



BlackBerry Stock Is Backed by Growth

Description

The investing business is changing right before our eyes. Retail investors have piled into the market like never before. Avid social media connoisseurs in platforms such as Reddit have fueled stock price rallies that are absolutely incredible. The [events of recent weeks](#) will go down in the annals of history and the pages of finance textbooks describing short squeezes.

Canadian tech company **BlackBerry Ltd.** ([TSX:BB](#))([NYSE:BB](#)) has been a target for these social media-savvy investors. Accordingly, at the peak of the recent short squeeze mania, BlackBerry's stock price had jumped more than 400% from the beginning of the year to its peak in a matter of a few weeks.

Now trading at a more reasonable valuation, investors may wonder if getting into this stock makes sense. Is the short squeeze trade over? Or is there more downside on the immediate horizon?

This stock will likely return to trading according to its fundamentals

Some investors believe BlackBerry's stock has already deflated from its short squeeze highs toward its fundamental levels. At the time of writing, shares are trading just shy of \$17 per share. At the beginning of the year, shares were trading at approximately half this level.

This begs the question: if this company is worth double what it was at the beginning of the year, what changed?

Many don't think BlackBerry's business model has changed substantially enough to warrant this valuation increase. While more near-term downside may be on the horizon, there are some very interesting catalysts at play with this stock right now. Namely, BlackBerry's deal with **Amazon** to tackle the connected car market.

How much is this deal worth to investors?

The amount of growth BlackBerry is likely to see over the long-term as a result of this deal is unclear. However, this partnership does appear bullish for BlackBerry's long-term growth thesis. The connected vehicle market is massive and growing. The secular trends here are huge. The timing is perfect. The partner (Amazon) couldn't be better.

Turning these expectations into realistic forecast future cash flows and earnings is a bit trickier. Many variables are at play with such an analysis; investors will want to forecast how strong BlackBerry's moat is to protect against competitive forces. Additionally, how BlackBerry's margins and operating performance will improve depend a great deal on the company's market share and the demand for the software solutions the company is selling vs. those of competitors.

Bottom line

I don't think it's a coincidence that BlackBerry's stock price started taking off when this deal with Amazon was announced. Additionally, the company reported the settlement of a patent dispute, as well as the sale of a package of its patents to a foreign buyer, around the same time. These factors are likely to be bullish for the company's upcoming earnings.

The fact is, BlackBerry's stock is now underpinned by a growth thesis that didn't exist last year. Short squeeze or not, this is a stock that looks like it has legs.

That said, the extent to which this stock is worth the double-up on a year-to-date basis is questionable. I'd recommend investors looking to get exposure to the growth this stock provides to do so in a conservative fashion.

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