



BlackBerry Catches a Bullish Rating

Description

Right now, just about everything is on the table for **BlackBerry** ([TSX:BB](#)), as the company is still reeling from its recent [disappointing earnings release](#) last month.

Shares have pulled back into single-digit territory and are now roughly half of what they were when BlackBerry tapped 52-week highs in January. This move hasn't discouraged one analyst. ACI Research analyst Ed Zabitsky has just started coverage on BlackBerry with a "strong buy" rating alongside a whopping \$20 price target — more than double current prices.

Who's Zabitsky?

Zabitsky was the first real **Apple** bear at a time when the Street was nearly unanimous in its bullishness. His "sell" rating on the Mac maker dates back to [as early as 2009](#). Over the years, he's maintained his stance, while his bearish thesis has evolved. He also subsequently moved his rating to a more aggressive "sell short."

It's true that Apple has fallen from grace over the past year, although shares never reached his \$270 price target. You might argue that Zabitsky's call was right to an extent, except that the actual rationale underlying his thesis was [dead wrong](#). He believed that the rise of HTML5 apps would ruin Apple's proprietary empire in favor of open Web apps. This hasn't happened. The native iOS and Android app ecosystems are [as strong as ever](#).

Instead, Apple's fall has more to do with saturation in the high-end smartphone market combined with fears of margin contraction and escalating hardware competition. Zabitsky may have been right that Apple was due for a pullback, but he was totally wrong on *why*.

Forget BlackBerry 10

Interestingly enough, the bullishness isn't predicated on the strength of BlackBerry 10 as a platform, nor does Zabitsky expect unit sales to rise. On the contrary, the analyst believes that BlackBerry will inevitably abandon hardware and transition to becoming a cross-platform web services player instead.

More specifically, Zabitsky is particularly bullish on the prospect of BlackBerry Messenger becoming cross platform, which is scheduled to arrive this summer on iOS and Android. Opening up BBM to a

wider audience is “long overdue,” in Zabitsky’s view. He believes that **Microsoft** is fumbling with its Skype acquisition, since the software giant hasn’t expanded carrier relationships, which presents an opportunity for BBM.

BBM could effectively become the next Skype, Zabitsky believes, delivering voice, video, and text communications tools.

It’s all about BBM

Somehow, a *free* service is supposed to be at the heart of BlackBerry’s turnaround, which will double its value. BBM competes directly with rival messaging services such as Apple’s iMessage and **Google**’s Hangouts, both of which are free. Both companies also have voice calling alternatives. BlackBerry has historically monetized BBM in part by bundling it with its BlackBerry Internet Service, or BIS, data plans.

This revenue stream has been under pressure from carriers, who don’t want to pay these fees and would prefer subscribers to use their own network infrastructure. BlackBerry 10 devices support generic smartphone data plans from the carriers. Investors expressed concern over BlackBerry’s ability to monetize BBM, selling off shares by 4% the day the cross-platform move was announced.

However, the company did outline another way to potentially monetize the service indirectly through advertising. BlackBerry is making BBM a broader social networking platform, with BBM Channels where companies can connect with BBM users, who can follow brands that they like. Like any ad platform, business will pay for sponsored ads and other paid forms of interaction. Simply put: BlackBerry wants to turn BBM Channels into a social feed full of ads analogous to Twitter or **Facebook**.

The challenge there is that advertising dollars follow the users, and Facebook and Twitter already have all the users and network effects. BlackBerry now has 72 million paying subscribers. The company will need to meaningfully add free iOS and Android users if it hopes to score ad dollars, a tough proposition considering how many messaging alternatives there are. In contrast, Facebook is now up to 1.1 *billion* worldwide users. If you were a business, where would you advertise?

How does BBM alone make BlackBerry a strong buy? It doesn’t.

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The original version of this post, authored by Evan Niu, appeared on Fool.com.

Fool contributor Evan Niu owns shares of Apple. David Gardner owns shares of Apple. The Motley Fool owns shares of Apple.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BB (BlackBerry)

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