



2 Stocks With Strong Turnaround Potential

Description

The market has been downright brutal with the stocks of **Maxar Technologies** ([TSX:MAXR](#))([NYSE:MAXR](#)) and **ZCL Composites** (TSX:ZCL). Both have plummeted about 40% in the last 12 months. However, they have [strong turnaround potential](#).

Here's what the analyst consensus at **Thomson Reuters** think the stocks can trade at in 12 months: US\$61.40 per share for Maxar (or 93% upside potential from the trading price of \$31.68 per share as of writing) and \$11.50 per share for ZCL (or nearly 46% upside potential from the quotation of \$7.90 per share as of writing).

A business overview on Maxar Technologies

Maxar has four space technology brands and reports in three business segments. In the first half of the year, its space systems segment contributed to 51% of its revenue, its imagery segment contributed 37%, and its services segment contributed 12% of its revenue. Maxar's highest-margin business is its imagery segment, which accounted for 72% of its adjusted EBITDA so far this year.

What can cause Maxar Technologies to turn around?

Maxar took on a lot of debt for its acquisitions. At the end of Q2, it had +US\$3 billion of long-term debt on its balance sheet, but only generated US\$141.3 million of operating cash flow in the first half of the year.

Estimated by the annualized operating cash flow generated in the first half of the year divided by long-term debt as of the end of Q2, Maxar's debt-coverage ratio is about 0.09, which is low.

In its September presentation, management stated that it'll prioritize debt repayment and leverage reduction. Once Maxar demonstrates that it has the ability to repay its debt and reduces its debt to healthier levels, the stock should begin to turn around. If Maxar reports a positive quarter down the road, it can also be a trigger for the stock to head higher.



A business overview on ZCL Composites

ZCL manufactures and distributes fiberglass reinforced storage tanks. Its core business provides underground storage tanks that store gasoline and diesel fuel for North American retail outlets.

ZCL's corrosion-resistant tanks are environmentally friendly and ideal for storing fuel, water, wastewater, and oil and gas. Fuel is its biggest market. The company has seven manufacturing plants: two in Canada, four in the US, and one in The Netherlands.

What can trigger ZCL Composites to turn around?

In the first half of the year, ZCL's revenue declined by about 7.5% to roughly \$78.7 million, while its adjusted EBITDA declined by about 39% to about \$7.67 million, and its net income fell about 36.6% to \$4.4 million. If ZCL's business picks up starting with revenue growth, it can trigger the stock to turn around.

Thankfully, ZCL has a clean balance sheet with no long-term debt. It explains why it has been paying out generous dividends. However, if its revenue and earnings continue to fall, it'll soon have trouble maintaining its dividend.

Perhaps the market is expecting a dividend cut from the stock, as ZCL stock has been in a downward trend since mid-2017. The pressured share price pushed its dividend yield to 6.8%.

Sometimes [dividend cuts](#) trigger rallies in stocks because it means more capital will be available for the companies to grow their businesses. If ZCL does cut its dividend, it may send the stock higher.

Investor takeaway

Both Maxar and ZCL have a strong turnaround potential. However, there could be more pain coming. At this point, Maxar looks like it could be a better turnaround investment. Interested investors in ZCL should wait for a dividend cut in ZCL before considering investing in it for a much safer entry point.

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