



## BlackBerry (TSX:BB) Stock Is a Huge Buy

### Description

Prem Watsa is one of the greatest stock pickers in history. His holding company, **Fairfax Financial Holdings Ltd** ([TSX:FFH](#)), has generated annual returns of 17% since 1985. Only the likes of Warren Buffett can rival that track record. Watsa's performance places him in the top 0.1% of investors ever. When he speaks, it pays to listen.

In 2013, Watsa officially took a position in **BlackBerry Ltd** ([TSX:BB](#))([NYSE:BB](#)). At the time, shares were trading for roughly \$8 apiece, an investment struck many as odd. Watsa was known as a classic value investor, and betting on a failing tech company was an unusual position.

Still, over the years, Watsa regularly increased his position. Today, Fairfax Financial owns 95 million shares (on a fully-converted basis) at a net cost of \$12.30 per share at writing.

Until this month, Watsa's bet was at breakeven prices, but last week, BlackBerry stock fell to a five-year low after a slew of analysts downgraded shares. But judging from Watsa's comments on the company, he's more bullish than ever.

If you want to capitalize on a huge bet from a proven investor at rock-bottom prices, this is your chance.

### A long transition

"Since we acquired our position about six years ago, much has changed at BlackBerry," wrote Prem Watsa in his recent letter to Fairfax investors. He then details the company's difficult transition from a legacy smartphone manufacturer to a next-gen tech company focused on cybersecurity for autonomous vehicles, healthcare applications, the internet-of-things, and more.

In 2019, the company announced a blockbuster \$1.4 billion acquisition of Cylance, an artificial intelligence company that designed a cutting-edge method for cybersecurity. At the time, Cylance already had 3,500 customers, including more than 20% of the Fortune 500. Watsa was a big fan of the move.

“BlackBerry, of course, is the gold standard for mobile security, and together with Cylance it can provide one stop shopping for all the cybersecurity needs of large enterprises, particularly banks, governments, and transportation companies,” Watsa wrote.

“With Cylance, BlackBerry will be a growth company again, and its focus on security and communication could lead it to become an iconic company again.”

In 2015, BlackBerry posted revenue of \$4.4 billion. Last year, the company posted sales of just \$1.2 billion. Yet in 2019, sales declines stabilized. Revenue last quarter *grew* 16% year-over-year.

BlackBerry’s transformation has taken nearly a decade, but finally, it appears as if it’s complete. Now, the only thing left is to execute. But while Watsa is bullish, the market remains skeptical.

## Time to prove it

Today, BlackBerry stock sells at 2.6 times forward sales. That’s not egregious, but it’s a premium valuation, especially considering the company still struggles with profitability. Over the last two quarters, BlackBerry lost more than \$100 million. Proving that it’s worth a premium valuation has been a difficult task.

Over the last two weeks, shares have fallen by more than one-third as an increasing number of analysts throw in the towel. Three sell-side analysts slashed their price targets in September, citing a lack of traction and a prolonged path to growth.

Organic revenue growth has been stuck in the single digits while customer adds in key segments like Auto and Radar continue to weigh on the company’s long-term prospects.

Today, pessimism surrounding BlackBerry stock has hit a fever pitch. Most analysts recommend either holding or selling the stock. Only one rates the stock as a buy. But analysts aren’t always right.

In fact, some research suggests they’re no better than throwing darts. Watsa, meanwhile, has shown that he’s far superior than chance, especially given that he has a multi-decade history of outperformance.

BlackBerry is now entering a critical time in its history. With \$1.1 billion in cash, it has the runway to pursue its growth strategy. That’s critical considering the rise of autonomous vehicles, a big part of the story, may take a decade or longer to fully play out.

Whether the company succeeds is highly controversial, but Watsa seems intent on betting the farm that it will. With shares down big in recent weeks, this is an opportune time to follow the Warren Buffet of Canada.

### CATEGORY

1. Investing
2. Tech Stocks

### TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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