Buying into BlackBerry-maker Research In Motion a risky bet, say analysts

By David Friend, The Canadian Press | June 07, 2012

TORONTO - While traders question whether there's a buying opportunity in the battered stock of Research In Motion (TSX:RIM), analysts warn that putting money into a troubled company with the hopes of an eventual upside is a risky bet.

The BlackBerry maker has been at the centre of takeover speculation for months and with stock recently hovering around $10 per share, there's been speculation another tech firm could swoop in and buy the company at a hefty premium to its current value.

So far, none of those buyers have publicly emerged, though chief executive Thorsten Heins said last week that RIM has hired two outside firms to evaluate strategies including potential partnerships and licensing. He hasn't specifically said the company is looking to sell, but he also hasn't ruled it out.

RIM's plan is to stay on course for the rest of the year in preparation for a new line of phones that it hopes will be a smashing success. In the meantime, its shareholders have been left with little to bank on as they watch its stock value tumble from highs of $148, when RIM was briefly the most valuable company on the Toronto exchange.

"There's different reasons companies become cheap and RIM's reason is that they're grossly losing market share and their margins are plummeting," said Chyanne Fyckes, chief investment manager at Stone Asset Management.

"That just isn't a recipe for any kind of success."

For investors hoping the company will be bought, it's difficult to peg RIM's value for numerous reasons, including that its share price on both Canadian and U.S. markets has been particularly volatile ahead of the anticipated launch of its new BlackBerry devices and operating system sometime later this year.

Executives have offered few details of which devices will hit the market, or exactly when —leaving the market struggling to value a company mostly on hypotheticals.

"How do you value something that's declining?" said technology analyst Sameet Kanade of Northern Securities.

Several divisions of RIM are difficult to put a price on, including its patents which are sometimes partly owned by other companies like Apple and Microsoft under special arrangements. Estimates have placed the value at a range of $1 billion to $4 billion.

The Waterloo, Ont. company's network services could sell for another several billion dollars, though estimates for those assets also fluctuate wildly.

Numerous analysts have discussed the potential of RIM being bought out, but it is considered by some as a stock that, at best, is a "speculative buy."

That's what ***Neeraj Monga***, a tech analyst at ***Veritas Investment Research Corp.*** has rated the stock, with potential that the company could be acquired by the end of the year.

Despite the focus on RIM's troubles, some analysts suggest that while it might not be a good investment at this time, its fate isn't sealed.

"The company has maintained relative stability in certain markets, so I think it would be premature to write (them) off," said Charlie Wolf, an analyst at Needham & Company in New York.

He added, "philosophically, I am not recommending that because I'm too tied into the fundamentals."

"I would rather buy the stock at $15 or $20 knowing it had a future than to buy it at $10 on speculation."

One thing is certain, the company sits on about $2.1 billion in cash and investments, though if the next few months turn ugly executives could dig into the cash to make acquisitions or other financial moves.

RIM is headed into even choppier waters for the next few quarters as a lack of new BlackBerry products on the market is expected to dramatically erode sales numbers.

"This is going to be a messy situation because RIM doesn't have anything to sell, and so the only way they can make sales is to mark prices down on their phones," said Wolf.

Despite the signs of further troubles, some loyal RIM shareholders have faith that the smartphone innovator will have another shot at success.

"It's very clear some investors have held on longer than they should have — this is a Canadian company with such a storied legacy — so it wasn't just a financial decision, it was a psychological one," said technology analyst Carmi Levy.
"It's all well and good to want to root for the home team, but ... there's no room for emotion in investment."