The Stock Picker’s Guide to Blackberry for 2014

Description

Over the past five years, there has been no Canadian stock that has caused more pain to investors than **Blackberry Ltd** (TSX:BB)(Nasdaq:BBRY).

The story is well-known: once the world’s leading smartphone maker, it has had its lunch eaten by **Apple** (Nasdaq:AAPL) and devices using the Android operating system. **Fairfax Financial Holdings** (TSX:FFH) CEO Prem Watsa recently intended to take the company private, but instead bought $250 million in convertible debentures. The stock, which at one point traded over $200, fell below $6 before rebounding in the last two months.

Blackberry may also be Canada’s most polarizing stock; everyone either believes strongly in the company or is convinced it will never recover. The detractors certainly have a case. The handset business continues to be lossmaking and will not recover the market share that it once had.

But there are reasons to be optimistic. New CEO John Chen is leading a significant strategy change, from being primarily a handset business to being an enterprise software business. One of his first moves was to outsource handset production to Foxconn, which will help Blackberry cut production spending and, ideally, will also prevent any further inventory write-downs.

Mr. Chen has reason to believe in a focus on enterprise software – there is perhaps no other company that is better positioned to benefit from the explosive growth in mobile device management (MDM). Blackberry has an enterprise customer base exceeding 80,000, far more than any of its competitors in the MDM space. The company also still has a significant lead in security, which is an especially large advantage in heavily regulated industries.

Two other operating segments will be part of Mr. Chen’s strategy. The first is Blackberry Messenger, which is still extremely popular – the extension of Blackberry Messenger onto iOS and Android devices was very well received, with over 40 million downloads during the last couple of months of 2013. The company plans to continue investing in the service in the hopes of turning it into a revenue generator.

The last piece of the puzzle is QNX, which is already the leading in-car operating system. Recently Blackberry launched a cloud business division for QNX, which will provide solutions for connecting machines for devices (more commonly referred to as the “Internet of Things”).

Of course Blackberry is still losing money, but could turn cash-flow positive by the end of 2015. Until then, the company has $3.2 billion in cash on the balance sheet to fund its turnaround. The company will get further boosts from real estate sales, tax refunds, and a reduction in royalty payments. If John Chen should have plenty of time to implement his plan, assuming he does so successfully.

There are a couple other factors working in Blackberry’s favour. One is its patent portfolio, which last year was estimated to be worth $2-3 billion (about $5 per share). The other is John Chen himself, who has an excellent track record with turning around struggling technology companies. Most prominently, he took over struggling database and systems services company Sybase. Mr. Chen refocused the company towards mobile information and restored profitability before selling Sybase to SAP AG for $5.8 billion (US).

Mr. Chen is certainly off to a promising start, and the market has reacted well. The company’s shares have nearly doubled since their December low. But many people have been burned in the past after betting on a Blackberry turnaround. Time will tell if this time is different.

CATEGORY

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