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Pulse Check: BlackBerry in Apple Jam

by: Research Recap

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Research in Motion (RIMM) shares slid after it missed revenue and shipment estimates. While the BlackBerry maker posted better earnings than a year ago, analysts are questioning its long-term growth prospects as the company faces fierce competition from Apple's (AAPL) iPhone and other smartphone devices based on Google's (GOOG) Android OS.

Goldman Sachs analyst Simona Jankowski downgraded RIM to "sell" on Thursday and wrote in a research report: "We view RIM's (fourth quarter) miss as evidence that the structural competitive issues are starting to weigh on its growth prospects ... We think RIM's products will increasingly lose differentiation as the focus shifts from email, where RIM leads all competitors, to applications, where RIM lags both the iPhone and Android," Jankowski wrote ([MarketWatch](#)).

Charter Equity analyst Ed Snyder said RIM is relatively weak in 3G and touch-screen devices that are becoming the most popular category in the smartphone market, which may make it hard for the company to maintain share. "The more detail we get on other handset OEM's plans for this space, the more we worry about incumbents like RIM, especially given its heavy dependence on the dated Curve form factor," Snyder wrote ([MarketWatch](#)).

RIM co-CEO Jim Balsillie blamed the missed results on one-time inventory adjustments and said although the North American market is still crucial, the company has made great strides in penetrating international markets. ([The Star](#)).

Senior IDC analyst Kevin Restivo said "International markets and consumers are key to RIM's growth – those are make-or-break markets...But it's got to be able to grow in more mature markets" ([The Globe and Mail](#)).

Analysts also expressed concern about RIM's future profit margin as the company tries to expand to markets like China and Indonesia. The average price of a BlackBerry sold to a carrier was \$311 last quarter and will drop to between \$305 and \$310 this quarter, according to RIM. The company said projected gross margin could decline to 44.5 percent, down from 45.7 percent in the previous quarter.

Pierre Ferragu, an analyst with Sanford C. Bernstein & Co. said RIM can expect "margin pressure as BlackBerry gets more and more into a mass-market role with vanishing product differentiation and eroding brand premium." He has an "underperform" rating on the stock ([Bloomberg](#)).

And **Infectious Greed blogger Paul Kedrosky** is no fan of RIM, tweeting: "I will say again what I've been saying for ages: RIMM remains my favorite tech investment short. Tonight's results a reminder."

But not all analysts were worried about RIM. **RBC Capital Markets' Mike Abramsky** reaffirmed his Top Pick rating for shares of RIM with a price target of \$120.

Abramsky said "We continue to believe the smartphone market is not a zero sum game, the market is large enough and underpenetrated to accommodate 4-5 smartphone platforms. We believe RIM has a unique and compelling business model and see RIM as a leader in the smartphone sector" ([Benzinga](#)).

Canaccord Adams analyst Peter Misek said "While RIM reported modest sequential growth in North America, it must be kept in mind that this quarter includes the seasonally weak months of January and February in addition to the seasonally strong December. ... For comparison sake, we expect iPhone shipments to be down 10 percent sequentially in Q1, implying that RIM lost at most a point of market share during the quarter." **UBS analysts Phillip Huang and Maynard Um**, who raised their price target on RIM to \$75 from \$72, maintained a "neutral" rating on the firm. A market-beating gross margin of 45.7 percent and 4.9 million subscriber additions suggest that international market gains are sustainable, they said ([Reuters](#)).

Ittai Kidron of Oppenheimer maintain an “outperform” rating on the stock. He admitted that the slowdown in North America was worrying, but said strength in the international market will provide a strong base while the company improves its devices. “We’re pleased with its international traction and believe RIM can generate a replacement cycle (in the second half of fiscal 2011) fueled by new product launches stabilizing ASPs and defending market share in North America” ([WSJ MarketWatch](#)).

BMO Capital Markets analyst Tim Long said the company’s continued strong subscriber growth — 4.9 million net new additions in the fourth quarter — is a strong sign for the company’s future business. “We view net adds as the most meaningful indicator of how RIM is doing,” Long wrote. “Adding over 5 million per quarter now grows the base for ARPU (average revenue per user), sets up for a strong replacement market, and makes offerings like BlackBerry Messenger even more powerful” ([MarketWatch](#)).

The herd of elephants in the room for RIM is the number of [Verizon \(VZ\)](#) BlackBerry users who are holding out for a CDMA version of the iPhone that will run on Verizon’s reliable network. As [Citigroup analyst Jim Suva](#) says: “We simply don’t want to be owners of RIM shares when Verizon gets the iPhone.”

-Sheena Lee

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