



2 Stocks to Watch this Week

Description

In another excellent week for the market, the **Toronto Stock Exchange 300 Composite Index** (^GSPTSE) gained 1.1% as higher gold and oil prices propelled the mining and oil and gas stocks upward. News of the Al Qaeda-linked militants' military gains in Northern Iraq sent oil prices to nine-month high levels.

The overall Canadian index has now gained 10% so far this year and 22% over the past year. Among the big gainers for the past week were **Suncor Energy** and **Goldcorp**, which gained more than 8% during the week.

At the other end of the scale, **Valeant** (TSX:VRX)(NYSE: VRX) lost 7% during the week as its hostile take-over bid for Allergan struggles to gain traction. Other notable losers were **Air Canada** and **WestJet** as higher oil prices will clearly impact on the profitability of their operations.

This week will be rather devoid of major corporate profit announcements with the only major quarterly report expected from **BlackBerry** (TSX: BB)(NASDAQ: BBRY). Valeant, locked in a corporate takeover battle, will also be in the headlines with another presentation to investors planned for June 17.

BlackBerry will report results for the first quarter of the 2015 financial year on Thursday. The market consensus expects a loss of \$0.25 in quarterly profit per share compared to a loss of \$0.13 a year ago.

The fiscal year 2014, which ended on March 1, was a truly terrible year for BlackBerry, with a total loss of US\$5.9 billion and revenues declining by 38% from the previous year. A new CEO, John Chen, who previously successfully turned Sybase around, was appointed effective November 4, 2013.

The first two quarters under the new CEO delivered sharp declines in operating costs, including 35% declines in selling, marketing and administrative costs and a US\$2.8 billion impairment of long-lived assets. The longer term strategic plan called for a further reduction in costs and the turnaround of the revenue decline through a focus on enterprise services, messaging, QNX-embedded business, and the devices business.

Time will tell whether the strategy will be successful, but the highly regarded CEO recently mentioned

that he now considers the chances of “saving the patient” to be around 80%.

The current quarter faces another decline in revenues compared to a year ago as smartphone sales decline further. Investors will be looking for the early signs of success with the recent launch of the first Foxconn designed Z3 mobile handset in Indonesia which the CEO rated as “quite good”. The intention is to launch the phone in other markets obviously depending on the success in Indonesia.

The cash flow and balance sheet of the company will be other areas of intense focus. The previous quarter ended with gross cash of US\$2.7 billion (which was US\$0.5 billion less than the previous quarter) and a slightly negative operating cash flow. The cash balance should be supplemented with the partial proceeds from the sale of the real estate portfolio. The company is targeting a cash flow break even by the end of fiscal 2015.

The BlackBerry share price has been moving sideways since mid-2013 and a brief rally after the new CEO was appointed petered out since January. It is probably too early to expect good news from the turnaround strategy but more recent comments from the CEO points to some internal optimism.

Valeant Pharmaceuticals announced that it will host a presentation to investors on Tuesday “...to refute recent misleading assertions made by Allergan, as well as answer additional investor questions...”. This will be a further episode in the corporate take-over saga which has been described in my previous notes on the matter.

The offer for **Allergan** (NYSE: AGN), which now includes 0.83 Valeant shares and \$72 of cash per Allergan share, has a current value of around \$172 per share which still leaves a sizable discount indicating investor skepticism on whether the transaction will succeed.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. NYSE:BHC (Bausch Health Companies Inc.)
3. TSX:BB (BlackBerry)
4. TSX:BHC (Bausch Health Companies Inc.)

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Date

2025/07/03

Date Created

2014/06/16

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