Take Stock – BlackBerry: A Contrarian’s View

Description

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Last Friday, **BlackBerry** (TSX:BB, NASDAQ:BBRY) did its best to put a damper on the summer’s first long weekend. The company’s stock dropped 26.4% on the day after announcing what many considered to be horribly disappointing quarterly results.

I’m not sure about you, but I find 26.4% one-day declines intriguing. No matter how terrible the company’s results were, did they truly deserve such a dramatic thrashing at the hands of Mr. Market?

The widely held belief on BlackBerry is that it’s a dying firm. This is evidenced by the current outstanding short position against this stock. Currently, 182.6 million BlackBerry shares are sold short, according to S&P Capital IQ. This represents more than 35% of the company’s shares outstanding.

Those who are short the stock obviously loved Friday’s move. However, in this week’s edition of Take Stock, we’re going to take a contrarian stance and consider why days like last Friday may become a distant memory (in a good way) for BlackBerry’s shareholders.

Business Backgrounder

First some background to be sure we’re all on the same page.

BlackBerry is of course best known for its mobile devices. This year’s launch of its BB10 models, the Q10 and thfe Z10, has captured widespread attention. However, there’s more to the BlackBerry model than just its devices.

BlackBerry also owns a network. While 60% of the company’s 2013 revenues were device-based, 35% came from the service fees charged for using BlackBerry’s network. This network is the security angle you have no doubt heard so much about.

The handset/network business model, however, is fast becoming ancient history. The company’s device business has come under well-documented pressure from the likes of the iPhone and Android-fuelled machines. So too has the infrastructure business. Many of the company's competitors don't charge this toll or "service access fee," and therefore BlackBerry has had to alter its pricing structure around this network.

As a result, BlackBerry's entire model, from devices to services, is undergoing a massive transition. And seemingly, most don't have any faith in the company succeeding with this transition.

But there are two items that give this Fool reason to believe in this former hometown hero's ability to regain at least a glimmer of its former glory.

Early Days

As the company's CEO, Thorsten Heins, emphasized on the conference call, it's just **five months** into what is an entirely new mobile computing platform. The old model is gone and a new version has just been born.

New businesses cannot fairly be judged over a five-month period and yet, given the outstanding short position, and Friday's action, the company has been more or less written off.

Heins made it clear in his comments during the call that BlackBerry is squarely focused on maintaining its leadership in the enterprise segment of the mobile computing market. And there is plenty of opportunity in this portion of the market to thrive.

In some respect, it's refreshing to see that Heins appears to have a handle on the fact that BlackBerry, the company, lost focus at some point. His remarks indicate the company finally realizes it doesn't have to be all things to all people and that a more niche-oriented, enterprise-focused strategy could work quite nicely. Many of the pieces are already in place to succeed with this approach; management now just has to leverage what it's got.

The Cash

With many of the pieces already in place, BlackBerry doesn't have to go out and spend kajillions on new product development or long-shot-oriented acquisitions. This leads us to the second item – the company's strong financial position.

Even though earnings were negative in the quarter, BlackBerry still managed to generate significant free cash. And this has been a consistent theme on a quarter-by-quarter basis. This trend was discussed in a recent post at Fool.ca, but you can see for yourself in the table below.

	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14
Operating cash flow	$711	$424	$958	$210	$630
Cap ex	$153	$87	$85	$88	$83

Free cash	$558	$337	$873	$122	$547

Source: Company reports

The company's cash pile now stands at $3.1 billion and has never been higher. On top of this, there is zero debt.

As long as BlackBerry is adding to this cash pile, or at least not significantly eroding it, it's got time to let its enterprise strategy, or any other strategy for that matter, play out — regardless of what the masses, and the shorts, might have you believe.

The other thing that positive free cash does is bring the possibility of a corporate action into play. A go-private transaction is not out the question for BlackBerry, in my opinion.

The Foolish Bottom Line

The old BlackBerry is gone – both the device and the business. The question is whether a re-tooled version will rise, or if this company will fade off over the tech industry horizon, like so many others. To believe in BlackBerry, you have to believe in management's ability to leverage the assets it has. It's really as simple as that. And with no financial risk and the cash coffers growing, management has every opportunity to get it right.

'Til next time … happy investing and Fool on!

Sincerely,

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Fool contributor Iain Butler has no positions in the companies mentioned in this report at this time. The Motley Fool owns shares of Apple and Google.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)

Category

1. Investing

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