



Will BlackBerry Ltd. Outperform Apple Inc. in 2016?

Description

Many would be surprised to learn that **BlackBerry Ltd** ([TSX:BB](#))(NASDAQ:BBRY) stock outperformed industry leader **Apple Inc.** ([NASDAQ:AAPL](#)) in 2015 by over 10%. Apple stock fell roughly 7.7%, while BlackBerry experienced a late resurgence in the year to finish up 3.5%.

While there were numerous factors leading to BlackBerry's outperformance, can the company do it again?

Sometimes it's easier as the small guy

After growing its market cap from under \$100 billion in 2008 to roughly \$600 billion today, Apple faces some inescapable, natural hurdles to growth. For example, sales over that time period needed to grow over 600% to roughly \$234 billion. That's an impressive growth rate for any industry.

While Apple may keep growing, it would be incredibly difficult to replicate the previous 5-10 years' worth of results. As such, investors have clearly been willing to pay less and less for the company's growth.

In 2008 Apple stock traded for nearly 40 times earnings, and the market anticipated the massive opportunity ahead. As sales continued to climb, however, the company naturally ran in to the law of big numbers: it's tougher to double sales at \$200 billion than it is at \$20 billion. In 2012 investors were only willing to pay about 15 times earnings, and that valuation has dropped to under 12 times earnings today.

Even despite sales continuing to rise last year, the market has punished Apple for failing to keep up with historic growth rates.

BlackBerry, meanwhile, is quite the reverse.

After peaking at \$21 billion in 2011, sales at BlackBerry went on a horrific multi-year slide; last year's revenues came in at only \$2.4 billion. While the firm doesn't yet have earnings, we can see that investors are getting much more excited about future growth opportunities. In 2014 the stock only

traded at 0.5 times sales. Today, that valuation has exploded to nearly 2.4 times sales. Higher expectations are a big reason why the stock has popped 20% over the past two years.

How is BlackBerry expecting to meet investors' rising outlook?

Primed for opportunity

BlackBerry's latest results marked the seventh consecutive quarter of positive free cash flow; the company ended the year at \$2.7 billion in cash. This not only provides investors with some level of stability, but should also allow the firm to double-down on some of its most promising projects.

Software revenues last quarter came in at \$161 million versus an expectation of only \$103 million. Many are anticipating this segment to comprise almost half the business in just a few years. And while the company's new phone, the Priv, isn't selling as fast as the iPhone, it's a major step in the right direction for a company plagued by flops in recent years.

There are also plenty of revenue opportunities that don't have any associated costs at all. While the market hasn't put too much value on it, the company has built up a respectable portfolio of unique patents and technologies. Last quarter the firm was able to close a number of licensing agreements that resulted in \$53 million in sales. Another key royalty stream will come online in 2018 and could last up to 10 years.

Don't be surprised to see a repeat

BlackBerry's management is clearly exploring all avenues to profitability. And while most people are fixated on the company's phone business, BlackBerry is clearly showing huge strides in its growing software business. With meagre expectations and plenty of cash to execute, BlackBerry stock may once again beat out shares of Apple.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice

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2. NYSE:BB (BlackBerry)
3. TSX:BB (BlackBerry)

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