I Hereby Declare the BlackBerry Ltd Turnaround Over

Description

Congratulations to CEO John Chen, all the other members of his management team, and the staff left over at **BlackBerry Ltd** (TSX: BB)(NASDAQ: BBRY), for officially making it through the turnaround. No word on whether there's going to be a party with cake at the company's Waterloo offices, but it should still celebrate nonetheless.

Why am I so confident the company has turned the corner? Because ever since Mr. Chen took over, BlackBerry has been doing everything right. It turned its focus away from handsets in North America, choosing to focus on lower-priced phones for the developing world.

It sold off practically everything that wasn't crucial to the business. It invested heavily in QNX, which continues to be a good growth vehicle. It raised capital, and has some very influential investors in its corner, including Prem Watsa, billionaire CEO of **Fairfax Financial Holdings Ltd** (TSX: FFH).

In short, it's been a textbook recovery.

Does that mean you should rush out and buy the stock? I'm not sure, but here are three reasons why I continue to hold my shares.

1. New phone coming

Come November, customers are going to see a new BlackBerry phone on the shelves, called the Passport.

The phone has an interesting design. It's bigger than a regular smartphone but smaller than a small tablet, dubbed a phablet. It has a physical keyboard, because the company knows that's a huge differentiating factor compared to its competitors. It also has the largest smartphone battery on the market, at least according to execs.

But will it be a hit? If you can predict that, you'll make some money. All I know is that the last batch of new handsets the company released weren't received well, so expectations are probably low. Even a modest success would move the stock higher.

2. Monetizing patents

BlackBerry is currently sitting on $1.4 billion worth of intangible assets on its balance sheet, which mostly consist of patents. Up until now, not much effort was made in monetizing them.

A few days ago, the company announced a whole new division dedicated to extracting value out of its patent portfolio, hiring a veteran tech executive to head it up. There's no word yet on how profitable this new division will become, but it's another step in the right direction. The best part? It's a no-lose proposition. If it manages to extract value from the roughly 40,000 patents the company owns, it can only be good news.

3. Good recent results

Since Chen took over in November 2013, BlackBerry has done a terrific job reining in costs and selling non-productive assets.

In the company's most recent quarter, Chen announced that it cut operating expenses by 57%, and actually increased the company's cash hoard to $3.1 billion. BlackBerry's cash on the balance sheet is approximately half of its market cap. Gross margins increased from 43% to 48%, and revenue was pretty much flat year-over-year.

Plus, the company gets the edge of having low expectations. Investors don't expect it to do much, meaning whenever the company beats expectations it should get a bigger boost than any of its competitors.

Just because BlackBerry is no longer at risk of going bankrupt it doesn't mean the hard work is over. The company needs to continue the momentum in its QNX software division, and actually have a successful new handset launch. But expectations are so low that even a modest success could send shares higher.

Still, I'd be patient before adding shares. It's such a volatile stock that investors could easily see it 10-20% lower.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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