave's Horizon Compact and Horizon Quantum solutions in its plans to migrate about 130,000 business, residential and government customers from its traditional leased-line service to its fixed wireless access network for data, voice and video services, DragonWave said.

"We have developed a suite of packet microwave backhaul solutions that have successfully enabled service providers around the globe to undertake rapid, cost-effective expansion of geographic market coverage," said DragonWave CEO Peter Allen in a statement. "The Horizon Compact and Horizon Quantum deliver the high capacity, ultra-low latency and carrier-class reliability that Cosmoline will require as it rolls out its 4G mobile WiMAX services across more and more markets in Greece."

Cosmoline has already deployed its new network in Greece's two largest cities, Athens and Thessaloniki, but it's working on covering all major cities across the Mediterranean country.

The deal, which DragonWave won through value-added reseller Future Technologies, will involve the local firm delivering native-Ethernet backhaul across approximately 1,000 wireless links.

Shortly after the Cosmoline announcement, DragonWave's stock rose to a high of \$9.85, up 45 cents from the previous week's close, but the increase was somewhat short-lived as the share price had settled down to \$9.61 by 12:58 p.m.

Although the longer-term trajectory of the stock has been positive, DragonWave's share price has suffered from some recent investor jitteriness, falling below its US\$10 IPO price on the Nasdaq after soaring to a high of US\$13.07 on the U.S. exchange in mid-February.



Etienne Ranger

Peter Allen, CEO of DragonWave.

"Short selling in the U.S. could be one factor driving the stock lower on speculation that DragonWave may have lost the AT&T Mobility award," wrote Kris Thompson of National Bank Financial in a research note.

He also noted that investors could be worried by the strong interest shown by larger, strong U.S. cable companies in DragonWave's space, the mobile backhaul sector, including such prominent names as Comcast and Time Warner Cable.

Still, Mr. Thompson's "outperform" rating on the stock remained unchanged, as did his recommendation to buy it, since he noted that his forecast "does not heavily rely" on AT&T as a customer.

If DragonWave doesn't win the AT&T Mobility deal, however, it will need to set its sights on another tier-one player - Verizon Wireless - in order to stay attractive.

"In our opinion, our fiscal 2011 revenue estimates are achievable without an AT&T Mobility win if DragonWave deploys at Verizon Wireless at a level above our conservative expectations," wrote Mr. Thompson, who has a C\$17 target on DragonWave's stock.

Nonetheless, DragonWave has been successful in racking up several recent wins, including a commercial field test agreement with the Navajo Tribal Utility Authority that will see the Horizon Quantum technology tried out on the authority's planned long-term evolution network.

The authority, which provides utilities to the largest American Indian land base in the United States, is hoping to get \$46 million in funding for the project from the U.S. Department of Commerce's National Telecommunications and Information Administration.

It plans to deploy a 530-mile fibre optic network and a 57-site long-term evolution, 4G network to provide broadband throughout 15,000 miles of the Navajo Nation.

As part of the deal, DragonWave will install a commercial pilot network near Fort Defiance, Ariz. in support of the authority's application.