



BlackBerry Stock: Undervalued or Value Trap?

Description

I'm really not a fan of meme stocks. The majority of investors who buy them do so at the peak of the pump, only to end up holding some very heavy bags that may never recover to all-time highs.

Despite these risks, a healthy dose of survivorship bias, FOMO (fear of missing out), and mental accounting enable risk-desensitized speculators to continually throw money at them in the hopes of striking it rich.

The reality is that the majority of these investors might never get the "Tendies" and "Lambos" they're dreaming about, because their meme stock is unlikely to ever go to the moon again, no matter how "diamond hands" they are.

Canada's top meme stock

Case in point is **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)). After being pumped to an insanely overvalued price of \$31.49 during the January 2021 Reddit **Gamestop/AMC** short squeeze, it then fell 68.15% to trade at \$10.03. YTD, BB is down -15.50% along with other speculative stocks in the [tech sector](#).

BlackBerry is still suspect to coordinated buying frenzies that occasionally send its stock to the moon. For instance, from May to June 2021 the stock nearly doubled in the span of a week, going from \$10 to \$19.

As long as prices look low and implied volatility continues to drop, speculators will be snapping up cheap shares and low, premium, out-of-the-money call options as a perceived asymmetrical bet.

What do the numbers say?

BlackBerry's sporadic, volatile upwards price movements are due to heightened retail interest and coordinated buying frenzies; nothing more. There are no solid fundamentals to back any of the absurdly high valuations we've seen it rocket to.

With a -60.16% profit margin, -29.74% operating margin, -5.05% ROA, and -27.92% ROE, BlackBerry simply fails to create value for shareholders. Quarterly revenue growth has dropped -15.60% year over year.

As of the most recent quarter, the company has negative cash flow. For the trailing 12 months, the company had EBITDA of -\$30 million and net income of -\$447 million

Technicals wise, BlackBerry's share price of \$10.03 is trading under both its 50-day moving average of \$11.88 and 200-day moving average of \$12.81, indicating possible continued bearish movements.

The ugly truth

BlackBerry's heyday was back in 2007, where the stock traded around \$241.90 during January. Back then, BlackBerry created a unique product with its mobile phones and, for a few years, occupied a competitive position with no rivals and dominant market share — that is, until the iPhone came along.

Since falling into obscurity, BlackBerry is in the midst of executing a strategic pivot into cybersecurity services, including IoT security, endpoint protection, and machine learning threat detection. If you believe in their management and think they can turn things around, BlackBerry could be a good investment.

Personally, I don't think BlackBerry will ever reach 2007 heights again. With 567 million shares outstanding, a theoretical price of \$200 a share would equal a \$113 billion market capitalization, which is ridiculous, unless it somehow manages to corner the entire cybersecurity market by dethroning existing industry heavyweights like **Palo Alto Networks**, **CrowdStrike Holdings**, and **Okta**.

A better alternative

In my point of view, investors are better off ditching the speculative, volatile meme stocks like BlackBerry. Getting rich quick is a folly that will lead to bag-holding and underperformance. [If you're looking to invest seriously](#), consider purchasing a [low-cost, globally diversified, all-in-one ETF portfolio](#) to get rich slowly with zero effort.

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