Patient Investors: Is BlackBerry (TSX:BB) Stock a Buy at $6 and Change?

Description

BlackBerry (TSX:BB)(NYSE:BB) stock is probably one of the most frustrating deep value stocks to own in one's portfolio. Shares of the turnaround story have been on the retreat in recent years, and the recent COVID crisis has proven to be yet another thorn in the side of a firm that continues to beg for investor patience.

Indeed, BlackBerry shares are in the deep value camp. The stock trades at rock-bottom multiples despite having a front-row seat to some of the hottest tech sub-industries (cybersecurity, the internet-of-things) on the planet.

That said, shares have continued to appear untimely and frustrated investors seem less willing to stick by the name amid its continued stumbles. CEO John Chen may have a commendable track record as a turnaround artist, but given the evolving (and complicated) software firm has yet to prove that it can grow organically at an above-average rate, I suspect BlackBerry will remain an untimely bet that could continue to underperform before shares have a chance to yield meaningful fruit for investors.

Still one of the more compelling deep value bargains out there

The deep value thesis is that BlackBerry stock should be in a spot to enjoy substantial margin expansion once it can demonstrate sustained organic growth. With compelling assets and exposure to high-growth markets, the stage has been set for a margin-expansion-driven boom in BlackBerry stock. When this boom will happen (if it'll happen at all) is anyone's guess.

The stock has tread water over the last five years, and it could continue to do so over the next five. BlackBerry is a very complex transformation story that is difficult to evaluate and is only suitable for the most patient of long-term investors.

Deep value investing isn't everybody's cup of tea. But if you've got the temperament, BlackBerry could have the potential to lead to multi-bagger gains over the long haul. Of course, to enjoy such potential gains, you'll need to run the risk of ride what could be a multi-year rollercoaster ride to nowhere.

At this juncture, BlackBerry stock looks highly depressed. Given COVID headwinds that are pressuring the firm's end markets, though, I view the stock as untimely.

A decent quarter for BlackBerry

Just over a month ago, BlackBerry pulled the curtain on its fiscal second-quarter results, which impressed thanks to its recovering QNX business that's benefiting from the healing auto market. While QNX should recover further coming out of this pandemic, I remain skeptical over the firm's ability to accelerate its software and services (S&S) revenues meaningfully.

Sure, licensing strength is something to be optimistic about. However, for BlackBerry stock to be worthy of substantial multiple expansion, the company needs to see its S&S numbers start to pick up traction. Until S&S numbers can accelerate meaningfully, I'd be more inclined to stick on the sidelines, with a wait-and-see approach, rather than buying shares at these depths just because they seem cheap.

Foolish takeaway on BlackBerry stock

At around $7 per share, BlackBerry stock looks grossly undervalued relative to its enterprise software peers at 1.5 times book value and 2.8 times revenues. Unless you're willing to buy and forget about the name for years at a time, though, I'd be more inclined to look elsewhere, as I believe there are timelier (and less frustrating) opportunities that exist on the TSX.

In due time, John Chen will be able to get BlackBerry stock moving in the right direction. He's the perfect man for the job. That said, I don't think BlackBerry stock is ripe enough for picking just yet. Should the company post impressive S&S numbers in the coming two quarters, though, I'd be more inclined to pound the table on the stock.

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