Maxar Technologies Ltd. (TSX:MAXR) Just Entered SpaceX Turf

Description

A lot of cutting-edge technologies start off as government research. The general public can thank the U.S. government for drones, the internet, and microwaves. However, there's one key frontier that is still dominated by government agencies and has only recently started transitioning to the private sector — space technology.

A few years ago, it was unimaginable that a private player could launch rockets, operate a network of satellites, or collected high-resolution images from space to create a database for commercial use. Now, not only do these companies exist, but some are also listed on public exchanges.

Elon Musk's Hawthorne, California-based SpaceX is probably the most well-recognized (or hyped) private player in this nascent sector. Live streams of the company's launches are sometimes viewed by nearly two million people concurrently concurrent. High expectations for the sector coupled with a sexy brand have made SpaceX the world's most valuable private company.

One advantage that SpaceX has traditionally had is its location. The United States federal government is still the largest customer in the global aerospace market. Foreign competitors face immense hurdles in winning these lucrative and massive U.S. contracts. This is why four space tech companies merged and moved their headquarters to America this year.

The four companies — MacDonald, Dettwiler and Associates, Ltd., Space Systems Loral, DigitalGlobe, and Radiant Solutions — merged in 2017 to form **Maxar Technologies** (TSX:MAXR)(NYSE:MAXR). Originally headquartered in Vancouver, British Columbia, this space conglomerate has moved to Westminster, Colorado.

This transition was completed just earlier this week, which means Maxar is now on equal footing with other companies in the race to win U.S. government contracts. As the market expands, U.S. companies will increasingly need space technology solution providers.

Technology giants like **Facebook** have already hired SpaceX for satellite launches. I believe other U.S. tech giants will follow suit and become essential customers for space tech companies. Government intervention in these big-ticket deals cannot be ruled out.

All these factors justify Maxar's U.S. domestication strategy. Over the next few decades, the company's core services — manufacture satellite manufacturing, space infrastructure support services, high-resolution satellite imagery, and geospatial data analytics — are poised for immense growth. **Morgan Stanley** expects the market to be worth $1.1 trillion soon.

As an experienced player in an expanding market, Maxar should be galloping away on high expectations and investor optimism. Instead, it's had a horrible year, and the stock is down to record lows. Over the past year, the stock is down 80%. At this point, this risky tech company is a 10% dividend-paying stock.

That could either mean it's a value trap or thoroughly undervalued. There are a few factors that suggest the company could be more of the former rather than the latter:

- The company loses money, even though it should have been profitable by now.
- The company's debt-to-equity ratio is a risky 1.88.
- Management has already issued a warning that it could breach some of its debt covenants in 2019.

Maxar's troubles started when it borrowed heavily to complete its mergers and acquisitions. At this point, it's a group of promising space tech companies badly cobbled together in a competitive industry and saddled with a heavy burden of debt. Independently, perhaps, some of these companies would have thrived.

Unfortunately, for now, the conglomerate remains a wait-and-watch stock.

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