Are These Stocks a Bargain or a Trap?

Description

When investors come across seemingly cheap stocks, they should investigate why the stocks look cheap before considering investing in the stocks. Do not mistake a trap for a bargain!

On the surface, **Maxar Technologies Ltd.** (TSX:MAXR)(NYSE:MAXR) stock looks like a bargain. Its share price has been cut by half from its 52-week high. The stock also hasn't traded at such low levels since 2009. However, if you look at the longer-term chart, the stock has actually been in a downward trend since May 2015. Downward trends are usually a bad sign.

Maxar Technologies has made a number of acquisitions. Although it has boosted revenue (for example, its Q2 revenue was 54% higher than it was from Q2 2017), the top line hasn't really translated to the bottom line. The company's diluted GAAP earnings look horrible.

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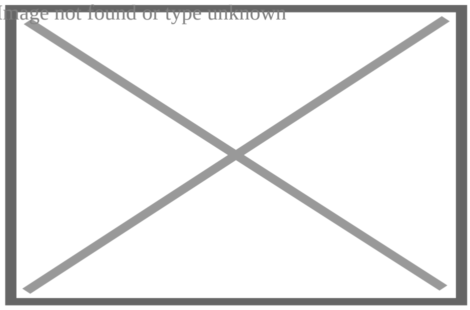

Management estimate that the company will have adjusted earnings per share of US$4.65-4.85 for 2018, which would imply that the stock is trading at a cheap forward multiple of about 6.5. However, you really have to trust management to believe in those numbers.

Maxar Technologies is swimming in debt. At the end of Q2, the company had long-term debt of US$3.15 billion. In the first half of the year, Maxar Technologies paid US$98.4 million of interest on its long-term debt and US$32.5 million on dividend payments and other. In aggregate, they used upnearly 93% of the company's cash generated by operating activities in the period, and there was littlecash flow left to repay the actual debt.

That said, Maxar Technologies stock could eventually turn around. When it does, it can deliver outsized returns. The analysts from **Thomson Reuters** have a mean 12-month target of US$61.40 per share, which represents the near-term potential of roughly doubling your investment from the recent quotation of US$31.05.

Corus Entertainment (TSX:CJR.B) stock has been in a downward trend for the last 12 months. And it looks really cheap, trading at $3.70 per share, which is roughly a price-to-earnings multiple of about 3.3.

One of Corus Entertainment's problems is that it has lots of debt. At the end of May, it had long-term debt of $1.9 billion. The company isn't nearly generating enough cash flow to cover for interest payments, debt repayment, and dividends. That's why it cut its dividend by nearly 80% commencing this month.

Investor takeaway

Conservative investors should steer clear of Maxar Technologies and Corus Entertainment. However, any stock can become attractive if it falls to a low enough price. For investors who believe these companies have the potential to turn around, they should consider when these stocks will actually be a bargain.

Between the two, Maxar Technologies looks like it could be a diamond in the rough — if only it can digest its acquisitions, reduce its debt levels, and maybe sell off its underperforming businesses.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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2. TSX:CJR.B (Corus Entertainment Inc.)

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