Maxar Technologies Ltd. (TSX:MAXR) Stock Could Double in 2019

Description

The conclusion of 2018 couldn't have come sooner for **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR), a troubled company whose stock imploded 80% for the year and is now off a whopping 86% from its all-time high.

The space technology company formerly known as MacDonald Dettwiler and Associates was by far the biggest disappointment of 2018 thanks in part to a short-seller called Spruce Point Capital Management, who opportunistically targeted the company in August after the stock had already fallen under a considerable amount of pressure.

As you'd imagine, shortly after the short campaign was launched, Maxar's negative momentum was severely exacerbated, and the "cheap" stock became much cheaper in the following months, causing the strong-handed shareholders to lose their shirts in a hurry.

Back in August, Kay Ng, my colleague here at the Motley Fool Canada, called Maxar a value trap, highlighting the exorbitant amounts of debt on the balance sheet and the pricey acquisitions (which apparently gave the company a bad case of indigestion) as the primary reasons why more pain would be on the horizon for Maxar.

Simply put, Maxar had limited financial flexibility and was in fairly weak financial health. Given the company was incredibly slow to pay back its debt with its cash from operating activities (over 90% went to paying back debt for the period Kay covered), and that prior acquisitions (like DigitalGlobe) were extremely difficult to value based on their future potential cash flows, Maxar found itself between a rock and a hard place.

As it turned out, Kay was absolutely right to call Maxar a value trap. The stock is now down over 72% since Kay's August sell recommendation, and although the stock seemed like a great value due to its "cheap single-digit forward P/E multiple," the stock found itself getting cheaper and cheaper such that the valuation metrics are no longer a meaningful source of information given Maxar's dire situation.

At the time of writing, Maxar has a 0.4 P/B and a 0.3 P/S, both of which are substantially lower than the company's five-year historical average multiples of 2.8 and 1.4, respectively.

More recently, Maxar posted sub-par Q3 2018 results to go with a big 2018 guidance downgrade for both EBITDA and EPS. Management warned investors that it was at high risk of breaching its covenants in 2019, a clear negative that sent Maxar stock tumbling further into the abyss.

Indeed, Maxar will be scrambling to repair its balance sheet in 2019. Management is pulling out all the stops to improve upon its weakened financial health ratios (debt-to-EBITDA) to avoid covenant breaches, and unfortunately for investors, there's an extreme level of uncertainty that remains.

Foolish takeaway on Maxar

As Kay noted in the past, a big dead cat's bounce is possible should Maxar's management team work some magic, but given earnings are extremely difficult to forecast given the uncertain nature of the space business, I don't think the stock is anything more than a speculation at this juncture.

Given the extremely depressed multiples, however, more aggressive deep-value hunters may want to start buying here, as the stock could easily double should management end up avoiding covenant breaches and should get more contracts inked.

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