



Should You Buy BlackBerry (TSX:BB) Stock Right Now?

Description

Shares of Canada-based **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) have been sluggish for a few years now. The company exited the smartphone market in late 2016 and pivoted to software and services. While investors believed the company would successfully turn its business around, BlackBerry stock has lost 25% in market value since the start of 2017.

BlackBerry stock is trading at \$6.8 per share on the **TSX**. Here we take a look to see if the company can stage a turnaround and move higher in 2020 and beyond.

BlackBerry is focused on enterprise security

BlackBerry was once the leading player in the mobile segment, and then lost market share to tech giants **Apple** and **Samsung**. The company is now a heavyweight in the 5G network security and artificial intelligence verticals. It acquired Cylance in 2018, which is expected to drive top-line growth in the upcoming years.

BlackBerry is also eyeing market share in the connected car segment. According to estimates, the connected car market is forecast to touch 75 million vehicles by 2025 including a million semi or fully autonomous cars.

The Cylance acquisition equips BlackBerry with the tools to leverage its artificial intelligence and machine learning capabilities to prevent hacking of connected cars which is an extremely essential solution.

The auto sector faces temporary headwinds

In the fiscal first quarter of 2021, BlackBerry sales fell 20% year-over-year to US\$214 million, below analyst revenue estimates of \$216.8 million. BlackBerry attributed the revenue decline to headwinds in the automotive segment [due to the ongoing](#) COVID-19 pandemic.

Further, BlackBerry confirmed that Cylance's Q1 sales were down 4% year-over-year at \$49 million in Q1. Investors should be worried as Cylance is experiencing a revenue decline in an expanding market. According to a report by MarketsandMarkets, the endpoint protection market is forecast to grow at an annual rate of 7.6% by 2024, which indicates that Cylance is losing market share.

On the other hand, due to the shift to work-from-home, several cyber-security players including **CrowdStrike** and **Palo Alto Networks** have posted better-than-expected results in recent quarters.

BlackBerry also reported [a goodwill impairment charge](#) of \$594 million in Q1. There is a good chance that the write-down is related to the Cylance acquisition, which was valued at US\$1.4 billion. After the acquisition, BlackBerry's goodwill increased from US\$900 million to US\$1.4 billion.

What's next for investors?

BlackBerry CEO John Chen has forecast revenue to grow by double digits post the ongoing pandemic. It also aims to improve the operating margin to between 20% and 25%, up from just 1% in the first quarter.

BlackBerry stock is valued at a market cap of US\$2.9 billion, which means it has a forward price to sales ratio of 3. Due to low operating margins, the stock is trading at a forward price to earnings multiple of 74.5.

BlackBerry managed to squeeze out a profit of US\$0.02 per share in Q1. However, in case the pandemic worsens the stock might move lower in the upcoming months amid falling revenue and profit margins.

There are far too many uncertainties surrounding BlackBerry stock currently. While it is trading at a low sales multiple, the tepid performance of the Cylance business and uninspiring operating margins makes it a high-risk bet right now.

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