3 Takeaways From MDA's First-Quarter Results

Description

MacDonald, Dettwiler and Associates, better known as MDA (TSX: MDA) released first-quarter results last week, and the market liked what it heard. During the first full day of trading, MDA stock gained nearly 4%. So far this year, it's up 8.7%, slightly outpacing **the S&P/TSX Composite Index** (TSX:^OSPTX).

Delivering communication satellites for direct-to-home television, satellite radio, broadband internet, and mobile communications accounts for 70% MDA's annual revenues. Space-based and airborne surveillance and information systems contributes the remaining 30% of revenues.

Compared to the same period a year earlier, consolidated revenues increased 15% to $492 million, and adjusted operating earnings increased 18% to $49.4 million. Adjusted operating earnings per share of $1.37 represents an increase of 5% from the first quarter of 2013, and was broadly in line with analysts' expectations of $1.38 per share.

Apart from the headline figures, here are three important takeaways from MDA's latest earnings release, and what it means for investors.

Strong deal pipeline

The order backlog, which represents the estimated value of contracts for which work has not been performed, was $2.8 billion at the end of the first quarter, down by approximately $200 million from the end of the year. However, several large communication contracts, estimated by TD Securities to be in excess of $400 million, were signed after the end of the first quarter.

During the conference call with analysts and investors, MDA confirmed the strength of its pipeline, and noted that there is over $2 billion worth of outstanding bids still to be awarded.

Valuable data

Revenues from geospatial information services, part of the surveillance and intelligence business unit, increased to $148.8 million in 2013, an increase of over 10% from the previous year. By linking a wide range of data and analyses with geographical images, geospatial information services helps customers makes decision on a wide range of issues, including environmental and engineering projects, transportation, land use, military and commercial endeavours.

Though still a relatively small percentage of overall revenue at approximately 7%, this high margin business could grow quickly over the next few years.

Shopping for acquisitions

With the creation of a new role dedicated to the pursuit of mergers and acquisitions, MDA has signaled its intention to actively pursue growth opportunities.

Acquiring one, or several firms that would expand MDA into new geographies, capabilities or accelerate its growth in the area of geospatial information systems are all possible. A likely priority is a target firm that would provide ongoing services revenue to offset the significant revenue and expense spikes associated with MDA's current lines of business.

Is the stock too pricey?

With the acquisition of Space Systems/Loral in 2012, MDA successfully diversified its business, and dramatically increased growth expectations. Today, however, its stock looks expensive. MDA's trailing and forward price to earnings ratios of 28.5 and 14.1 respectively, are higher than their five-year averages. MDA continues to be a Canadian technology success story, however, with high expectations and a valuation to match, there is not much for investor to get excited about.

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