



## 1 Simple Reason to Buy BlackBerry Ltd.

### Description

Full disclosure: I'm not a **BlackBerry Ltd.** ([TSX: BB](#))(NASDAQ: BBRY) fan. I proudly sport an Android smartphone and **Google Inc.** ([NASDAQ: GOOG](#)) Chromebook. I have no particular loyalty to BlackBerry whatsoever.

That said, sometimes you look into the marketplace and you see valuations that make no sense. Even if you have little confidence in a BlackBerry turnaround, there's one simple reason to buy this stock: It's being valued at scrap. At current prices, there's little downside risk, and the stock could have triple-digit upside if *anything* goes right.

Let me explain...

"Terrible to less terrible" situations is a term I use to describe buying assets that have suffered through hard times, digested the bad news, and are poised to run higher. After an asset suffers through tough times, nobody wants to buy it. It's at this moment — when most people can't stand the thought of buying that asset — that it will trade for a fraction of its intrinsic value.

If you step in and buy amid the pessimism, you can double your money if a bit of optimism returns to the market and sends the asset back to normal levels. Keep in mind: It doesn't take great news to double the price of a cheap, hated asset. Things just need to go from "terrible to less terrible."

I believe we're seeing that happen right now at BlackBerry. Thanks to the company's declining handset business, the market has written off the entire company. But is that really appropriate?

Let's take a look at the numbers. On Thursday, BlackBerry closed at US\$10.77. That gives the company a market capitalization of US\$5.3 billion. At this price, the market is valuing BlackBerry at scrap and assuming almost no value to its other businesses.

Here is a simple sum-of-parts valuation. The methodology is included below.

### BlackBerry Sum-of-Parts Valuation (US\$)

	<b>Value (\$mm) Per Share</b>	
Net Cash and Investments	\$1,283	\$2.44
Cash Flow From BBOS Service Fees	\$881	\$1.67
Value of Patent Portfolio	\$2,633	\$5.00
<b>Scrap Value</b>	<b>\$4,797</b>	<b>\$9.11</b>

*Net Cash and Investment:* This net-cash comprises of cash and short-term investments of \$2.32 billion less debt of \$1.25 billion. Of course, BlackBerry is still burning cash. Rather than simply plug in the company's current holdings, I used TD Securities's forecast cash balance by the end of 2015.

*Cash Flow From BBOS Service Fees:* Old BlackBerry devices continue to generate service fees. Once again, I used TD Securities' valuation of this business. Analysts assumed income will continue to decline 10% to 15% per quarter and discounted future cash flows by 12%.

*Value of Patent Portfolio:* Estimates of BlackBerry's patent portfolio range from US\$5 to US\$10 per share. To be extra conservative, I will use the low end of this range.

Voilà! In my most conservative valuation of BlackBerry, the company is worth about US\$4.8 billion, or US\$9.11 per share. Today, Mr. Market will give you an extensive patent portfolio, a declining service business, and a big pile of cash. And because Mr. Market is so nice, he will throw in the company's mobile device management division, BlackBerry Messenger, and the QNX operating system for almost free.

That's the kind of low-risk, high-reward setup investors crave. The bottom line, even if you have no faith in CEO John Chen's turnaround, there's little downside in BlackBerry shares at current prices. But if *anything* goes right at the company, the upside could be huge.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NASDAQ:GOOG (Alphabet)
2. NYSE:BB (BlackBerry)
3. TSX:BB (BlackBerry)

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