



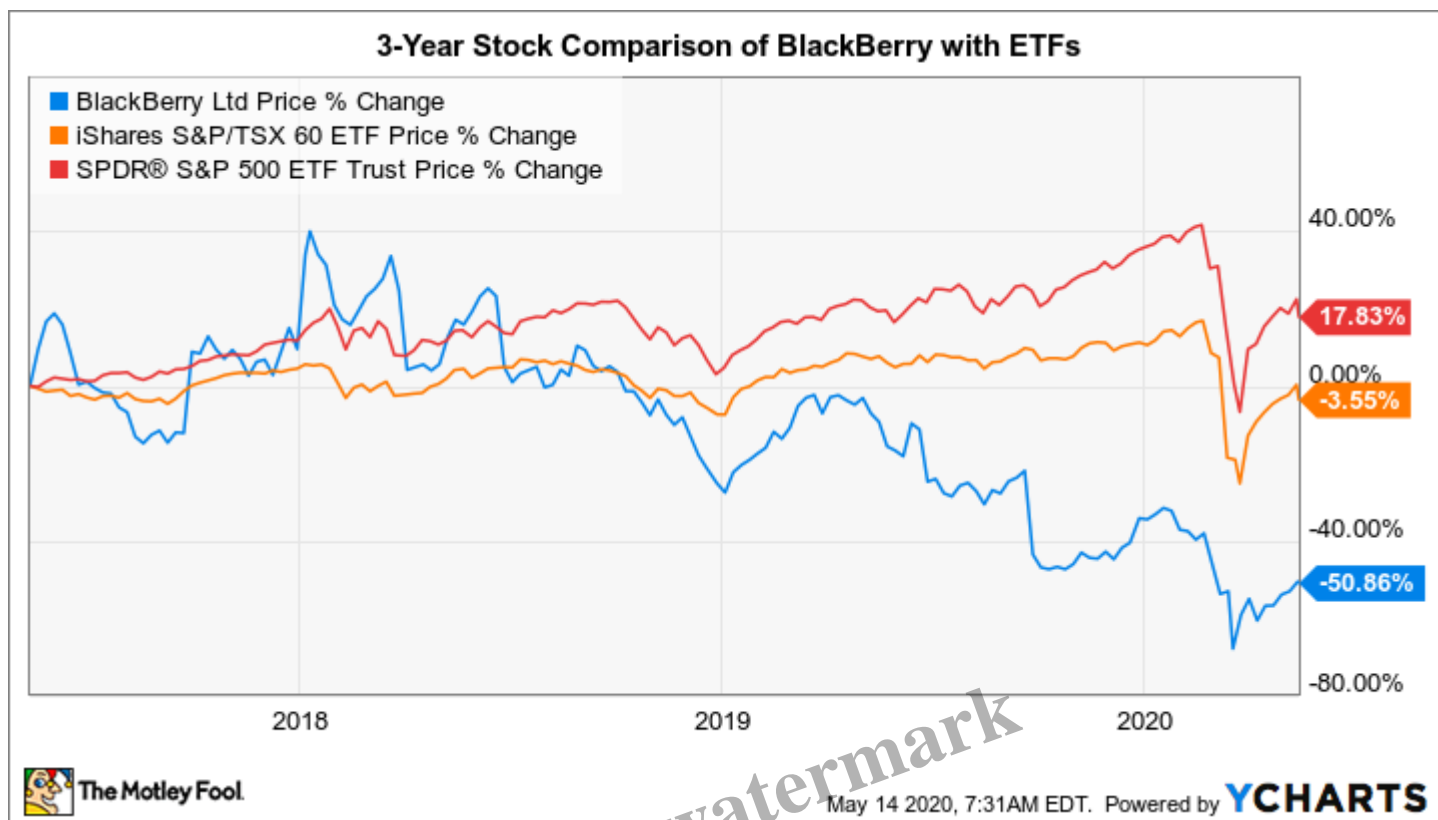
TFSA Investors: Forget BlackBerry and Invest in This Growth Stock Instead!

Description

Shares of Canadian technology company **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) continues to underperform the broader markets. The stock is down 25% year-to-date. Comparatively, the **S&P 500 ETF** and the **iShares S&P/TSX 60 ETF** have fallen 13.4% and 17.6% respectively.

BlackBerry exit the smartphone market in late 2016 and pivoted toward providing enterprise-based software and security solutions. Investors are patiently waiting for the company to stage a turnaround.

However, since the start of 2017, BlackBerry shares have fallen 32% and as we can see in the below chart, it has lost significant value in the last three years.



BB data by [YCharts](#)

BlackBerry is struggling with falling margins

In fiscal 2020, BlackBerry reported revenue of US\$1.04 billion, up 15% from its revenue of US\$904 million in 2019. However, its gross margin fell to 73.36% from 77.2% in this period.

The company increased research & development expenses by 20.5% and sales & marketing expenses by 42.7% in 2020, resulting in an operating loss of US\$149 million in 2020 as compared to an operating profit of US\$60 million in 2019.

BlackBerry's lower gross margin might indicate the tech company is losing pricing power in an enterprise market [with multiple players](#). Now, the COVID-19 pandemic might cut enterprise spending in the second half of 2020 which might drag profitability and shares lower.

BlackBerry is struggling to grow sales organically. A significant portion of top-line growth in 2020 was driven by its acquisitions of Cylance and other companies. In the fourth quarter, BlackBerry sales were up 11%. However, after accounting for the Cylance acquisition sales declined 5% year-over-year.

BlackBerry's IoT (internet of things) is likely to be impacted heavily in the upcoming quarters. In this business, the company largely depends on its [QNX software](#) that allows auto vendors to create a secure vehicle system.

As the number of automobiles sold is expected to plummet in the June quarter, BlackBerry's sales in

this business might decline at a rapid rate.

Growth investors can look to buy Stone Co. stock

While BlackBerry continues to disappoint investors, there is one stock that investment mogul on which Warren Buffett has placed his bets. Warren Buffett's **Berkshire Hathaway** has a 5.1% stake in Brazilian-based fin-tech company **StoneCo** ([NASDAQ:STNE](#)). It has 14.16 million shares worth US\$378.8 million in the company. When the Oracle of Omaha buys a stake in a company, you need to watch it closely.

StoneCo stock started trading on the NASDAQ in October 2018. Its IPO price was US\$24 and the stock touched a record high of US\$46.69 this year. It then fell below to US\$17.72 and has since recovered to currently trading close to US\$21 per share.

StoneCo provides end-to-end cloud-based technology solutions to small and medium businesses (SMEs). It aims to transform the way these businesses use software and fintech services.

It sells solutions to integrated partners including payment service providers. The company's Stone Hubs include a team of sales and support staff to engage local SMEs, which will drive customer engagement and retention higher over time.

Brazil is reportedly the fourth-largest payment market in the world, giving StoneCo enough opportunity to drive sales higher in the upcoming decade. Brazil has 170 million consumers and eight million SMEs. Further, the electronic payment penetration is expected to reach 43.5% in 2019, up from 32% in 2016.

StoneCo capped 2019 with an active customer base of 495,100 and total payment volume (TPV) of \$8.9 billion. While customers rose 84%, the TPV was up 51% last year.

Stone Co stock has lost significant momentum recently and is well poised to stage a comeback once broader markets rebound, making it a winning bet for growth investors.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:STNE (StoneCo Ltd.)
2. NYSE:BB (BlackBerry)
3. TSX:BB (BlackBerry)

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1. Business Insider
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Author

araghunath

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