



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

Description

In the last two weeks, we have seen several “meme” stocks gain momentum on the back of short squeezes initiated by retail traders. Shares of companies such as **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) and **AMC Entertainment** ([NYSE:AMC](#)) have gained 71% and 365%, respectively, in the past month. Given that the two stocks are bound to cool off once the short squeeze is over, let’s take a look at which is a better buy right now.

BlackBerry stock is trading at a premium

BlackBerry exited the smartphone space a few years back, as it lost market share to tech giants **Apple**, **Samsung**, and a slew of Chinese manufacturers. The company then pivoted towards providing software and security solutions to enterprises.

However, BlackBerry continues to struggle with falling revenue and a decline in profit margins. In its fiscal 2021, BlackBerry’s sales were down over 10% at US\$893 million, as the pandemic impacted the company’s QNX revenue, which is derived from auto manufacturers. Further, BlackBerry continues to lose market share in growth verticals such as cybersecurity, thereby impacting its top line.

BlackBerry claims that its QNX software is installed in 175 million vehicles but does not generate significant revenue from this vertical. In the automotive segment, BlackBerry aims to increase revenue per vehicle through the adoption of broader systems, which is a long-term play. According to BlackBerry the royalty revenue backlog for its QNX system is US\$450 million.

Despite a revenue decline in fiscal 2021, BlackBerry managed to [increase free cash flow](#) by 29% year over year to US\$74 million and end the year with a cash balance of US\$804 million. The company reduced its debt by US\$240 million, which resulted in interest expense savings of US\$16 million. In the last four years, BlackBerry’s gross margin has improved by 11 percentage points, allowing it to generate US\$167 million in adjusted EBITDA last year.

The company is also shifting towards a subscription-based model, and its annual recurring revenue stood at US\$468 million in 2021. However, analysts still expect BlackBerry sales to decline by 10.3%

to US\$824 million in fiscal 2022. Wall Street has a 12-month average price target of US\$7.75 for BB stock, which is 44% below its current trading price.

AMC stock has significant downside potential

AMC stock was trading at \$2 per share at the start of this year. Retail investors first initiated a short squeeze on AMC stock in January 2021, which drove share prices to \$20 by the end of that month. Shares of AMC Entertainment then fell to \$12 less than a month back and touched a record high of \$72.62 in June 2021. AMC stock is since down 30% from all-time highs but has surged an astonishing 2,000% year to date.

AMC is a theatre chain and is part of an industry that was decimated amid the pandemic. Its sales fell from US\$5.47 billion in 2019 to just US\$1.24 billion in 2020. However, analysts [expect revenue to rise](#) by 94% to US\$2.41 billion in 2021 and by 98.8% to US\$4.8 billion in 2022. We can guess that its sales in 2022 will still be lower compared to 2019.

The shift towards consumption of online content accelerated amid COVID-19, and this might impact the recovery of AMC and peers going forward. Another reason for worry is the company's massive debt of US\$11 billion compared to its cash balance of US\$813 million.

Analysts have a 12-month price target of US\$5.25 for AMC stock, which is 80% below its current trading price.

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2. NYSE:BB (BlackBerry)
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