



Will BlackBerry (TSX:BB) Stock Make a Comeback in 2021?

Description

Shares of **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) continue to underperform the broader markets in 2020 and are down 23% year to date. Comparatively, the S&P 500 Index has gained close to 10% this year and wiped out its losses sustained during the bear market of early 2020.

BlackBerry stock fell 10% in September after it reported its fiscal second-quarter results at the end of last month. The company's Q2 sales grew marginally to US\$266 million, while net income stood at US\$62 million, or US\$0.11 per share. Comparatively, Wall Street analysts expected the company to report adjusted sales of US\$238 million with earnings of \$US0.02 per share.

While BlackBerry stock surged 9% higher after its earnings and revenue beat, it ended the month at a lower price, as investors remain concerned over the recovery in the automobile markets — a key industry for the company.

The BTS (BlackBerry Technology Solutions) business primarily consists of licensing the company's QNX operating system to automakers, a highly cyclical industry that has been decimated amid the pandemic.

However, during the earnings call, company CEO John Chen said that auto production is experiencing recovery, as BlackBerry continues to gain traction for the QNX suite of products. Further, despite better-than-expected sales in Q2, the management did not change its forecast for fiscal 2021 and estimates revenue at US\$950 million for the year.

BlackBerry's software sales were down 15% in Q2

In the second quarter, BlackBerry's licensing business drove top-line sales, as revenue in this business was up 42% at \$108 million. However, its software and services sales were down 10% year over year, the second consecutive quarter of revenue decline.

While a sluggish macro environment has expectedly hurt sales for QNX, which is a connected embedded systems solution, BlackBerry is also facing tepid demand for its endpoint security business.

BlackBerry [acquired Cylance for](#) US\$1.4 billion in February 2019 to accelerate growth in software and services. However, Cylance's revenue was slightly up in 2020 and flat in the first two quarters of 2021, which suggests it is grossly underperforming peers.

CrowdStrike, which is another endpoint security company, is forecast to grow sales by 70% year over year in fiscal 2021. In the earnings call, Chen claimed that BlackBerry might launch a cloud-based offering for its endpoint solution, which might help it gain market share in this high-growth vertical.

What's next for investors?

BlackBerry stock has a market cap of US\$2.8 billion, which means its forward price-to-sales multiple is three; that might seem expensive given the multiple headwinds the company is facing. BlackBerry sales might decline by 13% year over year given Wall Street's forecast for 2021, and it is still reporting a GAAP loss.

In Q2, BlackBerry's GAAP loss stood at US\$23 million, which is lower than its loss of US\$44 million in the prior-year period. While analysts expect the company to grow sales by 9.7% in 2022, its earnings are forecast to remain flat, which indicates no operating leverage.

Analysts tracking the stock have a 12-month [average target price](#) of US\$5.69, which is 12% above BlackBerry's current trading price. We have seen that investing in BlackBerry stock comes with certain risks, and there are other fundamentally strong stocks on the TSX with a far better risk-to-reward ratio that might be attractive to contrarian and value investors right now.

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