



## BlackBerry Stock at \$17: Should You Buy, Sell, or Hold?

### Description

Millennials on Reddit have had Wall Street experts [in a tailspin recently](#). Several companies, including **GameStop**, **AMC**, and **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) have seen their shares rise as a result of a short-squeeze primarily driven by a group of investors on Reddit.

The Reddit group known as WallStreetBets has trained its guns on hedge funds that have taken a short position in fundamentally weak stocks such as the ones mentioned above. As the Reddit group views the actions (read: short-selling) of hedge funds as manipulative, the short squeeze has forced the latter to cover their positions and incur massive losses, thereby increasing the stock prices of BlackBerry and others multi-fold.

## BlackBerry stock is down 50% from a 52-week high

BlackBerry stock was trading at \$8.44 per share at the start of 2021. It then touched a multi-year high of \$36 at the end of January before losing close to 50% in market value to currently trade at \$17 per share.

There is a good chance BlackBerry will lose momentum going forward after the short-squeeze euphoria dies down. Long-term investors will turn to the fundamentals of the businesses they invest in, and this one area where BlackBerry has flattered to deceive.

BlackBerry exited the smartphone segment a few years back to focus on its enterprise security and software solutions business. However, it has struggled to grow its top line and has also been impacted by the COVID-19 pandemic, which hurt sales in its autonomous driving vertical.

RBC Capital Markets analyst Paul Treiber downgraded BlackBerry stock to “underperform” amid the rally last month. Treiber confirmed the company’s fundamental outlook does not support its massive increase and valuation.

A company’s stock price is largely dependent on its ability to grow earnings and revenue at a sustainable pace. BlackBerry’s revenue is forecast to decline by 14.4% to US\$941.27 million in fiscal

2021. While its sales might rise by 8.6% to US\$1.02 billion in fiscal 2022, it will still be lower than the revenue of US\$1.1 billion in 2020.

Analysts also expect BlackBerry's earnings per share to decline at an annual rate of 22% in the next five years. BlackBerry stock indicates a forward price-to-fiscal-2021-earnings multiple of 64, which is unreasonable given its tepid revenue growth and earnings decline.

## What's next for investors?

Despite secular growth trends in the Internet of Things and cybersecurity verticals, BlackBerry is struggling to grow its top line. In fact, in the last reported quarter, its revenue fell 18% year over year, which means the company is losing share in verticals with an expanding addressable market.

BlackBerry is trading at a market cap of US\$6.5 billion, which indicates a price-to-sales multiple of 6.9. Analysts tracking the company have a 12-month average target price of US\$7.86, which is 32% below the current trading price.

While Reddit users have been somewhat successful in creating a rip-roaring rally for BlackBerry, it's quite evident that [a correction is on the cards](#) sooner rather than later. BlackBerry needs to tick multiple boxes in order to win back investor confidence.

### CATEGORY

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2. Tech Stocks

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2. TSX:BB (BlackBerry)

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