A Double Whammy on This Fallen Space Stock

Description

In August, I'd said that **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR) was troubled with its debt levels and that there could be more pain down the road for the stock while it digested its acquisitions, despite the stock was trading at its five-year low at the time.

After reporting its third-quarter results, Maxar Technologies stock has dropped another 42% as of writing. The stock has actually been in a downward trend since its peak in 2015. From the peak, the stock has lost about 80% of its value.

Maxar Technologies essentially got a double whammy. It borrowed lots of money to make acquisitions, but the acquisitions turned out to be duds.

Image source: Getty Images.

Let's review its third-quarter results as well as its debt situation.

Q3 results

In the third quarter, Maxar Technologies generated US$508.2 million of revenue, which was an increase of 51% compared to the same period in 2017. The increase was largely due to the contribution of DigitalGlobe's imagery and services businesses.

What dragged down the stock was that it booked a net loss of US$432.5 million due to impairment losses and inventory obsolescence. The impairment losses imply that certain acquired assets weren't worth as much as originally estimated. This translated to net loss of US$7.31 per share for the quarter. No doubt, this means that the company overpaid for the acquired assets.

For the quarter, Maxar Technologies reported operating cash flow of US$119.2 million, adjusted operating cash flow of US$91.9 million, adjusted free cash flow of US$29.2 million, adjusted EBITDA of US$146.3 million, and adjusted earnings of US$44.6 million, or US$0.75 on a per-share basis.

Debt levels

In Q2, Maxar Technologies carried about US$3.1 billion of long-term debt on its balance sheet. It was reduced marginally by about 2% this quarter to US$3.08 billion.

To put it in perspective, in the first nine months of this year, the company generated US$260.5 million of operating cash flow, which is about US$347.3 million when annualized. Assuming the company uses all of its operating cash flow to pay down its long-term debt and that there's no interest on the debt, it's going to take about 4.5 years to reduce the debt by half.

Moreover, in reality, in the first nine months of the year, the company paid US$139.6 million of interest on its long-term debt.

Investor takeaway

Interestingly enough, management decided to maintain the quarterly dividend that's payable in December. It goes to show that keeping dividends stable won't necessarily stop a stock from dropping when the market finds the underlying business to be fundamentally broken.

To sum it up, Maxar Technologies leveraged up to make acquisitions. To make it worse, it seems to have overpaid for its acquisitions, as evident by the booked impairment losses in Q3.

With the yield now pushed up to 7.5% due to the huge stock decline, the company could very well cut the dividend by, say, a half in the near future.

Investors are better off with these unloved dividend stocks.

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Date
2025/07/04
Date Created
2018/10/31
Author
kayng