



Why Are BlackBerry Ltd. Shares Plunging?

Description

In 2014, few companies have enjoyed as much momentum as **BlackBerry Ltd.** ([TSX: BB](#))(Nasdaq: BBRY). Under the leadership of new CEO John Chen, the firm has cut costs, sold non-core assets, and zeroed in on its core enterprise customers. So far the results have been very promising, and the shares are up over 50% as a result.

Looking ahead, the future is as bright as ever. BlackBerry has just released its newest enterprise server, BES 12, which should solve a lot of its customers' problems. And there are other areas where BlackBerry could grow, such as its BBM Messaging service and QNX operating system.

But not everyone is convinced. On Wednesday, BlackBerry shares slumped nearly 4% (as of this writing) after Morgan Stanley analyst James Faucette downgraded the company. He now has a "sell" recommendation, and a \$7 price target.

So why does Mr. Faucette not believe in BlackBerry? And who should you believe? Below we take a closer look.

Why does Mr. Faucette not believe in BlackBerry?

Mr. Faucette gave a very simple explanation for the downgrade: "When we initially set our [equal-weight] rating in June 2014, we felt the market was too pessimistic on the ability of the company to stem the cash burn and EPS losses. However, we now believe the pendulum has swung too far in the other direction, and the market is now too willing to give the company the benefit of the doubt that [BlackBerry] will successfully be able to sell its new software and messaging offering."

More specifically, Mr. Faucette believes investors are assuming that BlackBerry will meet Mr. Chen's targets, which includes an extra \$250 million in software revenue and \$100 million in revenue from BBM.

Both of these targets could be wildly optimistic. For the extra \$250 million in software revenue, BlackBerry will not only need to keep all of its clients, but also convince these subscribers to upgrade their services significantly.

And the BBM revenue target also looks wildly optimistic, since WhatsApp made only \$15 million in revenue through the first half of 2014, despite having more than six times BBM's number of active users.

Why Mr. Faucette might be wrong

First of all, it is important to note that Mr. Chen has delivered so far, and in a very meaningful way. So any time someone questions him, as Mr. Faucette is doing, such criticism should be taken with a grain of salt.

Second of all, Mr. Faucette is really only saying that the company will miss its short-term targets. And there remain plenty of reasons why BlackBerry's longer-term prospects are very strong.

Finally, there are plenty of ways that BlackBerry could reach its earnings target. Perhaps new handset releases make a big splash. Or the QNX operating system could win more contracts. Or more costs could be cut.

A big risk

Despite Mr. Faucette's doubts, now is a great time to believe in BlackBerry shares. But of course the risk is still very high. You should only hold the stock in small quantities.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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