Will BlackBerry's (TSX:BB) Stock Soar? Not Likely

Description

Once left for dead, BlackBerry has re-invented itself over the past number of years. Although it's well off 2014 lows, the year has not been kind to shareholders. Year to date, the company's share price has lost approximately 6% of its value. Likewise, it is trading at the low end of its 52-week range, down 27% from its yearly high.

Yesterday, Fool contributor Jason Phillips outlined the reasons why he expects the company to soar should second-quarter earnings be strong. Today, BlackBerry reported earnings. Did they deliver?

Beat on top and bottom lines

BlackBerry posted adjusted earnings of $0.04 per share, topping estimates for $0.01 per share. Revenues of $214 million also came in above expectations of $207 million. However, revenues were down 13% from $238 million in the second quarter of 2018.

The company's transition to a software and services company is beginning to bear fruit. Total software and services billings grew by 11% from the prior year on an adjusted basis. Another positive: approximately 81% of the company's software and services revenues was recurring. Along with higher gross margins, recurring revenues is one of the big benefits of being a software company. Earnings are less reliant on one-time sales and provide stable revenues.

The company was free cash flow positive and had $2.4 billion in cash on hand and investments at the end of quarter — more than enough to cover the face value of the company's $605 million in debt.

Guidance re-affirmed

Along with fiscal 2019 second-quarter earnings, the company also re-affirmed full-year guidance. The company expects to grow revenues in its revenues and software services segment by 8-10% year over year. Segment billings are also expected to grow by double digits, while free cash flow is expected to remain positive. BlackBerry has also guided for positive earnings per share. Analysts expect the company to post full-year earnings of $0.09 per share.

Valuation

Although the company is in the midst of an impressive turnaround, it’s still expensive. Low double-digit revenue growth isn’t enough to justify a forward price-to-earnings (P/E) of 83 and a P/E-to-growth ratio of 8.81. As such, its share price is well above expected growth rates.

Likewise, it is trading at a price-to-book (P/B) ratio of three and an enterprise value (EV) to earnings before interest, taxes, depreciation, and amortization (EBITDA) of 71.58. In comparison, software industry averages are a P/B of two and an EV/EBITDA of 22.62.

Will the company soar?

I guess it depends on your definition of *soar.* Since 2016, the company has more than doubled. At today’s prices, however, it’s hard to see a repeat performance, as the company is not growing fast enough. BlackBerry is trading at high multiples, and the majority of analysts rate the company a hold.

Does the company have a bright future? BlackBerry’s CEO John Chen has certainly righted the ship, but there is still plenty of work to be done. Can it monetize its best-in-class security solutions to a point where its current valuation multiples are justified? The potential is there, but, for the moment, I agree with analysts and fellow Fool contributor David Jagielski: the company is a hold.

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Date
2025/07/04
Date Created
2018/09/28
Author
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