



Will This Satellite Company Crash to Earth?

Description

In addition to developing communication satellites that deliver direct-to-home television, satellite radio, broadband internet, and mobile communications, MacDonald, Dettwiler and Associates, better known as **MDA** ([TSX:MDA](#)), also builds space-based and airborne surveillance and information systems.

However, MDA's greatest "claim to fame" may be Canadarm, the robotic arm designed and built as our nation's contribution to the NASA Space Shuttle program.

Let's look at three important questions to determine if MDA's stock will maintain its current orbit, or crash back to earth.

1. Is MDA stock value-priced?

MDA investors have done very well over the past few years. During the past 12 months, the stock has appreciated over 25%, doubling the 12.3% return posted by the **S&P TSX Composite Index** (TSX:^OSPTX). Over the past five years, the stock has more than tripled, up just over 202% — handily beating the S&P TSX Composite index, which increased just 57% over that same period. Currently, the stock is trading just above \$87, threatening to establish a new 52-week high.

With its strong stock market performance, MDA is expensive by historical standards. Its trailing price-to-earnings ratio of 29.2 is high, and represents a 32% premium to its five-year average. And though its forward P/E ratio is a more modest 14.5, it still represents a 3% premium to its five-year average of 14.0.

2. Is MDA too dependent upon government?

MDA used to be heavily dependent upon government for business, but that's not the case anymore.

In 2012, MDA acquired U.S.-based Space Systems/Loral for U.S. \$875 million. The purchase transformed MDA's business, and made it a major player in the commercial market, particularly in the U.S. Sales to non-government clients effectively doubled with the acquisition — commercial clients now account for an estimated 65% of combined revenue.

Prior to being acquired, Space Systems/Loral was a market leader in commercial satellites having been awarded more geostationary communication satellites than any other firm over the preceding five years. With over 300 satellites in orbit, each having an average lifespan of 15 years, repeat revenue from commercial clients like DIRECTV and Sirius XM will ensure MDA does not become overly reliant on government contracts.

3. Can MDA deliver upon the market's growth expectations?

Earnings growth is expected to be exceptionally high over the next few years, due primarily to the Space Systems/Loral acquisition. Revenue was up nearly 30% in the fourth quarter compared to the same period a year earlier, and for the full year 2013, revenue more than doubled. Earnings increased 22% last year but earnings per share grew by a more modest 11%.

MDA's current valuation and stock price is predicated upon the company delivering EPS growth in the range of 15% annually over the next five years. Anything short of that will be a disappointment, and limit any further stock price appreciation.

Foolish bottom line

MDA has proven to be an excellent investment. With the acquisition of Space Systems/Loral, it has diversified its business, and dramatically increased growth expectations. But today, MDA's stock price fully reflects those growth prospects, and does not offer much upside for investors. And if earnings do not materialize as most analysts expect over the coming quarters, investors will see this high flying stock crash back to earth.

CATEGORY

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