



## This Is the #1 Technology Stock for Your Dividend-Growth Portfolio

### Description

Technology companies are often passed over by investors who are building their dividend portfolios, largely because the yields offered are too low or, in many cases, the companies in question do not pay a dividend at all. **Macdonald Dettwiler & Associates Ltd.** ([TSX:MDA](#)) offers an interesting opportunity to revisit these assumptions to find out whether or not it would make a good fit for your dividend-growth portfolio.

Macdonald Dettwiler is involved in the design and construction of satellites for media and communication transmissions in addition to the development of surveillance and intelligence systems for use by government organizations. The company's customers include Airbus Defence and Space, Sirius XM, **Boeing**, NASA, and the Canadian federal government.

The company generates 27% of its revenue from Canada and 29% from U.S. with the remaining coming from international markets. Over half of the company's Canadian revenue originates from the federal government and, with the world's largest market for satellite communications just next door, Macdonald Dettwiler is currently undertaking aggressive plans to start competing for U.S. government contracts.

In the fall of 2016, the company completed the reorganization of its subsidiaries to create a holding company, SSL MDA Holdings, headquartered in the United States. In January of this year, Macdonald Dettwiler entered a security control agreement (SCA) with the U.S. Department of Defense.

The SCA is an important step in the process of positioning the company to more effectively pursue classified U.S. government programs in defence and space markets.

In another step towards securing U.S. government contracts, on February 24 of this year, Macdonald Dettwiler announced plans to acquire **DigitalGlobe Inc.** (NYSE:DGI) for an 18% premium over DGI's closing price of \$29.60. The move is expected to be accretive to earnings per share by 2018.

At the time of purchase, DigitalGlobe generated two-thirds of its revenue from U.S. government contracts. DigitalGlobe will operate as a standalone division of SSL MDA Holdings. This is another major step in transitioning Macdonald Dettwiler's business to be compliant with U.S. government

requirements.

### Should you buy?

All of this bodes well for Macdonald Dettwiler's future growth prospects. Currently, the shares pay a \$1.48 dividend, and with a beta of 0.46, this implies a cost of capital of just 6%. Although the company has not raised its dividend yet this year, the four-year average pace of dividends hikes has been 4.4%.

With a cost of capital of 6% and a dividend-growth rate of 4.4%, this implies a fair value per share of \$96, or 52% upside from today's price of \$63.

What's more is that despite all of this, the shares are trading at a healthy discount to the historical average. Today, shares can be bought at a forward P/E multiple of just 15 times, while normally Macdonald Dettwiler has tended to trade at around 25 times earnings.

While the company's dividend yield is only 2.4%, it's the growth prospects that make this an enticing investment. Income investors may favour higher yields, but those investing for the long term may find that the sky's the limit for Macdonald Dettwiler & Associates.

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