



## BlackBerry Ltd. and Home Capital Group Inc. Stock Are Down: Is it Time to Buy?

### Description

[Many stocks have gotten killed since January.](#)

Here are two that have seen big losses this year, but what can we expect for the remainder of the year?

**Blackberry Ltd.** ([TSX:BB](#))([NYSE:BB](#)) has plummeted 20% since the beginning of this year in a nervous market that has taken down richly valued, high beta stocks.

But Blackberry is making progress on all fronts and its turnaround is going well.

Let's remind ourselves of the company's successes.

Revenue grew 13% this quarter, with software and services revenue accounting for 91% of total revenue compared to 65% of total revenue last year.

This reflects on the success of the company's strategy to focus on higher margin recurring software services revenue — strategy that many had doubts about in the early stages.

Gross margins were 79% in the quarter, which is a record high for the company and compares to gross margins of 65% last year. Operating income was \$19 million for an operating margin of 8% compared to 4% last year.

Consistent with CEO John Chen's plan, the licensing and the enterprise software and solutions segments are accounting for an increasingly bigger part of the company's revenue, with licensing revenue accounting for 27% of revenue in the quarter and enterprise software and services revenue accounting for 52% of revenue.

The balance sheet remains strong, with cash plus short-term investments of more than \$2.4 billion, an increasingly larger percentage of revenues are recurring, and the company's cash flow generation (\$47 million free cash flow generation in fiscal 2018) and minimal debt sets it up to continue to invest in the business and grow organically and/or through acquisitions

Over at **Home Capital Group** ([TSX:HCG](#)), we have witnessed another [turnaround story](#).

The stock has declined 18% since the beginning of this year and now trades at \$13.56, which is significantly below book value of over \$20, representing an attractive entry point for longer-term investors.

Home Capital's fourth quarter and year-end 2017 results were ahead of expectations, and the stock has rallied significantly since its lows back in April 2017.

If we exclude one-time items, EPS came in at above \$0.45 compared to consensus estimates of \$0.37 and was pretty much flat compared to the same quarter last year.

Mortgage loan growth was a dismal -15%, and credit trends weakened somewhat compared to last year, as the environment has become much tougher these days.

With a capital ratio of over 23%, which is much improved from the 17% seen in the second quarter, and rising net interest margins, we can feel somewhat confident in expecting increasing profitability.

However, the backdrop that Home Capital must contend with is more challenging, as more stringent stress tests are resulting in lower originations. While these new rules may bring more customers to higher risk lenders like Home Capital, the mortgage market as a whole is in disarray.

Home Capital reports on May 8, and the state of their mortgage business and credit trends will be especially important.

## CATEGORY

1. Investing
2. Tech Stocks

## TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:HCG (Home Capital Group)

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