



BlackBerry (TSX:BB): Should You Buy the 51% Dip?

Description

BlackBerry ([TSX:BB](#))([NYSE:BB](#)) had a record-breaking January on rallying by more than 100%. The beaten-down stock was, of course, a [Reddit short-squeeze target](#) last month. However, short interest in BlackBerry stock has since declined, while the excitement has died down on Reddit's investment forums.

The stock now trades 51% lower than it did at its peak last week. Does this mean the story is over and BlackBerry is doomed to failure? Or does it signal a buying opportunity for investors willing to take a broader, longer-term perspective? Here's a closer look.

End of the short squeeze

Short interest in BlackBerry stock has declined substantially over the past week. That's because the short squeeze was effective. Hedge funds and institutional investors betting against the company had to cover their positions and buy the stock. Now that the strategy has played out, it can't be repeated at the same magnitude.

However, unlike Reddit's other short-squeeze targets, BlackBerry isn't in terminal decline. It's not on the verge of bankruptcy. Instead, the company has exited loss-making businesses in recent years and focused on two areas of growth: electric cars and cybersecurity.

The tech giant's extensive hoard of patents in these areas and recent acquisitions of robust firms puts a floor on its valuation.

Auto opportunities

A transition from the hardware business and into the software solutions business has all but affirmed BlackBerry's long-term prospects. The Canadian tech giant is increasingly becoming a key player in the auto industry thanks to its cybersecurity solutions and smart mobility solutions.

BlackBerry's QNX real-time operating system is increasingly becoming popular among carmakers. Likewise, BB has inked a strategic partnership with the likes of **Baidu**, through which the search giant's

high-definition maps will run on QNX Neutrino OS. It also has partnerships with the likes of **Toyota**, Isuzu, Mitsubishi, and **Honda**.

BlackBerry's impressive run from lows of \$6 a share to highs of \$31 started early in the year following the inking of a strategic partnership with **Amazon**. The deal is for the development of a new cloud-based automotive platform based on the QNX system. Gaining a foothold in the auto industry should help drive BlackBerry's financial growth for many years to come.

BlackBerry's stock valuation

BlackBerry's revenue rose 15% in 2020, affirming growth in the cybersecurity division that remains a key driver of the bottom line. Revenue is expected to increase by as much as 9% in 2021, fueled by the auto industry deals and demand for security services and solutions.

With the stock trading at nearly 100 times forward earnings and eight times 2021 sales, it remains fairly valued given the high-growth cloud stock's tremendous opportunities.

Bottom line

Reddit's short-squeeze adventure with BlackBerry stock seems to have come to an end. This could be why the stock has lost more than half its value in just a few days. Nevertheless, the company has robust fundamentals and exposure to two emerging tech sectors. It could be an excellent long-term buy for investors at its adjusted, lower price.

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