



Dissecting the BlackBerry (TSX:BB) Stock's Mind-Boggling Surge

Description

Long-time laggard **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) stock broke through the roof this week. It's been 10 consecutive days in which the stock has collectively soared almost 130%. As the stock peaked to a decade-high amid the abnormal trading movement, its long-term investors must be thanking the social media platform Reddit rather than the company management. However, it's time for those investors to ponder over the soundness of the recent spike and the stock's growth prospects.

BlackBerry stock at 10-year high

Investors cheered BlackBerry's couple of positive moves last week. It announced a settlement of patent infringement last week with social media giant **Facebook**. It also sold a bunch of patents to Chinese telecom giant Huawei. While these were indeed encouraging developments for the company, it has not divulged many details about both the deals. Since then, the stock has soared more than 60%.

The main reason behind the recent surge was the trading anomaly called a short squeeze, exploited by Reddit users. The stock trading community r/WallStreetBets on Reddit [targeted](#) BlackBerry stock and some others to push the stock prices up.

BB stock and short squeeze

[What happens in a short squeeze](#) is that a shorted stock increases drastically as the demand for those shares increases to cover the underlying short positions. The Reddit community has successfully lifted a few stocks recently. The stock that's topping the charts is **GameStop**. It has surged a jaw-dropping 300% in just the last five trading sessions.

But investors should note that this is just a temporary phenomenon. BlackBerry's fundamentals have not changed a bit from last week and the major portion of the rally is driven by technicals. Even though market participants must be sitting on massive gains, this frantic volatility could turn harmful.

Interestingly, market participants seem to have completely overlooked recent downgrades of

BlackBerry stock amid all the chaos. Both **Scotiabank** and **Royal Bank** downgraded BB stock this week after the rally that lacked fundamental backing. We could well see some pullback driven by these downgrades once the manic trading wanes.

What's next?

BlackBerry forayed into some [high-growth areas](#) like security software and artificial intelligence in the last few years. However, that could not have a significant material impact on its financials. BlackBerry has seen flattish revenue growth in the last three years, with trivial, rare profits.

BlackBerry has added over \$13 billion to its market cap so far this year. The stock is currently trading at a price-to-sales ratio of 19x and looks exorbitantly overvalued. Notably, some might argue that many software company stocks trade at a premium and their high growth potential deserves the expensive valuation. However, investors should note that BB is not growing. Its near-zero revenue growth does not justify the premium valuation.

Bottom line

Discerned investors know that this is not a long-lasting rally. The exuberance should ebb soon as soon as the short interest evens out. BlackBerry investors might want to wait for material improvement in the company's software business to see the share price soar in the long term.

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Date

2025/07/01

Date Created

2021/01/28

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