BlackBerry vs. GameStop: Which Meme Stock Is a Better Buy?

Description

In the last few trading sessions, fundamentally weak stocks such as **BlackBerry** (TSX:BB)(NYSE:BB) and **GameStop** (NYSE:GME) have seen their share price rise at an accelerated rate. It's quite possible that the high short interest ratios of these meme stocks have resulted in another short squeeze by retail traders. Other stocks that have gained momentum recently include **AMC Entertainment** and **Sundial Growers**.

In the last month, BlackBerry stock has shot up 62%. Comparatively, the share prices of GameStop, AMC Entertainment, and Sundial Growers have risen by 55%, 410%, and 38% respectively. Investors should note that the current rally is unsustainable and prices will normalize sooner rather than later.

For example, during the previous short squeeze initiated by retail traders, GME stock fell from an intra-day high of $483 per share in January to $120 per share in March. At the start of June 2020, GME stock was trading at $4.14 per share. Similarly, BB stock fell from $28 a share in early 2021 to less than $9 in April.

It's quite obvious that the two stocks will remain volatile in the near term. Let's take a look if any of these companies are worth investing in right now.

BlackBerry continues to disappoint investors

In the fourth quarter of fiscal 2021, BlackBerry sales were down 25% year over year at US$210 million. It was significantly below Wall Street estimates of US$245 million. Despite the revenue miss, BlackBerry's adjusted earnings per share of US$0.03 were in line with estimates.

In fiscal 2021, the company's sales were down 10% year over year. Now, Wall Street expects the top line to decline by another 10.3% year over year to US$824.4 million in fiscal 2022. This fall in revenue will also impact BlackBerry's profit margins. Analysts expect the enterprise solution company to report and a loss of US$0.05 per share in 2022, compared to earnings of US$0.18 in 2021.

Revenue is forecast to grow by 15.4% to US$951 million in 2023 and earnings might improve to

US$0.06 per share. However, the company is losing market share in verticals that are expanding rapidly and it's QNX business that is gaining traction among auto manufacturers is too small to offset any major declines.

BlackBerry stock is trading on the **NYSE** at US$13.86 and analysts have a 12-month average price target of US$7.75, which means it's trading at a premium of 44%.

GME stock is grossly overvalued

GameStop stock has been on an absolute tear in the last 12 months, gaining 5,460% in this period. But as we have seen, its astonishing rise is not backed by strong fundamentals and it remains a high-risk bet. While the company is looking to transition to an e-commerce business model, leading console makers such as **Sony** and **Microsoft** are actively partnering with gaming publishers to offer games via online subscriptions.

GameStop is fast losing relevance in the supply chain of this dynamic industry. While its sales might rise by 7.7% to US$5.5 billion in fiscal 2022, its forecast to decline by 2% to US$5.4 billion next fiscal year. GameStop also continues to report an adjusted loss and still generates a majority of revenue from hardware sales.

Analysts have a 12-month price target of $56 for GME stock, which means it's trading at a hefty premium of 77.4% right now.

The verdict

If we compare the two companies, GME stock seems massively overpriced compared to BB stock. It's difficult to choose between these two stocks given that a sell-off is on the cards in the next few trading sessions. There are much better companies trading on the **TSX** that Canadians can purchase given that equity investing is a long-term play.

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