This Ridiculously Undervalued Tech Stock Has Massive 2020 Upside Potential

Description

It hasn't been a good few months for **BlackBerry Ltd.** (TSX:BB)(NYSE:BB).

It all culminated with a massive earnings miss back in September that sent the stock tumbling. Revenue for the quarter was US$244 million, well short of analyst expectations of US$268 million. Although the company beat expectations on the bottom line with a break-even quarter versus expectations of a slight loss, the break-even result came with heavy adjustments that investors didn't like to see.

The company's Internet of Things division was particularly weak for the second quarter in a row. Revenue from that part of the business fell by more than 5% to US$134 million, compared to analyst expectations of US$150 million in sales.

Another reason for the 20%+ haircut was investors are getting tired of BlackBerry being unable to deliver any significant growth. The company has been transforming itself away from its traditional mobile phone business for years now, without much to show for it. Many investors are just too impatient to see this turnaround through.

Needless to say, there's a lot of bad news surrounding this stock.

Investors shouldn't worry about the naysayers. In fact, BlackBerry shares are poised to soar over the long term. Let's take a closer look at why the stock is such a compelling investment today and its potential upside in 2020 and beyond.

Incredibly cheap

Much of the technology sector is characterized by high valuations as investors pay what is viewed as an unavoidable premium to get access to the sector.

Some might argue BlackBerry doesn't deserve a high multiple because it doesn't deliver excessive growth and because it constantly disappoints investors. That's a fair argument today. But it'll be quickly abandoned when the company starts posting nice growth numbers. Profitability isn't even needed for this outcome.

BlackBerry's value today is also protected by the large amount of cash on the balance sheet. The company has US$850 million in cash and short-term investments, money that can be used to make further acquisitions. BlackBerry's balance sheet is also pretty solid, so it could even take on debt to make the right deal.

In fact, BlackBerry shares trade at just a small premium compared to its book value. If sentiment improves, that gap will widen in a big way.

Growth potential

BlackBerry has some interesting irons in the fire, investments that could work out in a very big way.

Overall, the Internet of Things sector is absolutely massive, and it's still growing like a weed. Its strategy to be a niche player in this large space looks to be a good one, with each of its specific verticals showing impressive growth potential. It's just a matter of execution now.

Then there's QNX, the company's auto software division. QNX software is powering in-dash entertainment systems and other automotive software applications in more than 150 million vehicles around the world. The company is also working on self-driving car software. There's little doubt this market will continue to grow as drivers insist on more bells and whistles to keep them safe.

Finally there are the company's patents, which look to be a nice source of revenue going forward. BlackBerry owns some 40,000 worldwide patents, with an average lifespan of approximately 10 years left. The company has turned these intellectual assets into a notable revenue stream, with potential to be more aggressive in this space.

The bottom line

BlackBerry shares are so depressed all it'll take are a few pieces of good news to send the stock soaring. The company has numerous divisions with significant growth potential. All CEO John Chen and his team need to do now is execute, and investors who get in today will likely be very happy with the results.

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