



Why BlackBerry (TSX:BB) Stock Fell 6% in August

Description

BlackBerry ([TSX:BB](#))([NYSE:BB](#)) stock fell 6% in August versus a slight gain for the **S&P/TSX Composite Index**. While the underperformance isn't huge, it is notable considering BlackBerry is attempting a bold turnaround that will completely change the company's business strategy. BlackBerry is no longer a smartphone manufacturer. Instead, it's focused on next-gen opportunities like self-driving cars and cybersecurity.

BlackBerry's underperformance in August likely reflects the market's skepticism about BlackBerry's ability to reinvent itself. However, one major investor — Prem Watsa — is more bullish than ever. That's notable considering he's widely regarded as one of the best investors *ever*. If you want to get in on the next big thing, this could be your chance.

Here's what happened

This month, **Macquarie Group** initiated coverage of BlackBerry at "neutral," although its price target suggests nearly 20% upside. The firm is optimistic about the company's prospects but believes it will take some time for the pieces to fit together and form a story that the market understands. "We believe BlackBerry suffers from a 'what is it?' issue where, from a 10,000-foot view, it appears to be an amalgamation of discrete assets that have few synergies across the portfolio," the firm said.

Macquarie's viewpoints are corroborated by last month's research note from **Royal Bank of Canada** that suggested BlackBerry needs more time to complete its turnaround. Still, RBC thinks the future is getting closer. Once organic growth traction is achieved across BlackBerry's most exciting segments, the valuation multiples could get a healthy bump.

On an exciting note, the company added its BlackBerry Radar service to the Geotab Marketplace. Geotab is used by nearly two million vehicles worldwide to improve software and telematics capabilities. BlackBerry Radar gives vehicles the ability to sync real-time data on trailers and other towable assets.

Finally, BlackBerry appointed Lisa Disbrow, who served as Under Secretary of the U.S. Air Force, to its

board on August 26.

What to expect

The analyst reports that came out in August sum up the market's sentiment well. "Things looks promising," investors are saying, "but it will take a while for the results to show." This is an accurate assessment, but it's resulted in a steep discount for shares. While everyone else is waiting to buy, you can potentially double or triple your money by taking an early risk.

In 2015, BlackBerry earned \$4.4 billion in revenue. Sales have fallen every year since, hitting just \$1.2 billion last fiscal year. Here's the important part: sales have already stabilized. Over the last four quarters, revenue increased by 16%. Software and services sales have 80% gross margins, so sustained profitability may be just around the corner.

RBC recently reported that BlackBerry management is "frustrated with the stock," so don't be surprised to see a big stock buyback implemented. The company has \$1.1 billion in cash and can get close to cash flow breakeven in 2020, meaning it could easily buy back 10% of its stock without breaking the bank.

Even without a massive buyback, investors could be getting a steal at current prices. Next fiscal year, analysts anticipate EPS of \$0.26, implying a forward valuation of 35 times earnings. That expensive, but when you compare it to other security software companies like **CrowdStrike Holdings** — which trades at *10 times* the valuation — BlackBerry stock looks like a bargain.

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