



Is BlackBerry Ltd. a Safe Investment?

Description

The future of **BlackBerry Ltd.** ([TSX: BB](#))(NASDAQ: BBRY) is still up in the air. John Chen, BlackBerry's CEO, gave his company a 50% chance of survival back in March and then increased his prediction to 80% as he started to smell the roses in midsummer.

The big-money guys, who often sniff out a winner before everyone else catches on, are split on whether BlackBerry is ready to bloom or destined to slowly wither and die.

Third Point LLC, run by activist fund manager Dan Loeb, completely liquidated its position of 10 million shares in BlackBerry in the first quarter of 2014. **Fairfax Financial Holdings Ltd.** trimmed its holdings by 5.2 million shares earlier this year, but still owns just under 9% of the company. Then there's Primecap Management, which still believes in the story, and is BlackBerry's single largest shareholder with more than a 10% stake.

Even the analysts are unsure, with most giving the company a "hold" rating.

So, what is a retail investor to do?

Let's look at some of the developments at BlackBerry over the past few months and try to see if there is really any hope.

Good news

The restructuring appears to be over and BlackBerry is focusing on building the business around software and services targeted at enterprise customers.

In July, BlackBerry bought Secusmart, a mobile security company based in Germany that specializes in high-security encryption technology designed for voice and data. The company's anti-eavesdropping capabilities are of particular interest, especially for senior-level politicians.

The Secusmart deal might be more beneficial as a credibility-building tool than as a means of generating significant cash flow.

In September, BlackBerry bought Movirtu. The SIM designer owns a nifty technology that enables employees of a company to set up both personal and business accounts on the same smartphone. The potential for this technology is huge, especially for small companies that need to have an employee's use of voice, data and messaging billed separately from the personal use.

At the end of September, BlackBerry launched its new Passport device. The square 4.5-inch display and three-row keyboard is targeted specifically at business users. It is too early to tell if the device will gain traction but it shows consistency in the direction the company is trying to go.

Bad news

Back in July, **Apple Inc.** and **International Business Machines Corp.** announced a joint venture that rattled the cage a bit for BlackBerry supporters. The arrangement between Apple and IBM will see IBM sell Apple devices to its extensive global portfolio of enterprise clients. The two companies will also co-develop a host of applications targeted at BlackBerry's enterprise mobility stronghold.

The growing popularity of Bring Your Own Device (BYOD) policies at companies has been a problem for BlackBerry. Corporations that previously issued BlackBerry smartphones to the entire workforce have slowly moved towards the BYOD system.

Despite the new focus on software, BlackBerry still needs to sell about 10 million devices a year. If it wants to get investors excited about the stock again, it has to score big with its Passport or the new BlackBerry Classic, which is set to arrive in the coming months.

Financials?

BlackBerry reported a Q3 loss of \$11 million in its latest earnings report. Hardware represented 46% of revenue, another 46% came from services and the remaining 8% was generated from software and other sales. The company sold about 2.1 million smartphones in the quarter, and had a cash balance of \$3.1 billion as of August 30, 2014.

What should investors do?

The next few quarters should determine if BlackBerry can carve out a profitable and sustainable niche in the enterprise market. If you believe John Chen is right, then the upside potential is probably greater than the downside risk, but investors should be prepared for some volatility along the way.

Not sure if BlackBerry is the best bet right now? Check out your FREE report offered below on the one stock every investor should own.

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