



## Got \$1,000 to Invest? Buy This 1 Prem Watsa TSX Stock

### Description

The stock market can give you jitters when you think of which stock to buy and when to buy. You can't hold a crystal ball and predict the future. Even number crunching can bring you close to reality, but it won't tell you what will exactly happen. In such times, a good and safe strategy is to walk the lines of those who have already succeeded in this market.

### Prem Watsa's top holdings

No one beats Warren Buffett in the investing game. But he has few holdings outside the United States. Hence, Canadian investors follow Prem Watsa, who is popularly known as Canada's Buffett. Watsa is an active investor who has strong exposure to industrial and technology markets. Among his top industrial holdings are Seaspan and APR Energy.

In technology, he has many hardware companies and one software company: **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)). Watsa's **Fairfax Financial Holdings** has 13.23% of its portfolio invested in BlackBerry, which equates to \$191 million worth of shares. The stock has been declining since 2018, as investors have had difficulty accepting the turnaround of this former smartphone behemoth and now software security firm.

### Why is BlackBerry stock falling?

BlackBerry offers intelligent security software and services to over 500 million endpoints, which includes 175 million cars. It serves governments of all G-7 nations, top commercial banks, media organizations, insurance companies, and automotive manufacturers. The company earns revenue through software subscriptions, licensing fees, maintenance, professional services, and royalty payments from licensed hardware sales.

After multiple years of revenue declines, [BlackBerry finally started generating double-digit quarterly revenue growth](#) in the range of 11-18% last year. However, its revenue growth was way lower than rival **CrowdStrike's** revenue-growth rate of 85% and above. Even in the COVID-19 pandemic, when

most software stocks have outperformed the market and are trading near their all-time highs, BlackBerry stock fell 27.5% year to date.

In the first quarter, CrowdStrike's revenue rose 85% YoY (year over year), as the shift to remote working boosted demand for its end-point security solutions. However, BlackBerry's revenue fell 17% YoY, as the slowdown in auto sales and mobile sales due to the pandemic reduced its royalty and licensing payments from hardware sales.

## Why is Watsa holding on to BlackBerry?

All the odds are against BlackBerry. It is falling behind its rivals in capturing endpoint market share. But if you look at the history of the two companies, CrowdStrike entered the software security market in 2011, whereas BlackBerry entered in 2014. A software company takes a few years to start generating high revenue growth and achieve market share.

BlackBerry offers mission-critical software security solutions to enterprises and governments, which sign long-term contracts. It has a 0% churn rate and more than 90% of its revenue is recurring in nature. These figures show that its software solutions are sticky and have high switching costs. It has a strong foundation with the liquidity of US\$955 million.

The biggest challenge for BlackBerry is to accelerate its revenue-growth rate. Even if the company fails to generate strong revenue, it can be acquired by another company. Prem Watsa was reportedly in talks to acquire BlackBerry.

## What's in it for you?

BlackBerry stock is currently trading at 3.4 times its sales per share. On the valuation front, it is a pretty cheap stock compared to CrowdStrike, which is trading at 45 times its sales per share. Both their valuations are justified given the huge gap in their revenue-growth rates.

If BlackBerry succeeds in accelerating its revenue growth, [its stock will skyrocket in a very short time](#). It could rise to 40 times its sales per share. If BlackBerry fails to gain market share, Watsa could privatize the company or sell it to another company. In this scenario, you will benefit from the premium the buyer is willing to offer to acquire BlackBerry. In both scenarios, you have upside potential.

If you have \$1,000, do what Prem Watsa is doing. Buy BlackBerry stock and hold it for the long term.

### CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

### TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)

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