How to Turn BlackBerry Ltd. into an Income-Generating Investment

Description

There are a lot of reasons to be bullish on **BlackBerry Ltd.** (TSX:BB)(NASDAQ:BBRY).

Although the company isn't nearly the force it used to be in the handset market, there are reasons for optimism. The Android-powered Priv device seems to be doing pretty well. Speculation is swirling about the company releasing more phones running on the world's most popular operating system in 2016, which should help sales.

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BlackBerry's new focus on software seems to be going pretty well, too. The software business is high margin, and there are plenty of opportunities for the company to spend some of the US$2.3 billion it has in cash on acquisitions in the space.

Although it's unlikely BlackBerry will post a profit for its fiscal 2016, free cash flow tells another story. Three-quarters of the way through the year, the company has posted a positive free cash flow of some US$100 million. That's not a lot for a company with a current market cap of $5.44 billion, but at least it's no longer burning cash.

And finally, there's always the potential for BlackBerry get acquired. There's plenty for a potential suitor to like–everything from the BlackBerry brand name to the company's treasure trove of patents are worth something. There's even the argument to make that BlackBerry's patents are worth more if the company gets out of the handset business.

Because of these reasons, I'm happy to hold my BlackBerry shares. I believe they'll trade much higher than current levels one day; it's just a matter of giving CEO John Chen and his management team time to execute the turnaround.

There's just one problem. BlackBerry doesn't pay a dividend. Many investors–myself included–like getting paid a dividend in exchange for being patient. We want to get paid something for putting our capital at risk.

There's a solution to that. Here's how any investor can create their own dividend from BlackBerry using covered calls.

Huge income potential

The beauty of using a covered-call strategy with BlackBerry is that most investors are using the option market to speculate on the company's future. This translates into attractive option premiums.

Let's look at the April 15, 2016 options as an example. If investors sold the $12 call options, they'd immediately collect a premium of $0.21 per share, which is good enough for a yield of 2%.

BlackBerry has monthly options, which means that in theory investors could write a similar call each month, collecting a 2% premium for their trouble. That works out to a potential 24% "dividend" each year.

There are plenty of reasons why an investor might not want to do this move every month. There may be rumblings about big potential news. Or the stock may be volatile. The big downfall in this strategy is that BlackBerry shares are prone to big surges, which would minimize an investor's potential upside.

Writing covered calls for a $12 strike price limits the upside at about 14%. That's certainly not bad for holding shares for only a month, but it might not be an ideal outcome for someone with a multi-year outlook.

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Perhaps a more conservative strategy would be better. The $13 April 15 call option currently sells for $0.10 per share, working out to an approximately 1% yield. Investors could pick and choose their moments to use that covered call, generating anywhere from a 4-8% distribution annually.

Using options with a higher strike price helps to make sure an investor doesn't get forced out of what could be a very lucrative long-term position.

It's not terribly difficult to generate income from BlackBerry. Investors waiting patiently for a turnaround should use a covered-call strategy to ensure their capital is at least generating a small return while it's tied up.

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1. Editor's Choice

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