



How Much Is BlackBerry Ltd.'s BBM Messaging Service Worth?

Description

Back in June, **BlackBerry Ltd.** ([TSX: BB](#))(Nasdaq: BBRY) CEO John Chen was asked if he would sell the company's BBM instant messaging service for \$2 billion. He gave a very bold response: "Not good enough." In the same interview, Mr. Chen claimed that BBM could generate \$100 million in revenue by 2016.

At the time, such assertions seemed a bit far-fetched. BBM boasted only 85 million users, thus \$2 billion would have equaled over \$20 per user. All this for a service that generates no revenue, much less profit.

But more recently, there have been some positive developments. In its most recent quarterly report, the company revealed that BBM grew to 91 million users, more than 7% higher than the previous quarter.

And more recently, BlackBerry indicated that BBM monetization is near, while introducing two new features. One of these features – dubbed Message Retraction – allows users to take back a message after having sent it. The other one is called Timed Messages, and this allows users to control how long sent messages remain visible. But the company said these offerings would be free for only three months, after which time it would become "part of a broader bundle of features that will be offered as part of a BBM subscription."

So what could BBM be worth?

Based on what **Facebook** paid for WhatsApp (\$19 billion, \$42 per user), BBM is worth north of \$3.8 billion. If this valuation is justified, that would be very exciting for BlackBerry shareholders. After all, the whole company is valued at only \$3 billion (after factoring out cash).

But the two aren't directly comparable. WhatsApp is growing users much more quickly than BBM, and also likely has more potential when combined with Facebook. Furthermore, there's a general belief that Facebook overpaid, especially since WhatsApp made only \$15 million in revenue during the first six months of 2014 (and was unprofitable).

So Mr. Chen still has a lot to prove with BBM and its monetization. Until then, if I were a BlackBerry shareholder, I would love to see BBM sold for \$2 billion.

A step in the right direction

Even though BBM may not be worth what Mr. Chen says it's worth, investors should still be very encouraged. After all, it's just another sign that he is intent on monetizing BlackBerry's assets, and that he recognizes the company's strengths. Clearly his focused approach is preferable to the shotgun approach employed by previous management.

So at this point, if you hold BlackBerry shares, and have enjoyed some nice gains this year, there's no reason to cash in now. Mr. Chen is just getting started.

But there are other names you should hold besides BlackBerry, and one is revealed in the free report below.

CATEGORY

1. Investing
2. Tech Stocks

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1. NYSE:BB (BlackBerry)
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