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BlackBerry maker RIM's problems are far from over

Despite its stock market surge, RIM's US market share has collapsed and it has just suffered three quarters of losses

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Is BlackBerry maker RIM out of the woods? If all you looked at was its after-hours share price, and the forecasts by analysts, you might think so: the shares surged 18% after its results were announced; they showed losses that were less, and handset shipments greater, than analysts had forecast.

Alas: as Benedict Evans of Enders Analysis pointed out on Friday morning, the share ramp instead looked like a classic "short and squeeze" pattern – where those who had short-sold the shares in expectation of dire results were forced back into the market to buy, and minimise their own losses, when the numbers were only awful.

RIM's problems are far from over. Its market share has collapsed in the US, it has just suffered its third successive quarter of losses (and forecast at least one more), average selling prices for its handsets are down, the 7.4m handset shipments are 30% down (in a rapidly expanding market), and its PlayBook tablet shipped just 130,000 units (Apple's iPad shipped more every day of the second quarter).

The only area showing success is emerging markets such as Indonesia, where the combination of cheap handsets and its BBM (BlackBerry Messenger) service – which doesn't need a data contract to function – appeals to a broad demographic. The other area is enterprises, which have not yet abandoned BlackBerrys, because of their security and email functionality.

"There's many new products coming in so the market is going to get tougher, more challenging," chief executive Thorsten Heins told analysts in a conference call on Thursday, adding that that will most likely force RIM to cut prices further.

That's going to hurt profits even more. RIM's US revenues have been collapsing since mid-2010 – though fortunately for its survival, revenues from other geographical regions have grown to make up some of the difference.

But the general trend is downward, with revenues falling 31% to $2.87bn – the fifth successive quarterly drop – and operating losses hitting $363m, the third straight quarter of losses that in total are nudging $900m. RIM's problem is that it is ill-equipped to compete at the cheaper end of the smartphone market – but that is where it has been relegated by the huge success of Apple and Samsung, which between them control half of that sector.

"While RIM delivered marginally better results, we believe it is still too early to get constructive," said Phillip Huang of UBS Investment Research, in a note titled "Not Out of the Woods Yet; 1Q13 Key".

The crucial question will be how effective BB10, the upcoming version of its operating system, can be. While Heins wowed developers earlier this week by showing off BB10 handsets and promising carriers would start testing them in October, there will still be a huge delay before the new products go on sale, probably in March 2013.

By that time, it will face renewed pressure in the low-end markets from Finland's Nokia, as well as Chinese handset makers offering cheap Android phones, says Francisco Jeronimo, smartphones analyst at researchers IDC.

"They're still relying on a very strong brand – that's what has been supporting them," says Jeronimo. "People in those markets can't afford high-end phones like the iPhone. But if BB10 isn't as good as they have been promising, then there will be problems. Let's see what happens in the next quarter."

He thinks that will put extra pressure on as RIM comes under fire from rivals. "Nokia's Asha portfolio in emerging markets is probably the cheapest device that can provide a similar smartphone experience," he says.

RIM's cash position improved despite the losses – but that came through squeezes on inventory (reduced by $233m) and the supply chain. But it will need everything it has to withstand what is sure to be a renewed attack over the next two quarters from rivals both above and below it.

Peter Misek, at Jefferies noted that the figures released on Thursday offer little guidance to the future of the company. "They are driving sales in emerging markets and we think they will continue to lose subscribers in developed markets," he said.

"It doesn't tell you anything about the long-term success of the platform or the company."

Colin Gillis, an analyst with BGC Financial, was more blunt. "It does give them more time. The talk of bankruptcy has probably dissipated right now," Gillis said. "These are all the right moves, but does it change that their position is still bleak?"