



MacDonald Dettwiler and Associates Ltd. to Benefit From DigitalGlobe Inc. Acquisition

Description

MacDonald Dettwiler and Associates Ltd. ([TSX:MDA](#)) is a global company that provides operational solutions in communications and in surveillance and intelligence. In 2012, MacDonald Dettwiler acquired Space Systems/Loral, a market leader in commercial satellites, in a deal that provided the company with critical mass in the U.S. market.

Also, after that deal, the revenue base was mostly from commercial sources as opposed to mostly from government sources before the deal.

Another transformational deal for MacDonald Dettwiler was announced in February. The company reached an agreement to buy U.S.-based **DigitalGlobe Inc.** (NYSE:DGI), a leading global provider of high-resolution satellite imagery, for \$3.1 billion. And this is a move that will strengthen its position in the satellite market and accelerate its push toward U.S. expansion.

The new entity will be a much larger one, a more diversified one, and one with significant revenue from the U.S. government. The company's revenue will increase from \$2 billion to over \$3 billion, and while the combined entity's leverage will increase significantly, so will its earnings and cash flow generation.

The stock has a three-year return of -26% — a reflection of a very lumpy business that has seen a stagnation of revenue in the last three years as satellite orders have been weak over this period. Even in the company's latest quarter, backlog decreased to \$2 billion from \$2.4 billion reported in the last quarter.

So, while the acquisition increases the company's leverage ratios, the expected cash flow of the combined companies going forward should give us comfort. And management intends to reduce leverage with cash flows generated in the coming years.

NYSE listing

With the merger, MacDonald Dettwiler will apply to have its shares listed on the New York Stock Exchange, which is good for liquidity, marketability, and to reach a new set of shareholders.

Valuation

There is light at the end of the tunnel. The fact that the last few years have been difficult and less than impressive for MacDonald Dettwiler leaves us with a stock that is very attractively valued at this point. And with the acquisition of DigitalGlobe acting as a catalyst and improving the company's fundamentals, I can comfortably say that the shares represent good value at this time with good upside.

Trading at 12 times this year's consensus expected earnings and 10 times next year's consensus expected earnings, the stock has more upside potential than downside risk, in my view. And combined with a dividend yield of 2.3%, this stock is an attractive addition to investors seeking yield as well as those focused on capital appreciation.

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1. Dividend Stocks
2. Investing

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